A Critical Study on Corporate Social Responsibility Activities of Public Sector Undertakings in India and its Financial implications

Dr Ashok kumarRath
Professor in Finance, Regional college of Management, Bhubaneswar.

Abstract: In a competitive business environment and after the implementation of Indian Companies Act-2013, a corporate entity cannot function without fulfilling its obligations towards social welfare activities known as CSR. At present the corporate houses has to balance their economic and financial goalsand optimization of shareholder value with maximization of social benefits to the community and contributing for environmental protection. The aim of CSR is to work for developing communities and environment sustainability and to create a healthy society for the future generations. CSR includes Health, Education, Women empowerment, Environment sustainability and other activities as permitted under the Companies Act, 2013 for a better society.

Keywords- Corporate Social Responsibility(CSR),Public Sector undertakings.

I. Introduction

Corporate Social Responsibility refers to building the relationship with the society by the Corporate houses which may be termed as Social Relationship. Every business starts with the motive of profit making but it cannot sustain for a long period of time with this motive only. Business cannot grow when surroundings startfailing. For sustainability of business, it should have sound Corporate Governance policy. Business needs to address shareholders as well as stakeholders which consist of suppliers, customers, creditors, the bankers, employee, and society at large. According to the report of Kumar ManglamBirla committee as appointed by the SEBI on Corporate Governance, “The fundamental objectives of Corporate Governance are the enhancement of shareholder value, keeping in view the interest of other stakeholders”. Corporate Social Responsibility helps to address the stakeholder issues. In the age of globalized world, the concept of CSR can’t be ignored by the corporate firms. India’s 10 most profitable companies will together spend Rs 2,625 crore on activities including promotion of commerce, art, science, sports, education, research, social welfare, religion, charity and protection of the environment. The spending will, preferably, have to be in the immediate vicinity of their businesses ( Krishnakant, M Saraswathy, 2014). By keeping in mind the changing market scenario business firms have to change their work culture as per the market demand. Data relating to companies coming under top CSR spenders is shown in the figure-1 as given below.

Figure- 1

(Source: KPMG in India, India Corporate Responsibility Reporting Survey 2013, December 2013)
From the above data and figure it is found that in the year 2013 in India about 74 percent of discuss some social and environmental aspects of their products and services. Only one in 10 reports discusses these impacts in details. Disclosure on the outcome of stakeholder engagement and actions taken is low. Only 23 percent clearly report on actions taken in response to feedback from all stakeholders. 32% Indian CR reports do not specify the timeliness of achievement of targets which shows the lack of commitment towards timely achievement (Firstpost Business, 2014). Survey clearly indicates that only 16% of the top 100 listed firms in India have a corporate responsibility strategy in place (Business Standard, 2011).

**Corporate Governance & Corporate Social Responsibility**

The current situation of business world requires companies to adopt full set of corporate governance and sustainability. Before, tangible and intangible financial reports were the main concern of a company to create value for its shareholders. Now intangible assets are higher than tangible assets as percent, and concentrating switchesto non-financial reports and information affects bottom line. These changes come through implementing corporate governance and sustainability principles. CSR is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives. CSR creates bonding between corporation and its stakeholders.

**Aim of the study:**

The aim of this article is to describe the existing practices of corporate social responsibility as adopted by the Public Sector Undertakings in India. For the purpose of this study 5 Maharatna and 3 Navratna companies have been taken into consideration.

**Review of Literature**

Carrol A. (1999) Four characteristics of CSR: Economic, Legal, Ethical and Discretionary. Lantos (2001) argue that companies can involve themselves in social activities if they generate profit from their good work.

McWilliams (2001). Corporate Social Responsibility (CSR) has become a new increasing and interesting field of study by researchers and practitioners. However, a completed definition of CSR is indeed elusivelyand opinions vary.

Maignan & Ralston (2002) a wide range of behavior are categorized under CSR including cause-related marketing, sponsoring charitable events, offering employee volunteerism programs, making charitable donations, utilizing environmental initiatives, and demonstrating a commitment to health and safety issues.

Hopkins (2003) CSR is concerned with treating the internal and external stakeholders of the firm ethically or in a socially responsible manner and the wider aim of corporate social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for its stakeholders.

Oketch (2005) defined CSR as a function that transcends but includes making profits, creating jobs and producing goods and services.

H. Jo, M. A. Harjoto, (2012) CSR as a missing link between CG and firm performance. CG should directly influence firm performance. Since, we have a conflict of interest between the two; however, CSR is acting as a conflict-resolution device between stakeholders and shareholders.

Anupam Sharma, Ravi Kiran, (2013) in the age of globalized world, the concept of CSR can’t be ignored by the corporate firms. By keeping in mind the changing market scenario business firms have to change their work culture as per the market demand.

**II. Csr In Central Public Sector Undertakings (Psus)**

Public Sector undertaking plays a crucial role in development of the nation’s economy. Central Government and State Government set up PSUs to build the industrial capacity and generating employment along with improving socio-economic condition. Central Government establishes Central Public Sector Enterprise (CPSUs) under the Department of Public Enterprise, Ministry of Heavy Industries & Public Undertakings. CPSUs are governed by new guidelines issued by Department of Public Enterprise which came into effect on April 1, 2013. As per new guidelines, it is obligatory for CPSUs to disclose its various CSR initiatives and performance to stakeholders. The PSUs would have to utilize and spend the entire amount earmarked for CSR, or would have to disclose the reasons for not utilizing the full amount. Further, if the CPSUs are unable to spend the earmarked amount for CSR in a particular year, it would have to spend the amount in the next two financial years, failing which, it would be transferred to ‘Sustainability Fund’. Currently, its implementation mechanism is being formulated separately. In the revised guidelines, the thrust of CSR and sustainability is clearly on capacity building, empowerment of communities, inclusive socio-economic growth, environment protection, promotion of green and energy efficient technologies, development of backward regions.
and upliftment of the marginalized and under-privileged sections of the society. The revised guidelines give a clear message that CPSUs are expected to act in a socially responsible manner at all times.

**Financial Component for CSR**

Every year, each CPSU shall with the approval of its Board of Directors make a budgetary allocation for CSR and Sustainability activities / projects for the year. The budgetary allocation will be based on the profitability of the company. More specifically, it will be determined by the Profit After Tax (PAT) of the company in the previous year as shown hereunder:

(i) Less than Rs. 100 Crore ………….. 3% - 5%
(ii) Rs. 100 Crore to Rs. 500 Crore ……… 2% - 3%
(iii) Rs. 500 Crore and above ……… 1% - 2%

With the enactment of new companies act, CPSUs need not to follow above budgetary allocation. Now they have to spend 2% of net profit under section 135 of Companies Act, 2013.

Each CPSU shall have a Board level committee headed by either the Chairman and / or Managing Director, or an Independent Director to oversee the implementation of the CSR and Sustainability policies of the Company and to assist the Board of Directors to formulate suitable policies and strategies to take the CSR and Sustainability agenda of the company forward in the desired direction. Now as per the new law, CSR committee to be formed to formulate CSR policy and monitor its implementation. Corporate Governance is one of the key parameters included in the Memorandum of Understanding (MoU). The government uses this as a tool to evaluate the performance of CPSUs. As a norm, CPSEs are periodically required to submit a compliance report on CSR. There are various parameters to assess the performance of CPSEs in terms of corporate governance. The government evaluates their performance on a scale of 1 to 100. Higherscore translates into better compliance with corporate governance. If any CPSE fails to submit the self-evaluation or compliance report by the cut-off date, it is graded and considered as equivalent to ‘Poor’. During FY12, out of the total 248 CPSEs, 78 CPSEs (31.5%) received ‘Excellent’ score compared with 61 CPSEs in FY11, as they complied well with the corporate governance guidelines as shown in the figure no-2 as shown below.

![Figure No-2](image)

From the above figure it is evident that environment protection, women empowerment, and healthcare emerged as the three major CSR activities undertaken by PSUs that offered maximum benefits. Around 19% of the companies ranked environment protection as their key focus area that offered maximum benefit. Further, women empowerment and healthcare were the next major CSR activities that offered maximum benefit, which the PSUs undertook. Moreover, village upliftment, education, job creation, and assistance during natural calamities were the other major CSR activities implemented by PSUs that provided maximum benefits.
CSR activities undertaken by PSUs (as shown in fig-3) are facing numerous challenges and limitations while implementing CSR programs. They largely relate to the organizational level issues such as absence of a dedicated CSR team, active involvement of key stakeholders, budgetary issues and identifying CSR projects and their beneficiaries. It is found that identifying appropriate CSR projects as the top-most challenge of the PSUs. This was followed by lack of active involvement of all stakeholders and beneficiaries as the other major challenge. Data shows that Maharatna and Navratnapublic sector undertakings (PSUs) have not been able to fully spend their CSR budget. Data released by the ministry of Heavy Industries & Public Enterprises In the yr 2012-13 shows that the 5 Maharatnas -ONGC, Coal India, IOC, NTPC and SAIL - managed to spend just 49% of the combined budget for three years beginning 2009-10. The spending budget for most PSUs is updated till end September 2011. The combined spending of the Navratnas was higher at 65%. But atleast five of these 21 PSUs managed to spend less than 25% of the CSR budget of the three years. Coal India spent only 27% of the budget, according to information released. National Aluminum Ltd (NALCO) was the only one that managed to fully spend its Rs 31.55 crore budget amount. ONGC spent 49% of the budget in the three years. Whereas Coal India, its performance in the third year was disappointing. It spent only 6% of the budget till September 2011. Indian Oil Corporation spent 85% of the Rs 264.4 crore it set aside and SAIL 72% of the Rs 179.68 crore. (Tina Edwin, 2012) PSUs are not taking much CSR initiatives as they don’t see any support from the governments. Some kind of financial incentives should be given to PSUs so that they can feel motivated and undertake more and more CSR activities. Around 60% of the surveyed PSUs feel some kind of recognition such as receiving an award would push the level of their CSR activities. Further, about 19% of the surveyed PSUs feel CSR expenditure should be liable fora tax deduction, which would act as a major incentive for carrying out CSR projects.

III. Csr By Maharatna Companies

1. Bharat Heavy Electricals Limited (BHEL)

BHEL has developed a CSR Scheme and its Mission Statement on CSR is “Be a Committed Corporate Citizen, alive towards its Corporate Social Responsibility”. BHEL’s contribution towards Corporate Social Responsibility till date include adoption of villages, free medical camps/charitable dispensaries, schools for the underprivileged and handicapped children, ban on child labour, disaster/natural calamity aid, Employment for handicapped, Widows’ resettlement, Employment for Ex-servicemen, irrigation using treated sewage, pollution-checking camps, plantation of millions of trees, energy saving and conservation of natural resources through environmental management. BHEL provides financial assistance to various NGOs/Trusts/Social Welfare Societies that arranged in social welfare activities throughout the country. 56 villages having nearly 80,000 inhabitants have been adopted. BHEL shares the growing concern on issues related to Environment and Occupational Health & Safety (OHS), and is committed to protecting Environment and in and around its own establishment, and to providing safe and healthy environment to all its employees. For fulfilling these obligations, a Health, Safety & Environmental Policy has been formulated and implemented through management systems. It has also received Prestigious Golden Peacock Award for Occupational Health & Safety 2010.
2. Oil & Natural Gas Commission (ONGC)

The CSR initiatives of ONGC were marked by unrelenting commitment to several large-scale key projects as well as initiation of several new projects identified under the 12 focus areas of ONGC i.e. 1. Education including vocational courses, 2. Health Care, 3. Entrepreneurship (self-help & livelihood generation) schemes, 4. Infrastructure support near ONGC operational areas, 5. Environment protection, ecological conservation, promotion, 6. Protection of heritage sites, UNESCO heritage monuments etc. 7. Promotion of artisans, craftsmen, musicians, artists etc. for preservation of heritage, Art & Culture, 8. Women’s Empowerment, Girl Child Development, Gender sensitive projects, 9. Water Management including ground water recharge, 10. Initiatives for Physically and Mentally challenged, 11. Sponsorship of seminars, conferences, workshops etc. 12. Promoting Sports/sports persons; supporting agencies promoting sports / sportspersons.

ONGC, in its quest for oil and gas, charters remote rural locations and is in a constantinterface with underprivileged local communities which results in better understanding of the community and consequently an enhanced sense of responsibility and accountability to the communities whose lives we touch. ONGC has received Golden Peacock Award founded by the Institute of Directors, New Delhi for Corporate Social Responsibility for 2013.

3. Steel Authority of India Limited (SAIL)

SAIL won the PSE Excellence Award – 2013 for CSR & Sustainability in Mahartna&Navratna category at New Delhi on December 16, 2013. SAIL recognizes that its business activities have direct and indirect impact on the society. It strives to integrate its business values and operations in an ethical and transparent manner to demonstrate its commitment to sustainable development and to meet the interests of its stakeholders. SAIL is a pioneer in implementing CSR initiatives towards community growth and development. Education, health, income generation and sustainable development play a key role in SAIL’s CSR initiatives. On the health front, SAIL has established super-speciality hospitals and primary health centres, to provide specialized and basic healthcare to people living in the vicinity of its Plants & Units. SAIL owns, maintains and supports several schools in its steel townships to provide modern education to children. SAIL has provided access to lakhs of people across villages in its peripheries by constructing and repairing of roads. It has provided access to water infrastructure to people living in far-flung areas by installing water sources, thereby providing drinking water access to people over the years. In order to bridge the disparity between rural and urban areas as also to provide comprehensive development of both physical and social infrastructure, many villages have been identified in 8 states as “Model Steel Villages” for holistic development.

4. National Thermal Power Corporation (NTPC)

According to CMD, NTPC Ltd says “We value the partnership we build with the communities around our units. For us Corporate Social Responsibility is Corporate Social Relationship”. Committed socially since inception, NTPC has a comprehensive Resettlement & Rehabilitation (R&R) policy covering community development (CD) activities. CD activities in green field area are initiated as soon as project is conceived and thereafter extensive peripheral development activities are taken up along with the project development. Aseparate CSR-Community Development Policy covers a wide range of activities starting from unit level to regional and national level including implementation of key programmes through ‘NTPC Foundation’. Robust structure, well laid out policies and streamlined process guide CSR initiatives benefitting more than a million people spread over about 500 villages in the neighborhood of NTPC stations. NTPC has outlined four stages of CSR process i.e. (1) Planning, (2) Implementation (3) Monitoring & Evaluation (4) Documentation & Communication. NTPC mainly involved in Community Development activities, Education (15-20% CSR Budget), Health, Capacity Building & Women Empowerment, Development of Infrastructure, Support during natural calamities, support for physically challenged person. NTPC foundation, registered in December 2004 is engaged in power station in Chhattisgarh. NTPC has been bestowed with Golden Peacock Award 2012 in Power Sector by Greentech Foundation. The Greentech Awards serve as a catalyst in understanding the intrinsic value of Corporate Social Responsibility in business excellence and sustainability. NTPC has been bestowed with Golden Peacock Award for Corporate Social Responsibility (CSR) 2012 constituted by Institute of Directors (IOD), New Delhi on April 25, 2012.
IV. CSR By Navratna Companies

1. Oil India Ltd (OIL)

OIL vision statement states “OIL is a Responsible Corporate Citizen deeply committed to socio-economic development in its area of operations”. OIL did a survey in year 1983 and based on recommendation of that company introduced a scheme entitled Social Welfare Programme in 1984 and later on another scheme called Areas Development Scheme (ADS) in 1996. The SWP policy places OIL’s commitment of protecting the environment, upliftment of education, Health and socio-economic Development a topmost priority. All-round development of education, rural infrastructure, primary health care, environment protection, promotion of sports/sports person (especially rural sports), assistance to youth and women organizations in carrying out community development activities are some of the key areas covered under SWP. Area Development Scheme (ADS) was introduced in 1996 with the objective of supporting the various socio-cultural activities in the operational areas. The Scheme covers the construction of roads, setting up of educational institutions and primary health centres in the North East Region and other operational areas of the company. The World Council for Corporate Governance (WCFCG) and Centre for Corporate Governance (CFCG) awarded Oil India with the prestigious Golden Peacock Award for Corporate Social Responsibility in 2002. Oil India Limited (OIL) also bagged the prestigious TERI Corporate Social Responsibility Award, 2004, which was presented to OIL in recognition of corporate leadership for good corporate citizenship and sustainable community development initiatives. As part of a CSR initiative, energy major Oil India has decided to step into dairy sector and has signed an agreement with Institute of Rural Management, Anand (IRMA) to carry out a feasibility study. Oil India Ltd & Centre for Social Responsibility & Leadership, New Delhi, signed an MOU on 9th April, 2013 for executing Abhayanand Super 30 (an initiative of CSR) program for providing free residential coaching for IIT/NIT etc. to underprivileged students of Assam and Arunachal Pradesh. Under the MOU the selected 90 students shall be provided this facility at Guwahati, Jorhat and Dibrugarh in Assam.

2. Rashtriya Ispat Nigam Limited (RINL)

RINL’s vision is to be a respected corporate citizen, ensure clean and green environment, develop vibrant communities. Long before the concept of CSR came into being, VSP has been in the forefront in Socioeconomic transformation. Since 1993 emphasis upon Peripheral development was put and projects were implemented for the same under the Town Administration Department. With the experience of Peripheral development, VSP embarked on the path of CSR after allotment of requisite budget and fulfilling legal obligations under the Companies Act. To boost up the CSR activities, a separate Department was formed in March 2007 and RINL CSR Foundation Trust was registered under the Companies Act, 1956 and IT Exemption obtained for CSR. Vizag Steel’s endeavor upon Corporate Social Responsibility primarily aims at Socio-Economic development of the poor, downtrodden and marginalized sections of society and address the necessity to conserve the Environment. Till date, CSR activities more than 100Crores have been taken up by VSP. RINL recently organized adult women literacy programme in surrounding villages and tribal area of Vishakhapatnam district. Training programme was also conducted for unemployed youth to facilitate employment in security forces. On November 29, 2013 has signed an MOU with King George Hospital to extend financial support for development of infrastructure by establishing Multi Storied Hospital complex in KGH premises along with other CPESs. In November 2013 BalMela, a unique event was conducted at Arunodaya Special Schools to bring awareness and sensitize people about differently abled children and the training being given to them at school.

3. Power Grid Corporation of India (PGCI)

PGCI is involved in Education; under this it does infrastructural development by setting up computer labs, library, providing sponsorship to students, mid-day meal programme, assistance to slum dwellers’ children. In health part it provides doctor & support staff, operation of fully equipped mobile medical units, supply of ambulance, medical equipment etc. It has also created roads, culverts, anganwadi building, community centre, classrooms, toilets, tube wells, drinking water facilities, sewage drains etc. To solve the unemployment problem amongst the rural youth as well as to create a pool of skill manpower, vocational training for women & unemployed youth are being conducted in the areas of tailoring, stitching, embroidery, automobile repairing & servicing, handloom weaving, food & fruit processing, CNC lathe machine operation, welding, repairing of household electrical equipment, domestic wiring, etc. These initiatives cover the cost of training, guidance, stipend to the trainees and overall support for employment/self-employment thereby facilitating the socio-economic empowerment of their families. It also takes care of capacity building, ecology, environment, natural calamities, programme for differently abled person. PGCI has been conferred the “India Shining Star CSR Award” in Power Sector by Wockhardt Foundation, for path-breaking CSR initiatives undertaken pan India. The Corporation has also been awarded the Greentech CSR Award 2011 in Gold Category in Power Sector, at Srinagar, for its far-reaching CSR initiatives.
V. Conclusions

From the above discussion it may be concluded that CPSWs are doing very good regarding CSR activity. They are involved more or less same kind of CSR activities as they follow the guidelines issued by Department of Public Enterprise which streamlines CSR activities of CPSEs. As per recently passed company law CSR has become mandatory for corporate as per criteria set for that. In other words we can say that CSR has become now an integral part of Corporate Governance. As per Section 135 of Companies Act, 2013, they have to spend 2% of the average net profit of the company made during the three immediately preceding financial years, in pursuance of its CSR Policy. CSR Committee to be formed for formulating and recommending CSR policy to board, recommending amount to be spent and monitor the CSR policy time to time. Before this mandate, there were companies which were involved in CSR activity in greater sense. For them CSR is the integral part of the corporate policy. They believe in TripleBottom Line principle which leads to sustainable development. As per latest figures companies are spending between 1 to 2 percent for CSR activity e.g. TCS (1.60%), CoalIndia (1.65%), SBI (1.64%), Infosys (1.74%), ONGC (0.49%), Reliance (1.91%) etc (Krishna Kant, M Saraswathy, 2013). All listed companies are averagely spending around 2% for CSR activities.

This new mandate will not affect the companies which are already involved in CSR activity as their business activity and spending between 1.5 to 2 percent. They will have to spend some more on CSR to reach the level of 2 percent. It will awake the companies which were not doing CSR activity at all or doing minimal. Many are of the opinion that CSR should be a voluntary activity but at the other hand some experts opined that CSR must be mandatory affairs for the companies as they are affecting its stakeholders and taking enough care for them. By doing CSR activity they can become responsible companies for the country. Referring to the issue related to CSR, IT czar AzimPremji said philanthropy cannot be forced and it has to be spontaneous. Premji said the stipulation of spending 2 percent of profits should not become a tax at a later stage. He added that giving back to the society is important for the growth of a better world, but it should come from within. (Philanthropy has to be spontaneous, can’t be forced: AzimPremji, 2013). Coal Indiawhich accounts for over 80 percent of the domestic coal production is in news for notspending its earmarked money for corporate social responsibility. It could spend merely 15 percent of the funds. Parliamentary panel has recommended that officials responsible for it must be made accountable. The Committee also deplored the “slow action” of CIL with regard to preparing the action plan for identification and implementation of CSR projects.

Mandatory CSR policy as suggested by the new Companies Act-2013 is very good steps towards the sustainable development. We can see CSR policy in other countries as described above, there is strong involvement of Government and its agency in flourishing CSR activities in the companies. Statutory obligation alone will not help to achieve goal of CSR but collective effort from Government and Private players surely do that.

References


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