CSR OF MAHARATNA COMPANIES IN INDIA: A QUEST

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Abstract

Business is a creation of the society and must give back to society what it wants. The society comprises of the various stakeholders like shareholders, employees, customers, government etc. Management should set example by developing values towards the society. Social responsibility is an important feature of every business in the modern times. Corporate social Responsibility is an increasingly important part of the business environment and its change. The key drivers of this change have been the globalization of trade, the increased size and influence of companies, the repositioning of government and rise in strategic importance of stakeholders relationship, knowledge and brand reputation. In India companies like TATA and Birla are practicing the Corporate Social Responsibility (CSR) for decades, long before CSR become a popular basis. All the activities undertaken in the name of the CSR are mainly philanthropy, or an extension of philanthropy. It seems that CSR in India has been evolving in domain of profit distribution. There is need to increase the understanding and active participation of business in equitable social development as an integral part of good business practices.. Corporate sustainability is an evolving process and not an end. The objective of this study is to measurement of the quantity and quality of voluntary social disclosures in the annual reports or sustainability reports of the companies. The emergence of Sec. 135 of Indian Companies Act 2013 has been given a wider approach to Corporate Social Responsibility (CSR), with companies recognizing that improving their own impacts and addressing wider social and environmental problems will be crucial in securing their long-term success. In this paper an attempt has been made to highlights the issues and challenges faced by the industry in implementing CSR and also study the provision of CSR under the Companies Act 2013 its impact on Indian corporate sector. The study reveals that Indian corporate sectors are spending substantial amounts on CSR activities voluntarily. Primarily, such spending is on development of neighborhood, primary health care, education, safe drinking water etc. in the areas where the businesses are located. But they fail to point out on important changes that are taking place worldwide that could blow the business out of the water. CSR is viewed as vital tool for improving their competitive edge over their rivals.

Keywords: *Corporate Social Responsibility, Companies Act, 2013, Sustainability, Societal Marketing, CPSE guideline.*

INTRODUCTION

Corporate Social Responsibility is an increasingly important part of the business environment and its change. The key drivers of this change have been the globalization of trade, the increased size and influence of companies, the repositioning of the government and rise in strategic importance of stakeholder's relationship, knowledge and reputation. Corporate Social Responsibility (CSR) can be understood as a management concept and a process that integrates social and environmental concerns in business operations and a company's interactions with the full range of its stakeholders. Due to the world becoming a global village, companies are encouraged to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption. Corporate Social Responsibility (CSR), defined in terms of the responsiveness of business to stakeholder's legal, ethical, social and environmental expectations, is an outcome of these developments. The emergence of Sec. 135 of Indian Companies Act 2013 has been given a wider approach to Corporate Social Responsibility (CSR), with companies recognizing that improving their own impacts and addressing wider social and environmental problems will be crucial in securing their long-term success. Globalization, deregulation, privatization and a redrawing of the lines between state and market have changed the basis, on which private enterprise is expected to contribute to the public good. India, being a fastest developing country, needs to accelerate the economic growth in real terms. Most of the Indians lives in rural areas and are unaware about their fundamental rights. Corporate sector along with the government have to play a paramount role in order to bring them into the main stream of the society. In this paper an attempt has been made to find out the nature and extent of steps taken by Maharatna companies for the welfare of the society and their disclosure practices in annual reports.

NEED AND IMPORTANCE OF THE STUDY

The 21st century is characterized by unprecedented challenges and opportunities, arising from globalization, the desire for inclusive development and the imperatives of climate change. Indian business, which is today viewed globally as a responsible component of the ascendancy of India, is poised now to take on a leadership role in the challenges of our times. It is recognized the world over that integrating social, environmental and ethical responsibilities into the governance of businesses ensures their long term success, competitiveness and sustainability. Business is a creation of the society and must give back to society what it wants. The business has a critical and active role to play in the sustenance and improvement of healthy ecosystems, in fostering social inclusiveness and equity, and in upholding the essentials of ethical practices and good governance. The majority of Indian corporations have policies regarding labour issues, community relations, and environmental practices. But Indian corporations are failed many respect while discharging the above responsibilities. The main reason of the above failure is our ineffective CSR policy. There is something lacking in our CSR policy. It is not correctly implemented as per the tune of current environment. Due this the problems like low level of economic development, corruption and resistance to dialogue with stakeholders still persists in our country. With effect from 1st April, 2014, the new Companies Act 2013 of Section 135 became mandatory for all Companies irrespective of their status. From 1st April, 2013 CPSE Guidelines (Revised) on CSR and Sustainability became mandatory. However Section135 of Companies Act 2013 will supersede the earlier guidelines. Indian Maharatna Companies are the life line of Indian economy, in this backdrop this study is undertaken to focus on the CSR activities of the Maharatna Companies and the impact of Section 135 of the Companies Act 2013 on Indian Maharatna Companies.

Objectives of the study:

The study incorporate the following objectives

- To study the Issues and Challenges for implementation of CSR in Indian corporate sector
- To study CSR spending of Indian Maharatna CPSEs over the last three years
- To analyze CSR in respect to the provision of Clause 135 in Companies Act 2013.

Methodology

The entire study is based on secondary data. They are collected from various secondary sources like Annual Reports of selected companies, Journals, periodical and Economics time's website. The period study is taken for three years starting from 2011-12 to 2013-14. The amount of money which is to be spent on CSR activities in a year is based on average profit of last three financial years. For the purpose of analysis seven CPSEs are selected. These seven CPSEs are Indian Maharatna Companies where central government has been given them enough autonomy and they are empowered to take decisions about CSR by their Board of Directors. For the purpose of the above study seven Maharatna companies are given below.

1. Bhrat Heavey Electricals Ltd.(BHEL)
2. Coal India Ltd.
3. Gas Authority of India Ltd. (GAIL)
4. Indian Oil Corporation (IOC)
5. National Thermal Power Corporation (NTPC)
6. Oil & Natural Gas Corporation(ONGC)
7. Steel authority of India Limited (SAIL)

CSR UNDER NEW COMPANIES ACT, 2013

India is the first country in the world to have mandatory CSR spending (with provision for exemption) along with mandatory reporting. The new Companies Act, 2013 which replaces nearly six decade old Companies Act, 1956, contains detailed provisions regarding CSR. CSR has been recognized for the first time through the said Act. Section 135 (under Chapter IX – Accounts of Companies) of the new Act deals with CSR while Schedule VII of the new Act lists out the CSR activities which may be undertaken by the companies. According to Section 135(1) of the New Companies Act, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director. Net profit for the section 135 and CSR rules shall mean net profit before tax as per books of account shall not include profits arising from branches outside India. In case of foreign companies, net profit means the net profit as per the profit and loss account prepared under the relevant provisions of the 2013 Act. The CSR Rules specify that a company which does not satisfy the specified criteria for a consecutive period of three financial years is not required to comply with the CSR obligations, implying that a company not satisfying any of the specified criteria in a subsequent financial year would still not need to undertake CSR activities unless it ceases to satisfy the specified criteria for a continuous of three years. This could increase the burden on small companies which don't continue to make significant profits. (CS Nitin Kumar,).

The Committee of the Board of Directors of the Company constituted under Section 135 of the new Act consisting of three or more directors shall be accountable for undertaking the CSR activities. Section 135(4) & (5) of the new Act, specifies the role of the Board with respect to CSR as under:- - review the recommendations made by the CSR Committee; - approve the CSR Policy for the company; - disclose contents of the Policy in the company's report/ website; and - ensure that the company spends in every financial year, at least two percent of the average net profits made during the three immediately preceding financial years of the Company in CSR activities in pursuance of the CSR Policy of the Company. Further, a company qualifying for CSR activities under section 135 of the new Act will have to explain if it fails to do so under section 134 of the new Act which states that any company that fails to spend prescribed amount and also fails to specify the reasons for not spending the amount in its Board report, shall be punishable with a fine not less than Rs. 50,000 but which may extend to Rs 25 lakh. Schedule VII of the new Act contains the activities, given below, which may be included in the CSR Policy:- Eradicating extreme hunger and poverty Promotion of education Promoting gender equality and empowering women Reducing child mortality and improving maternal health Combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases Ensuring environmental sustainability; Employment-enhancing vocational skills; Social business projects; Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the state governments for socio-economic development, and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; Such other matters as may be prescribed. With the enactment of the Companies Act, 2013, companies would be required to spend at least 2% of their net profits on CSR activities, and hence it becomes imperative for corporate India to plan its spending on CSR activities and avail appropriate benefits/ deductions available under the Income Tax Act, 1961.

Issues and Challenges

In order to encourage more entities to participate in the process of development of the society through CSR, the new Companies Act, 2013 no doubt a valuable weapon in the hands of the corporate sector in order to combat the developmental issues. Some of the issues in this regards include:

- The role of government in respect of social and environmental development has been reduced due to shrinking monetary resources. As the business entity operates in the society, thus it has to contribute something for the betterment of the society.
- There is a growing demand for corporate disclosure from stakeholders, including customers, suppliers, employees, communities, investors, and activist organizations.
- The customers are now more interested about the ethical conduct of companies while making their purchasing decision. Customer is the king in the marketing world. Unless the customers buys products, the company's existence has no meaning. They are the supreme judge in evaluating the social performance perceived by the companies.

- There is a growing pressure from investor's side regarding the ethical behavior of the companies. Investors are now willing to pay more for the shares of a well-governed company than for a poorly governed company with comparable financial performance.
- The labour market becomes very much competitive. Labour force today is united into unions to protect their rights from business enterprises. Employees are increasingly looking beyond paychecks and benefits, and seeking out employers whose philosophies and operating practices match their own principles. In order to hire and retain skilled employees, companies are being forced to improve working conditions.
- Stakeholders involvement in the affairs of the business is become very much imperative. Companies must be ready to engage in dialogues with stakeholders. In India, over time, the expectations of the public has grown enormously with demands focusing on poverty alleviation, tackling unemployment, fighting inequality or forcing companies to take affirmative action. In India, some public sector companies can spend up to 5% of their profits on CSR activities.

.Analysis of CSR Liabilities u/s 135 of Companies Act 2013, and its effect on Maharatna Companies.

Maharatna Companies are the life line of Indian economy. As CSR u/s 135 of Companies Act 2013 become mandatory with effect from 1st April, 2014 the Maharatna Companies are bound to follow it. The effect of CSR u/s 135 of Companies Act 2013 and CPSE guideline of 2013 has been compared and analyzed. CPSE guideline on CSR and Sustainability are mandatory from 1st April, 2013 to all the Central Public Sector Enterprises provided they are not loss making companies. Therefore, all Maharatna Companies have to spend on CSR and Sustainable activities based on their profitability As the profit of all the Maharatna Companies are above 500 crores, so they are bound to spent as per CSR u/s 135 of Companies Act 2013.for the above purpose the average profit of the three immediately preceding financial year i.e., 2013-14, 2012-13 and 2011-12 are considered for the calculation of the amount to be spent on CSR activities. If we analyze the table1.1 then it shows that all the Maharatna Companies average profit of last three preceding financial year earned a high profit and profit is varied from year to year. As per CPSE guideline, 2%on the average profit of the immediately preceding three financial years profits as per section 135. When the profits are averaged as per the new Companies Act2013, the effects of high or low profits of the immediately preceding year's get neutralized. The performing Maharatna companies are not performing effectively in the CSR front. ONGC and Coal India Ltd. having highest amount of revenue but they are not effectively following CSR guidelines.

Table-1.1

CSR Liability u/s135 of Companies Act2013

Company name	Net Profit			Average Profit	2% of Average profit
	2011-12	2012-13	2013-14		
BHEL	7059.2	6615.2	3466.8	5713.7	114.3
COAL INDIA	8064.6	9794.3	15008.5	10955.8	219.1
GAIL	3653.8	4022.2	4030.3	3902.1	78.0
IOC	11383.7	4908.9	5368.6	7250.4	145.0
NTPC	8910.2	10905.6	10978.6	10267.8	205.4
ONGC	21991.9	20978.8	21844.6	21605.1	432.1
SAIL	3815.3	2358.1	1507.3	2560.2	51.2

Source: MCA, Government of India

Table1.2 reveals that all the Maharatna Companies as per the CPSE guideline total spend Rs.1244.3 crores and as per Section 135 of Companies act 2013 total spent Rs.1245.1 crores. It seems that the Maharatna Companies with the high profit in the immediately preceding financial years and lower profits in the other two preceding year will have a lower liability under section 135 compared to CPSE CSR and Sustainable guidelines. It is surprise to know that only Rs. 0.8 crore in aggregate in difference has been found that is to be devote as per Sec.135 of New Companies Act2013. So there is no significant difference between CSR as per CPSE Guideline and as per Sec.135 of New Companies Act2013 as per the Maharatna Companies are concerned. The table also reveals that profitability play a key role the extent to which the companies can able to spend for CSR activities. Thus it proves that profitability is positively associated with extent of CSR performance and scoring.

Table-1.2

CSR Liability as per CPSE Guidelines2013 vs. Section 135 of New Companies Act2013

Rs.in Crores

Company Name	Year	Net Profit	As per CPSE	As per Sec.135	Difference
BHEL	2013-14	3466.8	69.3	114.3	(44.94)
COAL INDIA	2013-14	15008.5	300.2	219.1	81.1
GAIL	2013-14	4030.3	80.6	78.0	2.6
IOC	2013-14	5368.6	107.4	145.0	(37.6)
NTPC	2013-14	10978.6	219.8	205.4	14.4
ONGC	2013-14	21844.6	436.9	432.1	4.8
SAIL	2013-14	1507.3	30.1	51.2	(21.1)
			1244.3	1245.1	(0.8)

Source: MCA, Government of India

Suggestion and Conclusion

The introduction of CSR provision in the companies act is a welcome step. In order to enable corporate to participation fully in philanthropy space, the participation must start with inclusive management of CSR policies where government and industry work side by side which does not assume that (social) business and CSR are incompatible. An organization, in the present world cannot be successful without taking into consideration the importance of CSR. The New Companies Act 2013 clearly states that 2% of the preceding three years average net profits to be spend on CSR activities should be calculated on the profits earned by the Companies excluding the adjustments of profit/loss from the overseas operation. In fact, many corporations dedicate a section of their annual reports and corporate websites to CSR activities, illustrating the importance they attach to such activities the following suggestions may be under taken to sensitize various issues of CSR in order to sharpen competitive edge of the companies.

- In order to sensitize the CSR issues there is need for greater public awareness. The media definitely become a brand ambassador that can highlight the good work done by corporate houses which are included in their social agenda. At the same time there should be a drastic change in the attitude of general public towards CSR initiatives under taken by the corporate houses.
- There is need for whole heart cooperation and coordination of various stakeholders to release CSR activities from the boundary of philanthropy to Corporate Social Responsibility. The purpose of CSR could be bitterly achieved if an effective bridge will be created to fulfill the gap among all the important stakeholders.
- It is seen that most of the medium and large corporate sectors undertake CSR activities within a selected geographical areas. The all sustainable development is possible only when more corporate houses are coming under the umbrella of CSR. The small and medium enterprises (SMEs) most come in to the domain of CSR so that larger participation in this regard will be possible.

- Now a day's most of the CSR initiatives and programs are taken up in urban areas and localities. Due to this reason most of the project does not reach the needy and the poor in the rural areas. While focusing on urban areas, it is suggested that companies should concentrate their interventions in rural areas on education, health, girl child and child labor as this will directly benefit rural people. After all, more than 70 per cent people still reside in rural India.
- To sensitize students about social and development issues and the role of CSR, course curriculum should be designed and develop. Such an approach will definitely encourage and motivate young minds, prepare them face future development challenges and help them work towards finding more innovative solutions to the concerns of the needy and the poor.
- As most of the Maharatna Companies are manufacturing and mining companies, environment pollution due to their large scale operations is more. So it is suggested the concentrate themselves on Environmental protection, plantation, and public health issues.
- The amount spent under Section 135 of Companies Act 2013 on CSR activities is not allowed as business expenditure as per the latest amendment made in the Finance Act 2014. Now Section135 will become an additional burden to the companies. For better participation of companies, amount spending on CSR may be allowed as business expenditure for the computation of Income taxs.

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- Comparing the initiative taken by the Maharatna companies and private companies towards CSR, the private companies are performing effectively. For the better implementation of CSR, it is suggested that Maharatna companies should join hands with the other stakeholders so that the mission will be in a complete mode.

Conclusion

The concept of corporate social responsibility is now firmly rooted on the global business agenda. But in order to move from theory to concrete action, many obstacles need to be overcome. Considering the long run growth and sustainable development following the norms of CSR , devising new policies and effective implementation is inevitable to bring and sustain a balance between corporate world and society, present generation and upcoming generation, man and nature. Corporate Social Responsibility is essential in India as more than 65% of population is living in rural areas. There are huge differences between urban and rural India in terms health care facilities, education levels, infrastructure, housing, nutritious food, awareness on their rights of protection, etc. The analyzed data reveals that through the Maharatna Companies are making efforts in the CSR areas more than 2 percent of their average net profits towards CSR activities. The concept of CSR governed by clause 135 of the Companies Act, 2013 encourages companies to spend at least 2% of their average net profit in the previous three years on CSR activities. The provision of Section 135 is more flexible. There is no such flexibility under CPSE Guidelines on CSR and Sustainability, because CSR liability depends only on the last year profitability. Considering three financial years' average profits will give true picture of profitability of a company. Transparency and dialogue can help the concept of "make in India and digital India" 'more fruitful.

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