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The accountability and management control of CSR foundations (CSRFs) in Mauritius

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Contents

Key conclusions

- Most CSR Foundations (CSRFs) demonstrated a strategic and structured approach to the selection of projects in line with the expectations of the CSR levy guidelines. CSRFs either adopted a grant-making (funding other organisations) or operating focus (running projects themselves). In both cases, the selection process is largely dominated by considerations from the 'parent' company or groups of companies.
- The management control and monitoring process by CSRFs is relatively unsophisticated and is to a large extent driven by narrow concerns about financial accountability and probity. Whilst there is an acknowledgment that the social or beneficiary effectiveness of CSR projects is more important, not all CSRFs have engaged in related practices. At the national level, the CSR levy oversight mechanism is virtually non-existent.
- The level of external accountability and transparency by CSRFs is relatively minimal in nature and this is quite surprising in light of the significant funds invested over the last 5 years. The legal status and governance arrangements of CSRFs are not sufficiently robust and lack formal engagement processes with external stakeholders.
- Our recommendations focus on the need (i) for greater stakeholder consultations which will go a long way towards restoring public confidence as to the sustainability and effectiveness of a legally-imposed and state-regulated CSR system, (ii) to foster the use of management control, accountability and governance mechanisms in CSRFs to ensure there is an appropriate assessment of funded activities.

Abstract

We investigated the process by which Corporate Social Responsibility Foundations (CSRFs) allocate funds to non-governmental organisations (NGOs) and their own projects; the rationales and metrics used by CSRFs to appraise and monitor projects; and the internal and external accountability mechanisms of CSRFs.

Our research interest stems from the question as to how corporate social responsibility (CSR) projects are selected, implemented and evaluated by private companies funding such projects, in light of the ubiquitous nature of CSR in today's corporate arena. The emphasis on Mauritius is motivated by the government's decision to implement a rather unusual policy of compelling companies to pay a CSR 'levy' in 2009, thereby committing them spend a minimum amount on CSR projects or otherwise pay the funds in the form of general taxation. This policy largely contributed to the creation or expansion of local CSR Foundations, as separate entities which would implement CSR projects using the proceeds of the levy on behalf of the donor companies.

More generally, the empirical evidence about the modes of operation, monitoring and accountability of foundations involved in social and/or environmental activities in less developed or developing countries is scant. The study relies on interviews with CSRF managers working within CSRFs, representatives/beneficiaries of non-governmental organisations and other relevant stakeholders, supplemented by a review of publicly available reports on CSRF activities. The results show that firstly, funding and selection decisions by CSRFs are, in the main, underpinned by a strategic perspective to CSR, which is informed by:

1. The founder company/group's interests and the contribution of the different business units in the founder company/companies to the overall CSR levy amount
2. The profile of the CSRF managers
3. The locally devised 'CSR guidelines'[1]
4. Whether the CSRF privileges an operating (engaging directly in projects with beneficiaries and local communities) or a grant-making approach (funding projects proposed by NGOs).

The latter approach generally led to a preference for more formal management accounting techniques to ascertain and monitor performance by NGOs.

Secondly, the governance and decision-making process within CSRFs are virtually and exclusively driven by internal staff and management, with little input from outside expertise and stakeholders.

Thirdly, the monitoring and control process of the CSR projects, whilst formal in many instances, focuses on a limited set of 'performance' dimensions, namely in terms of financial reports, data on beneficiary numbers and observations (site visits); a situation which is more prevalent in the case of grant-making CSRFs.

Fourthly, the content analysis of CSRF-related reports/websites reveals that the external accountability information relating to activities of CSRFs is uneven, limited and difficult to analyse (e.g. comparing different foundations).

Lastly, the State's regulatory mechanism to assess the effectiveness of companies, CSRFs and recipient NGOs in the use of the CSR levy funds is weak to non-existent.

Introduction

Corporate Foundations are viewed as"…foundations in which the donor is a firm that offers annual grants, the firm selects the majority of the board, and the foundation's activities can be managed with a grant-making or operating approach or both approaches…", (European Foundation Centre (EFC), 2003, p. 6; Mincuillo and Pedrini, 2015, pp. 215-234).

In recent years, spurred by significant social and environmental concerns (e.g. social inequality, ethical behaviour, climate change), corporate social responsibility (CSR) initiatives have been dealt with directly by companies or firms usually through the transfer of funds to specific organisations such as corporate foundations (CFs) to engage in CSR activities on behalf of the company (Petrovits, 2006; Mincuillo and Pedrini, 2015). Thus, CFs are legally separate entities tasked with a social purpose, are dependent on a firm (or several connected firms) for funding; maintain close ties with the founder firm(s); and typically involve corporate executives as the foundation's board of directors (Webb, 1994; Anheier, 2001; Pedrini and Mincuillo, 2011). Minefee et al. (2015) proposed a classification of CFs based on two CSR dimensions, namely in terms of external constituency (do they target specific beneficiary groups or do they support a diversity of charitable causes) and internal competence (relying on its own business competence and staff or by outsourcing its CSR projects to NGO or other grassroot organisations).

Yet, in spite of their relative size and financial clout worldwide (e.g. Marquis and Lee, 2013), very little is known about the modes of operation, monitoring and accountability of CFs in developed or developing countries. In this regard, we focus our empirical work on the case of 15 Mauritian CFs, known locally as CSR Foundations (CSRFs), to address the following objectives:

- To investigate the process by which CSRFs allocate funds to societal organisations and projects
- To explore the rationales and metrics used by CSRFs to appraise and monitor projects
- To study the internal and external accountability mechanisms of CSRFs.

Rationale of the study

The removal of CSR guidelines in 2015 has provided greater flexibility but also greater autonomy to CSRFs in their funding allocation process. However, since the CSR levy reportedly generates funds well in excess of MUR2. 300m annually, we believe that it is crucial to gauge not only the manner in which these funds are allocated, but also the monitoring and accountability system imposed thereafter. As such, the prime objective of this study is to foster our understanding of the way in which CSRFs engage in CSR projects and the resulting funding allocation, monitoring and accountability processes.

Globally, concerns have gradually shifted from whether companies and private foundations ought to engage in CSR projects to discussions centred on the effectiveness and impact of the projects in delivering lasting social change. What has so far been noted in the literature relates to the use of different classifications for foundations (e.g. edifier, granter, expert; grant-making vs. operating; Mincuillo and Pedrini, 2015) and to issues of external accountability, particularly on the need for public transparency (Moggi et al., 2015). Discussions on the implications for management control remains, however relatively scarce (Arjaliès and Mundy, 2013; Gond et al., 2012; Jamali and Karam, 2016).

Furthermore, the catalyst for this study in Mauritius was the introduction of a relatively unique 'CSR levy' by the government in 2009, which led to the establishment and/or expansion of local CSRFs. In contrast to conventional CSR practice where funds for social projects are discretionary and can vary substantially over time in other contexts (Jamali and Karam, 2016), CSR funds became 'readily' available and needed either to be spent by businesses in areas of social development pre-determined by the State's agency; or would otherwise be clawed back by the tax authority. An original aspect of this practice is that CSR funding effectively became 'captured' by virtue of its tax status (i.e. it ceased to be an entirely discretionary practice). Since its implementation, numerous public concerns (e.g. National Assembly Debate 12 August 2016[3]) have been expressed about the effectiveness and accountability with respect to the spending of the CSR levy funds by companies and CSRFs. The government and the regulatory agencies (e.g. National CSR Committee) also attempted a number of reforms in response to corporate requests as well as demands from other stakeholders and media attention.

Over time, this has led to loosening of the rules and regulatory regime for CSRFs and companies in general. A recent radical reform by the government relates to the transferring of a large proportion of the CSR levy funds to a so-called 'State-run CSR Foundation'. Collectively, the above points motivate the need for a deeper exploration of the selection, monitoring and accountability practices of CSRFs.

Research methodology

We investigated the process by which CSRFs allocate funds to societal organisations and projects whilst also exploring the rationales and metrics used by CSRFs to appraise and monitor projects and also delineated the internal and external accountability mechanisms of CSRFs. We carried out interviews with lead managers of foundations and also with beneficiaries of CSR funds to gain insights on the three aforementioned objectives.

In the absence of a comprehensive directory of organisations, our starting point was the identification of local CSRFs which were legal separate entities, but operating in close connection with a founder firm or group of firms. Out of the 21 foundations we were able to identify (available at www.actogether.mu), we secured interviews with lead managers of 15.

Furthermore, for three of these foundations, we carried out additional interviews with relevant staff and we were also able to meet the beneficiaries during on-site visits of 3 community projects sponsored by the foundations. We also interviewed four of the beneficiary non-governmental organisations, which received funds from some of the interviewed CSRFs. We also conferred with a representative of the local tax authority and from the Mauritius Council of Social Services (MACOSS) and a government official who played an active role in the reporting and discharging of accountability by these CSRFs. All 23 interviews were transcribed for analysis purposes.

Furthermore, we organised a one-day 'Engagement Workshop' (attended by 19 stakeholders, including CSRF managers) to disseminate our initial findings and tentative recommendations to CSR managers for validation and feedback.

Finally, as part of the desk-research phase, we adopted a content analysis method to study the most recent publicly available reports disclosed by all 21 identified CSRFs (CSR reports and/or website content). Due to confidentiality and ethical conventions, we are unfortunately not able to publicly identify the selected CSRFs and interviewees (although we refer to their public reports and statements where relevant). In our view, the participating organisations (and their managers) represent an appropriate variety of corporate interests in the local context.

Our findings

Our findings show that most of the surveyed CSRFs have adopted a strategic approach to CSR, with the latter's social priorities mainly stemming from the ethos/history of the founder firm. In addition, our enquiries suggest that very little has been done at the regulatory level which would serve to better contextualise the relevance and impact of the current CSR Framework; a crucial aspect for informed policy decisions.

The evidence reveals that most of the surveyed CSRFs have adopted a strategic approach to CSR. Many of the social priorities embraced by CSRFs remain either associated to the ethos/history of the founder company or have changed to reflect attempts to be strategically aligned to the founder company's business activities.

Furthermore, different levels of foci apply to the external constituents and beneficiaries (e.g. school children, deprived localities, people with disabilities or anyone who makes a request, recycling projects). Additionally, it appears that most CSRFs do possess an explicit CSR strategy but the latter tends to be mediated by the National CSR guidelines[3] and the professional outlook/ vision adopted by the CSRF manager.

The funding and selection decisions in several CSRFs remain significantly influenced by the company/group's interests and historical structure. In some cases, the relative share of profits generated by different Strategic Business Units (SBUs) within the founder companies leads to a situation where internal interests compete for the 're-investing' of CSR levy funds either towards causes/projects deemed 'worthy' or in specific geographical areas served by these SBUs.

The governance process within CSRFs, where formalised, is virtually and exclusively driven by internal staff and management. As a result, unfortunately, we believe that such a marked absence of external stakeholder representation (e.g. beneficiaries, representatives of local communities, professional expertise) leads to a significant disconnect from the social realities on the ground, does not reflect the contemporary expectations for 'downward' and 'beneficiary' accountability (e.g. O'Dwyer and Unerman, 2010), and fosters 'group think'.

Furthermore, in the case of operating CSRFs, there is a distinct lack of a systematic approach to decide how internally generated projects are selected and implemented. This results in the emergence of the hobby horse project i.e. one that is enthusiastically spearheaded by one or two individuals within the founder company by virtue of their powerful position or influence, but with potentially very little to offer in terms of practical and substantive social outcomes.

The monitoring system typically involves one or more of the following: use of progress reports, site visits, transfer of funds by instalments, upon completion of different milestones and finally, in the case of some operating foundations, the use of social workers/staff to evaluate the progress of activities in the field on a regular basis. Furthermore, the interview findings reveal that the funding of NGO overheads by CSRFs is also inconsistent (i.e. not covered by some but approved by others). Interviews also reveal issues with the regulation, governance and financial management of local NGO's. Registration and monitoring systems are relatively weak and there are numerous transparency and accountability issues.

Looking at the content analysis of CSR reports/websites, all 21 CSRFs provide some disclosure about their activities in company/group annual reports and on their websites. However, the level and extent of external reporting and accountability of the activities by the foundations are uneven, limited and difficult to analyse (e.g. comparing different foundations). Although approximately 60% of the foundations publicly report on the number of beneficiaries from their projects, there are very few instances of using key performance indicators to objectively report on a project's social impact. In addition, as a result of the lack of clear regulatory requirements and the diversity of the legal identity of CSRFs (e.g. trust, private company limited by guarantee, registered association), some CSRFs provide only a limited account of their activities. This, to some extent, is consistent with the CSR reporting patterns in the annual reports of listed companies in Mauritius (Soobaroyen and Mahadeo, 2016).

Finally, our enquiries suggest that very little has been done at the regulatory level (including the Mauritius Revenue Authority (MRA) in terms of summarising and analysing essential and valuable information which would allow for informed policy decisions (e.g. with respect to targeting key areas such as poverty alleviation) and develop country-wide lessons for a better use of CSR levy funds. Our enquiries also reveal that the relevant authorising agency (National CSR Committee) appeared to have been chronically under-funded and under-staffed, subjected to hierarchical pressures (to approve or not certain projects) and was not in any position to adopt an oversight role.

Conclusion

Overall, our data reveals a significantly mixed picture in terms of the selection, monitoring and accountability practices in CSRFs. On the one hand, CSRFs generally demonstrated a strategic and structured approach to the selection of projects in line with the expectations of the CSR levy. In addition, NGOs have to follow a relatively systematic process to secure access to CSRF funds and to report on the use of those funds.

On the other hand, it is unclear whether internally-generated CSRF projects have to fully comply with the previously mentioned process. Furthermore, the management control and monitoring process by CSRFs is relatively unsophisticated and is to a large extent driven by narrow concerns about financial accountability and probity. External accountability and transparency are relatively minimal in nature and this is quite surprising in light of the significant funds involved in this area.

Given the above, we recommend that measures should be implemented towards:

- enabling closer interaction and collaboration between CSRFs and external stakeholders
- fostering the use of formal management control and governance mechanisms to enable an efficient, effective and transparent use of resources
- developing an external accountability framework to ensure that foundation activities are communicated and accounted in a transparent way; whilst limiting the cost of compliance and legislative reforms in the short term.

These recommendations would equally apply to any founder company (subject to a size threshold) that is engaged directly in CSR activities through the establishment of CSRFs or state-led CSRF.

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Footnotes

1 The CSR guidelines (or later known as the CSR Framework) set out some key parameters for the funding of projects; which themes / objectives would be supported and which would not be supported and the conditions for the use of CSR levy funds

2 MUR: Mauritius Rupees (1 USD = MUR 35)

3 http://mauritiusassembly.govmu.org/English/hansard/Documents/2016/hansard2616.pdf

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