



## **CORPORATE SOCIAL RESPONSIBILITY IN SELECTED CENTRAL PUBLIC SECTOR ENTERPRISES IN INDIA: A CLOSER LOOK**

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### **Abstract**

*The Central Public Sector Enterprises (CPSEs) have got a cardinal role to play in ensuring that the huge investments by the Government in such companies are duly returned to the society at large, particularly the lower strata of the society. Only then CPSEs can discharge their share of the broader responsibility of the State towards the development of a balanced, equitable and sustainable in the long run. The mandatory CSR (Corporate Social Responsibility) provision in the new Companies Act in India has imposed a statutory compulsion on all Public Sector Enterprises (PSEs) in India. Thus, it is mandatory that a specific percentage of net profit of PSEs be earmarked for CSR activities. In this context, this paper looks into the extent upto which selected CPSEs in India could discharge their CSR responsibilities in the recent past when they have been mandated by law to make CSR investments. Accordingly, suggestions have been made for more effective CSR initiatives by the CPSEs in India based on the findings of the study.*

**Key Words:** *Social Responsibility, Mandatory CSR, Central Public Sector Enterprises*

### **1. Introduction**

Though the concept of Corporate Social Responsibility (CSR) had its beginning in the US, gradually it gained popularity throughout the globe. The basic tenet of CSR lies on the recognition that business and industrial organizations have some responsibility to multiple stakeholders in the conduct of their business, apart from their economic objectives targeted primarily at their shareholders. Such broader responsibilities that extend well beyond the scope of simple commercial relationships. The consistently growing economic growth of India needs to be suitably redistributed among the lower strata of the society in order to ensure that the economic progress is balanced, equitable and sustainable in the long run. The social responsibility of the Government-owned units often referred to as Public Sector Units (PSUs) or Public Sector Enterprises (PSEs) needs to be studied in the above context. The social responsibility of the PSUs or PSEs is all the more significant in the ongoing reforms era when the divides of all sorts are on the rise, particularly those between the rich and the poor. The provision for mandatory CSR contained in the new Indian Companies Act has given another dimension to the social responsibility of PSUs in India because now there is a statutory compulsion for them to take up CSR initiatives by spending a specific percentage of their net profit over the previous three years. In this context, the case of the largest single segment in the PSEs, Central Public Sector Enterprises (CPSEs), is taken for a closer analysis in the backdrop of the latest developments like the mandatory CSR provision in the new Indian Companies Act.

### **2. Statement of the Research Problem**

Businesses are an integral part of any society. They have an active role to play in the upliftment of the society. There is interdependence between business and society. Both these are mutually interdependent for survival and sustenance. Public Sector Units (PSUs), in particular, are mandated to serve the society as they are owned by the Government. In fact, for the PSEs in India CSR is not a new concept because the very idea behind their setting up has been providing a means for the economic as well as social wellbeing of the society at large. The Governments, both at the Central and State levels, have been pumping in enormous amounts of public money for the setting up and maintenance of PSEs. As such, PSEs have the moral responsibility to the serve the society at large, particularly the lower strata of the society which constitutes the poor and the disadvantaged people.

Providing employment to the masses, both skilled and unskilled, upliftment of the socioeconomic conditions of poor etc. were the aims of the PSEs. The mandatory compulsion for earmarking a specific percentage of net profits of PSEs for CSR activities in the new Companies Bill 2011 has given another dimension to the relevance and existence of PSEs in India. In spite of this fact, the new Companies Act has made CSR activities mandatory for the PSEs. Or, in other words, there exists now a statutory compulsion to serve the society in respect of PSEs in India.

It may here be pointed out that because of the obvious benefits of CSR many organizations have voluntarily adopted CSR, at their own discretion. The leading private sector companies like the Tata's and Birla's fall under this category, these companies being actively engaged in many social service initiatives utilizing their business profit, even during the early years of India's independence. CSR seeks to provide a part of the business returns to the society for its development. Taking into account the well documented merits of CSR, companies are thinking beyond the sole objective of profit-maximization and are becoming growingly conscious about their responsibility towards the society at large. This changing mindset of corporates as above has been an outcome of the economic benefits of CSR in the form of improved goodwill and long-lasting customer relations (Crowther, 2008).

## **2. Relevance and Significance of the Study**

The provisions relating to CSR spending by the PSEs in the Companies Bill, 2011 have got high academic significance as these provisions impose statutory compulsion on PSEs for their CSR acts. These provisions are largely in the nature of CSR spending. The Department of Public Enterprises has proceeded to issue a revised set of "Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises" that would become effective from April 1, 2013. Unlike the Companies Bill and also the previous version of the guidelines applicable to central public sector enterprises (CPSEs) which focused largely on external stakeholders and CSR spending, the new version of the CSR guidelines emphasizes CSR as a way of life and as an integral part of the operations and business of the company. While the current debate in India equates CSR with corporate philanthropy, the new guidelines for CPSEs does more than that and requires companies to follow ethical systems and sustainable management practices. The guidelines contain detailed provisions on the manner in which CPSEs can carry out their CSR practices, which also mandate every CPSE to carry out a minimum number of external projects "for development of a backward district" that "has the potential of contributing significantly in the long run to socio-economic growth in all the backward regions of the country". A detailed analysis of CSR activities of CSR is relevant here.

## **3. Objectives of the Study**

1. To study the current scenario regarding Corporate Social Responsibility (CSR) in India and its relevance and significance with a focus on Central Public Sector Enterprises (CPSEs);
2. To study the CSR activities including the funds spent on such activities by selected CPSEs in India in the context of the mandatory CSR provision in the new Indian Companies Act;
3. To make suggestions for more effective implementation of CSR in India by the CPSEs.

## **4. Methodology and Data Sources**

This study is primarily of descriptive-analytical nature, as it makes use of latest available data on CSR activities by Indian companies and analyses the responses of corporates to relevant statutory provisions on CSR and market conditions. The data used are secondary in nature and these include various government publications, official websites of regulatory bodies etc. The data so collected are analyzed for the purpose of their systematic presentation that facilitates their meaningful interpretation as well as specific conclusions.

## **5. CSR by Indian Corporates in the Ongoing Reforms Era: An Overview**

The growing significance of CSR arises from the fact that it arises from adherence to ethical values, legal compliance, and respect for people, community, and environment. CSR expects a company to go beyond whatever is required by the law. In fact, CSR seeks to (i) treat its employees fairly and with due respect, (ii) operate with integrity and in an ethical manner in all its business dealings with customer, suppliers, lenders, and

others, (iii) respect the human rights, (iv) sustain the environment for future generations, and (v) be a responsible neighbor in the community and a good ‘corporate citizen’. Occupational welfare and corporate community welfare or corporate social responsibility (CSR) are of growing importance to governments and service providers as they promise to meet challenges of social problems within changing welfare environments. The modern governments have increasingly resorted to corporate involvement in local services and have also encouraged the expansion of occupational welfare.

During the last two decades or more a growingly large number of companies have adopted CSR practices. Such a positive response towards CSR might be partly because of their aspiration to make their operations more ethical. It is noted that increasingly more and more companies have begun to incorporate ethics and CSR in their strategic planning and objectives. It may be pointed out that there is no statutory compulsion or governmental directives or such other external influences in making more and more companies to join the CSR bandwagon. Rather this change in mindset is quite voluntary in nature. Quite a large number of big corporates have voluntarily adopted formal environmental policies as well as CSR practices. Their objectives have been creating sustainable businesses and at the same time being environment friendly. For example, a company that using large amounts of forest resources (like, timber in respect of newsprint industry) might adopt a policy of re-forestation to replace the trees cut down by them.

As per the current practices, companies include CSR report in their annual report and accounts or may publish their separate corporate responsibility report which may also be called a ‘social and environmental report’ or a ‘sustainability report’. Whichever may be the kind of report, these reports indicate a company’s commitment toward ethical behavior and highlight their progress towards achieving their strategic CSR objectives. The case of CPSEs in this regard is sought to be analysed in detail in the following paragraphs.

#### 6. CSR Activities of Selected CPSEs

It may be pointed out that of late India has emerged as one of the world’s most prominent nations in the CSR front. In many Indian companies CSR initiatives have become a vital part of their strategic decision-making process, and they could effectively integrate CSR into their business models. Their systematic CSR efforts have been helping the nation achieve the national aim of inclusive growth, as per the revised CSR and sustainability guidelines issued by the DPE in Dec 2012 (effective April 2013). These revised guidelines have urged the CPSEs in India to put in place a robust CSR architecture in the interest of all their stakeholders. As per the new guidelines, it is mandatory for CPSEs to disclose its various CSR initiatives and performance to stakeholders. Earlier, CSR and sustainable development were treated as two separate subject areas and were dealt with differently for the purpose of memorandum of understanding (MoU) evaluation. But, now they are combined into a single set of guidelines for greater transparency. The budgetary allocation for CSR is modified. (Table I).

**Table I : Revised CSR and sustainability budgetary allocation for CPSEs**

Net Profit in the previous year	Budgetary allocation as Percentage of Net Profit in the previous year
Less than Rs. 100 Crores	03 percent to 05 percent
Rs.100 Crores– Rs.500 Crores	02 percent to 03 percent
Rs. 500 Crores and above	01 percent to 02 percent

Source: Govt. of India, Dept. of Public Enterprises, “Guidelines on CSR and Sustainability for CPSEs”

Table II shows the CSR allocations by the Maharatna CPSEs in India as a percentage of the profit after tax (PAT) of the previous year in respect of the 03 years’ period from FY 2010 to FY 2012. It is noted that the percentage of CSR allocation is maximum upto 5.09 percentage. But, the actual utilization is often lower than the allocated amounts. In spite of the low allocations rate and lower actual utilization than the amount allocated,

it is noted that Maharatna CPSEs have utilized a significant share of 1.5 to 2 percent of their net profit for CSR (Table II).

**Table II : CSR Spending by Maharatna CPSEs in India**

Name of the CPSE	CSR Initiatives (Rs. Crores) for 3 years (FY 2010-FY 2012)								
	Funds Allocated			Percent of PAT			Funds Utilized		
Coal India Ltd.	43.81	262.28	553.33	2.11	2.73	5.09	40.14	152.3	337.26
Indian Oil Corporation Ltd.	37.69	131.10	195.60	1.28	1.28	1.28	46.85	128.41	148.80
National Thermal Power Corporation Ltd.	16.74	72.37	45.52	0.20	0.83	0.50	20.40	72.2	16.48
Oil & Natural gas Corporation Ltd.	322.52	335.35	378.48	2.00	2.00	2.00	268.87	219.0	321.86
Steel Authority of India Ltd.	80.00	94.00	64.00	1.30	1.39	1.30	78.79	68.95	22.94

Source: Govt. of India, Dept. of Public Enterprises, "Guidelines on CSR and Sustainability for CPSEs"

### 7. Major CSR Activities Done by the Selected CPSEs: An Overview

CSR activities of Indian Oil Corporation Ltd. (IOCL) include various LPG schemes for different segments of the population, Community Development (projects for providing Clean Drinking Water, Health & Medical Care and Education), Scholarship Schemes, Aid for National Causes and Natural Calamities, and Deployment of state-of-the-art technologies at its refineries for production of green fuels meeting global standards towards environment conservation.

National Thermal Power Corporation Ltd. (NTPC) is actively involved in such CSR activities as Community development, Education, Infrastructure development, Healthcare, Help in natural calamities, Women empowerment and capacity building, Help the physically challenged people, etc. All these are primarily targeted at the disadvantaged segments of the society including women.

The major CSR initiatives of Oil and Natural Gas Corporation Ltd. (ONGC) include the following: (i) Education including vocational courses, (ii) Health Care, (iii) Entrepreneurship (self-help & livelihood generation) schemes, (iv) Infrastructure support near ONGC operational areas, (v) Environment protection, ecological conservation, promotion, (vi) Protection of heritage sites, UNESCO heritage monuments etc. (vii) Promotion of artisans, craftsman, musicians, artists etc. for preservation of heritage, Art & Culture, (viii) Women's Empowerment, Girl Child Development, Gender sensitive projects, (ix) Water Management including ground water recharge, (x) Initiatives for Physically and Mentally challenged, (xi) Sponsorship of seminars, conferences, workshops etc., and (xii) Promoting Sports/sports persons; supporting agencies promoting sports and sports persons.

CSR activities of Coal India Ltd. (CIL) include Education, Water supply (including drinking water, Health care, Social empowerment, Sports and culture, Infrastructure support, Employment generation, Relief to victims of natural calamities, Adoption of villages, Support to NGOs etc.

Steel Authority of India (SAIL) has a number of activities for discharging its CSR responsibilities. SAIL achieved the award for PSE Excellence in the year 2013 for its contribution in CSR and sustainability work in Maharatna and Navratna category of companies. The organization has identified that the business activities hold both the indirect and direct impact over the societies SAIL has also achieved pioneering in CSR implementation towards the growth and development of the community. It is noted that health, education, generation of income and sustainable development plays an integral role in the CSR initiatives of SAIL. On the health hand, SAIL has set



up the hospitals that are of super- specialty type, and on the other hand many primary health care centers are also run by SAIL. SAIL maintains, owns and helps many schools through its steel townships, in order to provide the modern education facilities to the students. SAIL tries to offer access to many people in various villages in the boundaries through constructing as well as repairing the roads. For the purpose of bridging the disparity among the urban and rural areas for providing the comprehensive development in the social, and physical infrastructure, and there are many villages that are explored in around 8 states, and are named as Model Steel Villages for conducting holistic development (SAIL Annual Report, 2014). The Gyan Jyoti Yojana for Birhor Tribe, a tribe on the verge of extinction is noteworthy. Due to stark poverty, illiteracy and lack of socio-political awareness among this community, they were not forced to live in pathetic conditions. To remove this darkness from their life and bring them into main-stream SAIL provides basic necessities of life and educational facilities to their children.

## 8. Effective Implementation of CSR by CPSEs: Some Suggestions

- CSR activities of CPSEs should ideally seek to address the long-term and broader societal issues like environmental pollution. CSR efforts should focus on really deserving social development activities including rural development, promotion IT, literacy including computer literacy, women empowerment, etc. It is noted that all the five CPSEs under study have followed the above policy more or less in a uniform pattern. Similar policies may be adopted by other CPSEs as well.
- The CSR activities of each CPSE need to be defined, considering the specific nature of the business undertaken by that company and its industry segment. For instance, CSR activities of CPSE whose functioning affects pure drinking water in the locality should necessarily include free supply of drinking water to the entire affected areas.
- Costs involved in CSR activities by the CPSEs should be systematically kept on vigil. Accordingly, accountability for discharging the CSR responsibility of each CPSE could be fixed. This helps to avoid misuse of CSR funds and eliminate corrupt CSR practices.
- CSR initiatives of individual CPSEs need to be widely publicized throughout the respective CPSEs at all levels. Moreover, all the employees of the respective CPSE be involved in defining and implementing all CSR activities by that company.
- Each CPSE should develop positive and pro-active relationships with other CPSEs and their CSR initiatives. Co-ordinated effort by different CPSEs would be mutually beneficial to all CPSEs and also the society as a whole. Because, efforts would not be duplicated nor wasted, rather they could be made complementary to each other.
- Customer education should form the focus of all CSR activities of CPSEs. Educating the masses particularly those from the lower strata of the society would strengthen the society through enlightening them. All CPSEs should shoulder this responsibility.
- Last but not the least, all CSR efforts must be oriented at social development in its true letter and spirit. A compliance-oriented approach towards CSR should be avoided by the CPSEs because CSR is now mandatory for CPSEs as per the new Companies Act. Only whole hearted CSR efforts with the active support and co-operation of the respective stakeholders and that too in a co-ordinated manner with other CPSEs or PSEs in general can ensure real and sustainable social progress and development. This in turn would give the returns to the concerned PSEs in the form of long-term relationships, customer loyalty, corporate image and brand equity.

## 9. Concluding Remarks

In view of the foregoing discussions, it may be pointed out that the measures initiated by the Government of India regarding mandatory CSR by the PSEs in India, prima facie, is a welcome move. This measure would prompt the private sector companies also to join the CSR bandwagon voluntarily, in case they are yet to start CSR voluntarily. The fact is that even without any statutory compulsion many private companies have initiated CSR activities voluntarily because of the obvious benefits in terms of better corporate image and brand equity, long-term customer relationships and customer loyalty, etc. However, extension of CSR activities to all private sector companies is quite advisable, as it will further strengthen the CSR further and will ensure a level playing field for

all players. The efforts of CPSEs in particular in the CSR front may be noted to be by and large commendable. The CSR efforts of CPSEs need to be continued and expanded.

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