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# CORPORATE SOCIAL RESPONSIBILITY IN CENTRAL PUBLIC SECTOR ENTERPRISES IN INDIA IN THE REFORMS ERA

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***Abstract***
*Corporate Social Responsibility (CSR) has assumed added significance in India in the contemporary centrality particularly among the public sector enterprises (PSEs). This is because CSR spending has been made mandatory in respect of PSEs by the new Companies Act. While CSR initiatives have been in vogue in the Indian corporate arena for the last few decades, of late, it is being used as a business strategy voluntarily by the companies. Thus, on the one hand there is statutory compulsion to adopt CSR in respect of PSEs while on the other hand there are many instances of even private companies going for voluntary CSR activities. In the backdrop of the new Companies Act that mandates compulsory CSR spending by the PSEs in India, this paper makes a study of the relevance and significance of CSR with a focus on central public sector enterprises (CPSEs), the impact of mandatory CSR and its advisability in the ongoing reforms regime and makes suggestions for the effective implementation of CSR by Indian companies.*

**Key Words:** ***CSR, Competitiveness, Public Sector Enterprises, New Companies Act.***

## 1.Introduction

Corporate Social Responsibility (CSR) is a business strategy which had its origin in the US. Gradually CSR started gaining popularity all around the world. CSR argues that organizations have a responsibility to multiple stakeholders in the conduct of their business, and not just to the shareholders. It is about businesses assuming responsibilities that go well beyond the scope of simple commercial relationships. CSR brings with it many benefits and these include increased profits, enhanced customer loyalty and trust, better brand image and skirmishing of negative publicity (Brown and Dacin, 1997; Drumwright,1996; Maignan and Ferrell, 2001; Murray and Vogel, 1997; Sen and Bhattacharya, 2001; Senet al., 2006). In view of these well documented merits of CSR, many companies including public sector enterprises (PSEs) have been growingly adopting CSR over the years, and banks in India are no exception. Companies are thinking beyond the sole objective of profit-maximization and becoming increasingly aware of the social aspect of the business. Much of this transformation in the business mindset is also an outcome of the economic benefits of CSR in the form of improved goodwill and long-lasting customer relations (Crowther, 2008). Businesses are an integral part of any society, and have an active role to play in the upliftment of the society. There is an interdependent relationship between business and society. Both these are mutually interdependent for survival and sustenance. In the ongoing era of globalization and privatization in India CSR is an imperative even for public sector enterprises (PSEs), both Central PSEs (CPSEs) and State level public sector units (SPSUs).

## 2. Relevance and Significance of the Study

CSR is an imperative for the survival and growth of any organization today in the wake of the pressures of globalization sweeping across the globe which has resulted in cut-throat competition in the field of any industry or business. Businesses today cannot succeed by concentrating on economic objectives alone; rather they need to be responsible towards all the stakeholders. The stakeholders of a firm can be broadly categorized into three stakeholder groups: organizational, economic and societal. Satisfying to each of these three groups helps the companies to capitalize on their commitment to another chief stakeholder group — their investors (Friedman, 1962; Henriques, 2003; Baron, 2007). CSR aims at providing satisfaction to all the major stakeholders and in return enhances company's goodwill and loyalty of customers. CSR is turning more and more essential for obtaining success in business — mainly by rendering a corporate scheme around which the company can unite, but also by adding meaning and direction to the day-to-day operations (Henriques, 2003).

**3. Objectives of the Study**

1. To study the significance of Corporate Social Responsibility (CSR) in India in the ongoing reforms era with a focus on Central Public Sector Enterprises (CPSEs);
2. To study the impact of the provisions on CSR in New Companies Act on CPSEs in India;
3. To study the advisability of mandatory CSR acts ie. those out of statutory compulsion; and
4. To suggest policy options for effective implementation of CSR in CPEs in India.

**4. Methodology of the Study**

The study is descriptive-analytical in nature. The data used are primarily secondary data and are sourced from authentic sources like Government publications, audited and published financial statements of major CPSEs etc. The data collected are analyzed using basic research techniques to arrive at meaningful conclusions.

**5. Significance of CSR in the Ongoing Reforms Era in India**

The significance of CSR and its utmost need today can be understood from the following factors:

- ***Changing Social Expectations*:** As a rule, consumers and society expect more from the companies whose products they purchase. This sense has been intensified in the light of the various corporate scandals, which diminished public trust on business houses, and subjugated public confidence in the capability of regulatory bodies and organizations to check corporate surplus. In order to retrieve trust of the consumers back, it is necessary for the enterprises to invest more in CSR activities (Cowper-Smith. and de Grosbois, 2011).
- ***Increasing Affluence*:** Affluent or wealthy consumers have a chance to pick and select the goods they purchase. A society in want of work and inward investment enjoys lesser chances to impose rigid regulations and punish organizations that consider taking their business and money elsewhere. (Freeman and Liedtka, 1991).
- ***Globalization***: The media's rising influence catches any 'mistakes' by companies instantly and brings it immediately to the public's attention. As an add-on, the Internet stimulates communication amongst compatible groups and consumers—authorizing them to disperse their message, at the same time supplying to them the means to organize collective action (i.e. a product boycott). (Lee, 2008; McWilliams and Siegel, 2001).

These three factors unite to bring a change in the relationship between the corporation and the consumer and between the corporation and all the other stakeholder groups. (Lee, 2008; McWilliams and Siegel, 2001). The consequence of this blend is that consumers today are well-informed and feel more authorized to execute their beliefs into actions. If assessed from the corporate point of view, the market parameters within which companies are asked to operate are growingly being shaped by bottom-up, grassroots campaigns. NGOs and consumer activists are found to be feeding, and often driving, this varying relationship between consumer and company. (Schaefer, 2008).

CSR is especially important amongst a globalizing world because of the manner in which brands are built. CSR is a way of synchronizing corporate operations with stakeholder values and demands at an hour when these values and demands are incessantly evolving (Schaefer, 2008). Hence, CSR can be depicted as a complete approach to business. CSR trickles into every aspect of operation. (Waddock and Graves, 1997).CSR is one of the most debated concepts as there is no consensus among experts about its definition and scope. Experts differ in their opinions about the concept of CSR. From very general descriptions of the term, there exist definitions which focus on specific aspects of the firm's social responsibilities (Schreck, 2009).

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## 6. CSR in Indian Companies, New Companies Act and Mandatory Spending on CSR

CSR is a concept that has been in existence in India since long. The concept though existed in an unorganized format during pre-independence era but the Indian companies were aware of their responsibilities towards social development. History provides that the Indian companies used to contribute towards providing education, health and other kinds of social services. The man behind these initiatives was Mahatma Gandhi who basically taught the Indian companies, in those times to fulfill their societal responsibilities. Since then, the concept of corporate social responsibility in India has undergone massive changes. This has become more formal, organized and now mandatory also. The philanthropic activities of companies were undertaken separately and did not use to be a part of their corporate social responsibility in the past but today, as mentioned earlier in the CSR pyramid these activities comprise the highest level of CSR. The scope of the term CSR has widened manifold. (Bhanumurthy and Krishna, 2010, p.156)

The corporate houses that basically introduced the concept of social responsibility in India are the TATA's and the Birla's. These are leading private companies of India and they have contributed for the betterment of society since the time, when this concept was hardly present in the country. Today India is considered to be one among the top Asian countries as far as CSR activities are concerned. As per social enterprise CSR Asia's Asian Sustainability Ranking (ASR), India was ranked fourth among Asian countries in respect of laying increasing emphasis on the concept of CSR in the year 2009. On individual level also, there are 4 Indians among '48 Heroes of Philanthropy' according to 2009 and 2010 list of Forbes Asia. This very well depicts the awareness of CSR among Indian citizens. (The Hindu dated March 5, 2010).

Different views on CSR also extend to the argument whether CSR initiatives must be mandatory for all businesses or they should be left at the discretion of the businesses. Until recently the CSR practices of companies were discretionary in India. The new Companies Act mandates CSR for all profit-making companies in India. Accordingly all profit making companies in India should mandatorily spend 2 percent of their average net profits over the previous three years essentially for CSR activities. But, this provision is now applicable only to public sector units (PSUs) or public sector enterprises (PSEs), and not those in the private sector.

## 7. Mandatory CSR in India and Its Advisability

In the year 2009, the Government of India made it mandatory for all public sector oil companies to spend 2 percent of their net profits on CSR activities. For public sector oil companies, a minimum expenditure of 2 percent net profits is must on CSR and no slabs have been prescribed by the Government. This was a major move on part of Indian Government. The same move has also been planned by the Government for coal mining firms. However, the percentage to be shared has not yet been decided and the proposal is not yet accepted. (Business Standard dt. April 25, 2011). In the new Companies Act there is a complete section that contains the guidelines for the internalization of sustainability reporting practices applicable to the CPSEs. Studies have pointed out that in the past even the most reputed CPSEs like Coal India Ltd. (CIL), Indian Oil Corporation (IOC), Oil and Natural Gas Corporation (ONGC), and Steel Authority of India Limited (SAIL) failed to utilize CSR funds allocated for the purpose. The lack of transparency on the part of Indian companies regarding the CSR activities undertaken by them has been the root cause behind the decision of the Government of India regarding the mandatory CSR clause under the new Companies Act Bill.

There has been much debate these days on the issue of making CSR spending mandatory to a certain percentage for private sector firms also as is the case with public sector units. The proposal has been made for a 2 percent mandatory spending on CSR activities by the private firms. The Government bodies are in support of this proposal but this proposal is being strictly opposed by the private sector corporate houses. These private sector companies believe the CSR spending cannot be mandated and this should be left at the discretion of the companies. The private sector companies have presented their view that Government should not interfere in these activities and such mandatory spending may affect their commercial success. So this should remain on a voluntary basis only. (The Times of India dt, March 25, 2011).

If this happens, the Indian scene of corporate social responsibility is definitely going to change a lot, in the near future with more mandatory spending rather than voluntary philanthropy activities of companies. Any statutory compulsion from the part of the Government should be made applicable to all companies, whether in the public sector or private sector. The case of mandatory CSR is no exception. Only then level playing field can be ensured for all the players.

**8. CSR in Central Public Sector Enterprises (CPSEs) in India: A Closer Look**

The Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises have issued in April 2010, comprehensive "Guidelines on Corporate Social Responsibility for Central Public Sector Enterprises". The new guidelines lay stress on the link of Corporate Social Responsibility with sustainable development and define Corporate Social Responsibility (CSR) as a philosophy wherein organizations serve the interest of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations. Under these guidelines, the long-term CSR Plan should match with the long-term Business Plan of the organization. The activities under CSR are to be selected in such a manner that the benefits reach the smallest unit i.e., village, panchayat, block or district depending upon the operations and resource capability of the company. Under these guidelines the CPSEs are required to move from an ad-hoc approach to the project mode with specified time frames and periodic milestones. The activities undertaken under CSR should also be in consonance and consultation with State Governments, district administration, local administration as well as Central Government Departments/Agencies, Self-Help Groups, etc., to avoid duplication.

Under these guidelines, CPSEs have to create mandatorily, through a Board Resolution, a CSR budget as a specified percentage of net profit of the previous year. Expenditure range for CSR in a financial year is 3-5 percent of the net profit, of previous year, in case of CPSEs having profit less than Rs. 100 crore; 2-3 percent (subject to minimum of Rs. 3 crores) in case the profit ranges from Rs. 100 crore to Rs. 500 crore and 0.5-2 percent in case of CPSEs having a net profit of more than Rs. 500 crore in the previous year. Loss making companies are not mandated to earmark specific funding for CSR activities but may achieve this objective by integrating business processes with social processes, wherever possible. The CSR budget has to be fixed for each financial year and the funds would be non-lapsable. Under these guidelines special stress has been laid on the proper monitoring of the CSR projects undertaken. The Boards of the CPSEs would be responsible for the implementation of the CSR activity which would then be a part of the annual MOU signed between CPSEs and the Government. Also, there is a provision for appointment of Social Audit Committee and independent external agency for periodic monitoring as well as evaluation. As per the provisions of the guidelines a National CSR Hub has been set up by Department of Public enterprises at Tata Institute of Social Sciences (TISS), Mumbai to undertake different activities relating to CSR, such as research and creation of a data base; advocacy; promotional activities; conferences/seminars/workshops, etc.

Both, central public sector enterprises (CPSEs) and state level public sector units (SPSUs) have played a vital role in supporting the socio-economic development of India. They are actively involved in various areas of CSR such as education, healthcare, improving infrastructure, social empowerment, vocational training and environmental protection among others. With a high degree of support from the government, CSPEs acts as a catalyst of social enterprise by providing such diverse services for grass root development.

India has emerged as one of the world's strongest emerging markets and PSUs have played a vital role in achieving this growth and development. In order to sustain this growth, CSR initiatives have become important as they form a crucial part of the companies' strategic decision-making process. In order to integrate this into their business models and achieve the nation's aim of inclusive growth, the revised CSR and sustainability guidelines issued by the DPE in Dec 2012 (effective April 2013) are expected to play a crucial role. The revised guideline has urged the CPSEs to embrace a robust CSR practice that is in the interest of all 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"*

The CPSEs 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 CPSEs 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. However, the government has not mandated loss-making or negative net worth CPSEs to earmark specific funds for CSR activities. However, they are expected to pursue the same by integrating them into their business process. They can work in collaboration with other profit making CPSEs, in areas that do not require financial support. The new guideline has also focused on implementing a robust mechanism for project monitoring. In order to avoid conflict of interest, the guideline enables companies to have a third-party monitoring mechanism. For instance, if a company is implementing CSR projects with the help of its own employees, then for monitoring its implementation it would have to go through a third party and vice-versa.

## 9. Ten Suggestions for Effective Implementation of CSR in Indian Companies

- Any CSR initiative, whether mandatory or voluntary, should be done in its true spirit rather than from a compliance perspective. This in turn would help the companies concerned to gain from long-term relationships, customer loyalty and corporate image.
- The CSR activities for one's company or industry need to be defined, considering the specific nature of the business undertaken or the industry segment. For instance, CSR activities of a bank must be different from that of a manufacturer or a retailer.
- Extensive and continual research be conducted on the concepts of CSR. Such ongoing research on CSR be done using authentic sources of CSR research like 'The World Business Council for Sustainable Development', 'The Global Reporting Initiative' etc.
- A scientific metrics be developed and put in place in order to measure the impact of the company's CSR practices.
- All the employees of the company be involved in defining and advancing CSR.
- All measurable costs associated with CSR activities should be kept track of. As much as the company wants to be socially responsible, it also has an obligation to be fiscally accountable to other shareholders;
- Vast publicity of one's CSR initiatives be done throughout the organization at all levels.
- Positive and pro-active relationships with other socially responsible companies.
- CSR must give utmost significance for educating the masses especially the rural poor.

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- CSR activities should address the broader societal concerns like (i) sustainability in the long run and environment-friendliness, (ii) rural development, (iii) use of ICT etc.

## 10. CSR Regime in India: The Way Ahead

It may be noted that the initiatives by the Government of India of mandating CSR in public sector enterprises (PSEs) in a welcome move. In spite of the vehement resistance from the private sector companies, the Government should extend these mandatory provisions to private sector companies also. Only then the much desired level playing field and hence healthy competition can be ensured among the different players in the industry. However, as the mandatory CSR regime in India is only in the nascent stage, let us hope that Government would come forward to extend the scope of mandatory CSR to private players also in the future.

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