

Corporate Social Responsibility (CSR) at Hindustan Uniliver Ltd. —A Case Study

Anand Chakravarthi, Abhyuday Chakravarthi
(1. IBS, Hyderabad, India; 2. Cornell University, USA)

Abstract: Corporate Social responsibility (CSR) refers to the business man's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest. CSR of business is understood from two different angles of business obligations, i.e., Socio-economic obligation, and Socio-human obligation. CSR is the sense of obligation on the part of the companies to build certain social criteria and manage the business activities by taking strategic decisions. Socially responsible companies should consider various issues, from the organization of the firm to build relationship with the community. The CSR is towards the customers, employees, intermediaries like Banks & Financial Institutions, shareholders, society and Government. CSR is not merely a charity, but much beyond that and is a tool to contribute directly or indirectly to the company's bottom line and also ensures its long term sustainability. This CSR case study of Hindustan Uniliver Ltd (HUL) is based on the analysis of the parameters like the company history, vision, principles, industry, products, financial data, CSR activities, CSR Methodology and Rating Criteria, rating given to the company and justification thereof.

Key words: corporate social responsibility (CSR); socio-economic obligation; socio-human obligation; and global reporting initiative (GRI)

JEL codes: L2, M, Z

1. History/Background of HUL

HUL is an Indian consumer goods company based in Mumbai, Maharashtra. It is owned by Anglo-Dutch Company Unilever which owns a 67% controlling share in HUL. HUL's products include foods, beverages, cleaning agents and personal care products.

HUL was established in 1933 as Lever Brothers India Limited and, in 1956, became known as Hindustan Lever Limited, as a result of a merger between Lever Brothers, Hindustan Vanaspati Mfg. Co. Ltd. and United Traders Ltd. It is headquartered in Mumbai, India and employs over 16,500 workers, also indirectly helping to facilitate the employment of over 65,000 people. The company was renamed in June 2007 as "Hindustan Unilever Limited".

HUL's distribution covers over 2 million retail outlets across India directly and its products are available in over 6.4 million outlets in the country. As per Nielsen market research data, two out of three Indians use HUL products. HUL is India's largest Fast Moving Consumer Goods (FMCG) Company with a heritage of over 80

Anand Chakravarthi, M.Sc., M.A., MBA, CAIIB, Adjunct Professor, IBS; research areas/interests: business management. E-mail: anandc2707@gmail.com.

Abhyuday Chakravarthi, M.S. & MBA Student at Cornell University; research areas/interests: business management. E-mail: abhyuday.c@gmail.com.

years in India. With over 35 brands spanning 20 distinct categories such as soaps, detergents, shampoos, skin care, toothpastes, deodorants, cosmetics, tea, coffee, packaged foods, ice cream, and water purifiers, HUL is a part of the everyday life of millions of consumers across India. HUL is a subsidiary of Unilever, one of the world's leading suppliers of fast moving consumer goods with strong local roots in more than 100 countries across the globe with annual sales of ₹1 billion in 2012.

2. Vision

The four pillars of HUL's vision sets out the long-term direction for the company—where it wants to go and how it is going to get there:

- Work to create a better future every day.
- Help people feel good, look good and get more out of life with brands and services that are good for them and good for others.
- Inspire people to take small everyday actions that can add up to a big difference for the world.
- Develop new ways of doing business with the aim of doubling the size of company while reducing environmental impact. Believing in the power of brands to improve the quality of people's lives and in doing the right thing.

3. Mission

HUL's mission is to add vitality to life. HUL meets every day needs for nutrition, hygiene, and personal cares with brands that help people feel good, look good and get more out of life.

4. Purpose and Principles

- Conducting operations with integrity and with respect for the many people, organizations and environments. The business will always be at the heart of the corporate responsibility.
- Aims to make a positive impact in many ways: through brands, commercial operations and relationships, through voluntary contributions, and through the various other ways in which they engage with society.
- Committed to continuously improving the way to manage environmental impacts and working towards longer-term goal of developing a sustainable business.
- The corporate purpose sets out aspirations in running business. It's underpinned by code of business Principles, which describes the operational standards that everyone at Unilever follows, wherever they are in the world. The code also supports approach to governance and corporate responsibility.

5. Industry & Products

HUL is India's largest FMCG Company, touching the lives of two out of three Indians with over 20 distinct categories in home & personal care products and food & beverages.

The Indian FMCG sector is the fourth largest in the economy and has a market size of US\$13.1 billion. Well-established distribution networks, as well as intense competition between the organized and unorganized segments are the characteristics of this sector. FMCG in India has a strong and competitive MNC presence across the entire value chain.

Hindustan Unilever Products are divided into four categories: (1) Personal Care Products; (2) Home care products; (3) Food and Drinks; and (4) Water Purifiers. According to the study conducted by AC Nielsen, MNCs, and the balance by Indian companies own 62 of the top 100 brands. Fifteen companies own these 62 brands, and HUL owns 27 of these. A glimpse of some of the products of HUL is given in the following picture:



Source: Hindu Business Line

6. Financial Performance of HUL

We can evaluate the financial strengths and weaknesses of HUL by establishing key relationships between various elements of Balance sheet and profit and loss account as under:

Tables 1 Profitability (For 10 years) (Rs. in Million)

Year	2003	2004	2005	2006	2007	2008-09 (15 months)	2009-10	2010-11	2011-12	2012-13
Gross Sales	110,960	108,884	119,755	130,351	147,151	216,495	182,203	202,854	228,003	266,798
Other Income	4,598	3,188	3,048	3,545	4,315	5,897	3,496	6,274	6,591	12,107
Interest (-)	668	1,300	192	107	255	253	70	2	12	252
Profit before Tax	22,450	15,053	16,045	18,617	21,463	30,251	27,071	27,302	33,502	43,495
Profit after Tax	18,043	11,993	13,545	15,397	17,431	25,007	21,027	21,533	25,992	33,144
Earnings per share (Rs.)	8.05	5.44	6.40	8.41	8.73	11.46	10.10	10.58	12.46	17.56
Dividend per share (Rs.)	5.50	5.00	5.00	6.00	9.00	7.50	6.50	6.50	7.50	18.50

Source: Annual Report of HUL for 2012-13.

Table 2 Financial Position (For 10 years) (Rs. in Million)

Year	2003	2004	2005	2006	2007	2008-09 (15 months)	2009-10	2010-11	2011-12	2012-13
Fixed Assets	13,695	15,176	14,835	15,110	17,081	20,788	24,361	24,578	23,629	25,085
Investments	25,749	22,295	20,142	24,139	14,408	3,326	12,641	12,607	24,382	23,307
Net deferred Tax	2,674	2,260	2,201	2,246	2,124	2,548	2,488	2,097	2,142	2,048
Net Assets (-) (Current & Non-current Assets)	3,688	4,093	13,553	13,534	18,336	1,828	13,655	12,687	15,024	23,700
Total of Assets	38,430	35,638	23,625	27,961	15,277	24,834	25,835	26,595	35,129	26,740
Share Capital	2,201	2,201	2,201	2,207	2,177	2,180	2,182	2,159	2,162	2,162
Reserves & Surpluses	19,186	18,726	20,855	25,028	12,215	18,435	23,653	24,436	32,967	24,578
Loan Funds	17,043	14,711	569	726	885	4,219	-	-	-	-
Total of Liabilities	38,430	35,638	23,625	27,961	15,277	24,834	25,835	26,595	35,129	26,740

Source: Annual Report of HUL for 2012-13.

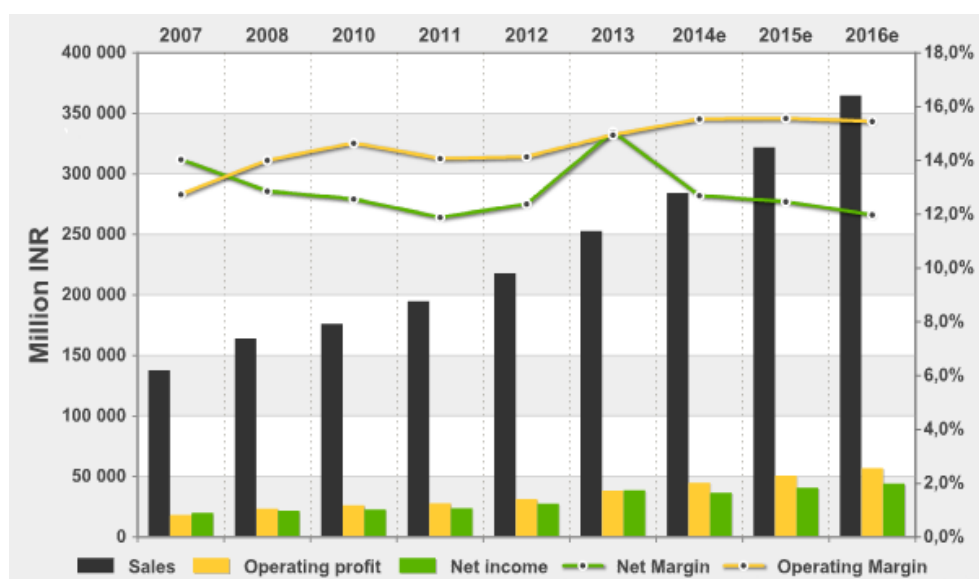


Figure 1 Graph of Key Financial Results

Note: “e” indicates estimated future years.

Following are the key financial ratios of HUL:

Table 3 Key Financial Ratios of Hindustan Unilever

Investment Valuation Ratios					
	Mar '13	Mar'12	Mar '11	Mar '10	Mar '09
Dividend Per Share (Rs.) (DPS)	18.5	7.5	6.5	6.5	7.5
Earnings Per Share (Rs.) (EPS)	17.56	12.46	10.58	10.10	11.46
Dividend Payout Ratio	1.05	0.60	0.61	0.64	0.65
Profitability Ratios:					
Return On Capital Employed (%)	163.59	95.4	102.66	106.78	118.59
Return On Net Worth (%)	141.98	76.61	86.7	85.25	121.34
Liquidity Ratios:					
Current Ratio	0.76	0.83	0.86	0.84	0.92
Quick Ratio	0.45	0.46	0.46	0.46	0.51
Management Efficiency Ratios:					
Inventory Turnover Ratio	10.21	8.79	7.02	8.99	9.26
Debtors Turnover Ratio	34.13	27.27	24.34	29.24	41.83
Total Assets Turnover Ratio	9.78	6.35	7.52	7.66	9.22

We observe from the above that DPS and EPS have firstly declined and then increased substantially which raise a red flag for this company to be attractive investment avenue as numbers are not stable. In case of HUL, Return on Net Worth has decreased and then increased which is positive sign that company is trying to meet its objective of shareholders’ wealth maximization but the trend raise a doubt on considering as an investment alternative. Same trend is observed for Return on Capital Employed.

The liquidity position as indicated by Current Ratio is also not up to the mark. A current Ratio of 2:1 is considered to be ideal but in case of HUL, it is less than 1. Management Efficiency Ratios also show the same trend as that of Investment valuation ratios and Profitability ratios, which decline followed by rise. This is a good indication that management is trying its best to regain its efficiency but results are not up to the mark. There is still a road ahead for the company to improve its financial performance.

7. Rating Methodology

The rating methodology followed is in line with Karmayog's CSR Ratings. It considers the overall products and processes of HUL. CSR initiatives for the company being followed by HUL currently are taken. Company is rated from Level 0 to Level 5 (Highest Rating). The rating focuses on 3 criteria:

- (1) Sufficient Criteria
- (2) Necessary Criteria
- (3) Negative Criteria

(1) Sufficient Criteria:

Sl.No.	Criteria	Rating
1	If the company is fulfilling the basic needs of society and the products are useful.	Level -1
2	If the CSR activity undertaken is unique and not by Government or NGO.	Level -1
3	Company reducing the negative and harmful activity of other activities.	Level -1
4	Company adapting to basic GRI framework for reporting of CSR.	Level -2
5	Company's annual expenditure on CSR = 0.2% of sales.	Level -3

(2) Necessary Criteria:

Sl.No.	Criteria	Rating
1	If the company is doing any kind of CSR activity where any social development is done.	Level -1
2	CSR activities that aim to improve processes and products of the company by reducing the negative impact.	Level -2
3	If CSR initiatives are for the local community and the people who are directly affected by the company.	Level -3
4	CSR activities form a part of the daily business activities of the company. .	Level -4
5	If innovative ideas and practices are developed for CSR.	Level -5

(3) Negative Criteria:

Sl.No.	Criteria	Rating
1	Companies making products like liquor, tobacco etc. are not needed by society, and cause harm to people and the environment. The CSR to do is to stop making these products.	Level -0
2	Companies that violate Laws/Rules/Regulations.	Level -1
3	Companies engaged in high impact processes which damage the environment directly.	Level -1

8. Actual Rating & Justification for HUL

8.1 CSR Activities of HUL

Industry Sector: FMCG and Consumer Durables.

Products/Services: Food brands; Homecare Brands; Personal Brands; and Water Purifier Brand

CSR Activities: Trust/Foundation of CSR—Hindustan Uniliver Vitality Foundation

CSR Areas: (1) Community Welfare; (2) Disaster Relief; (3) Education; (4) Employee Welfare; (5) Environment; (6) Healthcare; (7) Poverty Eradication; (8) Rural Development; and (9) Vocational Training.

8.2 Some of the Major CSR Activities of HUL Are As Follows

(1) Greening Barrens (Water Conservation & Harvesting):

It has 2 main objectives:

(a) To reduce water consumption in its own operations and generate sub-soil water tables at its own sites through the principles of 5R—Reduce, Reuse, Recycle, Recover & Renew.

(b) Help adjacent villages to implement appropriate models of watershed development.

(2) Shakti—Changing Lives in Rural India:

Shakti is HUL’s rural initiative, which targets small villages with population of less than 2000. It seeks to empower under privileged rural women by providing income-generating opportunities, health & hygiene education through Shakti Vani program and creating access to relevant information through the Shakti Community Portal.

(3) Health & Hygiene Education:

Lifebuoy Swasthya Chetna is a rural health and hygiene initiative, started in 2002, and was initiated in media dark villages in UP, MP, Bihar, WB, Maharashtra and Orissa States for spreading awareness about washing hands with Lifebuoy soap.

(4) Economic Empowerment of Women:

The Fair & Lovely Foundation is HUL’s initiative which aims at economic empowerment of women across India. It aims to achieve this through providing information, resources, inputs and support in the areas of education, career and enterprise.

(5) Special Education & Rehabilitation:

Under the Happy Home initiative, HUL supports special education and rehabilitation of children with challenges.

(a) Asha Daan: Initiated in 1976, HUL supported Mother Teresa and Missionaries in Charity to set up a home in Mumbai for abandoned, challenged children and the destitutes.

(b) Ankur: In 1993, HUL’s Doom Dooma Plantation Division set up Ankur for special education of challenged children aged between 5 and 15 years. Ankur provides educational, vocational and recreational activities to over 35 children with range of challenges like hearing or sight impairment, polio, cerebral palsy and several learning difficulties.

(c) Kappagam: Encouraged by Ankur’s success, Kappagam (Shelter), the second center for special education of challenged children, was set up in 1998 on HUL Plantations in South India. It has 17 children. The focus is same as that of Ankur.

(d) Anbagam: This is another day care center (Center of Love), which was started in 2003 in south India plantations. It takes care of 11 children. Besides medical care and meals, they too are being taught skills such that they can become self-reliant and pursue elementary studies.

8.3 Justification for HUL Fulfilling Level-3 for Sufficient Criteria

Sl. No.	Criteria	Rating	Justification for How HUL fulfills the Criteria
1	If the company is fulfilling the basic needs of society and the products are useful.	Level -1	Food, Homecare, Personal Care & Hygiene, Water Purifier cater to basic needs. Co. has been developing Indian producers for Tomato Paste. It helps farmers for water conservation, use of authorized pesticides, land conservation and improvement of farmer income.
2	If the CSR activity undertaken is unique and not by Government or NGO.	Level-1	Co. has developed unique CSR activities like Shakti, Greening Barrens, Swasthya Chethna, Happy Homes, Yashodham and Samrudhi to target issues like employment, hygiene and disaster recovery. It has also a Trust for CSR.
3	Company reducing the negative and harmful activity of other activities.	Level -1	Water usage in manufacturing reduced by more than 32%. They also have rain water harvesting facility. Energy consumption and CO (Green House Gases) per unit came down by 38% and 28%.
4	Company adapting to basic Global Reporting Initiative (GRI) framework for reporting of CSR.	Level-2	HUL brings out Sustainable Development Report by-annually. It follows GRI framework for comparability.
5	Company’s annual expenditure on CSR = 0.2% of sales.	Level-3	Though HUL doesn’t disclose its CSR budget, the CSR initiatives are above 0.2% of sales.

8.4 Justification for HUL Fulfilling Level-4 for Necessary Criteria

Sl. No.	Criteria	Rating	Justification for How HUL fulfills the Criteria
1	If the company is doing any kind of CSR activity where any social development is done.	Level -1	HUL contributes to social development through activities like employment, hygiene, disaster recovery, and promotion of literacy and education.
2	CSR activities that aim to improve processes and products of the company by reducing the negative impact.	Level-2	Co. has been minimizing its water consumption in its manufacturing units and also reducing its energy consumption and CO emission.
3	If CSR initiatives are for the local community and the people who are directly affected by the company.	Level -3	HUL's CSR activities at its Dadra & Nagar Haveli major plant helped local community in respect of harvesting water, benefiting many people under various projects providing public toilets, planting many mango seedlings, recharging water wells and bore wells.
4	CSR activities form a part of the daily business activities of the company. .	Level-4	HUL started Hindustan Uniliver Vitality to work in the areas of social, economic and environmental development. It also released Sustainable Development Report on company's governance on environment & social development.
5	If innovative ideas and practices are developed for CSR.	Level-5	HUL has a proactive CSR strategy that allows it to understand stakeholder expectations and accordingly build a response into planning & strategy.

8.5 Justification for HUL Not Meeting Negative Criteria

Sl. No.	Criteria	Rating	Justification for how HUL doesn't fulfill the Criteria
1	Companies making products like liquor, tobacco etc. are not needed by society, and cause harm to people and the environment. The CSR to do is to stop making these products.	Level -0	The products of HUL are food, homecare, personal care, Hygiene and Water Purifier which are basic necessities and they do not fall under the category of prohibited products like liquor or tobacco.
2	Companies that violate Laws/Rules/Regulations.	Level-1	HUL does not violate any laws/regulations/rules.
3	Companies engaged in high impact processes which damage the environment directly.	Level -1	HUL is engaged in water conservation and mitigates the damage made to environment by reducing the emission of green house gases.

Based on the justification in terms of Sufficient, Necessary and Negative Criteria, a CSR rating of 3 out of 5 can be assigned to HUL.

9. Conclusions

In this case study, Karmayog's rating methodology and rating criteria have been used. The study helps us to understand the CSR process, rating methodology and effectiveness of CSR. HUL is a socially responsible company and strives hard for the well being of people, society, economy and environment. The study also helps us to understand how to rate CSR activities and why CSR rating is critical.

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