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Csr Practices Of Public Sector Units In India- A Case Study

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ABSTRACT

Pandit Jawaharlal Nehru, first India's Prime Minister, called public sector units (PSU) as 'the temples of modern India'. Public Sector Enterprises play a crucial role in development of the nation's economy and many of these enterprises have taken the initiatives of Corporate Social Responsibility (CSR) practices which have met with varying needs of the society. The present study has made an attempt to diagnose the CSR practice in PSU of Maharatnas through the fund allocated and utilized before and after the companies act 2013. The study found that Maharatna enterprises have not been able to fully spend their CSR budget, the utilized amount is only 50% from their allocated amount. Finally this paper concluded that Maharatna enterprises 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.

Key words: CSR, Funds, PSU and Maharatna Enterprises.

INTRODUCTION

Corporate Social Responsibility (CSR) is a concept that has become quite familiar across the in the world-of-business today. CSR is a company's commitment to operate in an economically, socially and environmentally sustainable manner, while recognizing the interests of its stakeholders. Though CSR, the organizations serve the interests 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. The thrust of CSR in public sector is on inclusive growth, sustainable development and capacity building with due attention to the socio-economic needs of the neglected and marginalized sections of the society.

In India, the concept of CSR is governed by clause 135 of the Companies Act 2013, which was passed by both houses of the Parliament and had received the assent of the President of India on August 29, 2013, The CSR provisions within the Act is applicable to companies with an annual turnover of 1,000 crore INR and more, or a net worth of 500 crore INR and more, or a net profit of five crore INR and more. The new rules, which will be applicable from the fiscal year 2014-15 onwards, also require companies to set-up a CSR committee consisting of their board members, including at least one independent director. The Act

encourages companies to spend at least 2% of their average net profit in the previous three years on CSR activities. Only CSR activities undertaken in India will be taken into consideration activities meant exclusively for employees and their families will not qualify under these guidelines, public sector units like maharatnas, navaratnas, miniratnas etc., have to create mandatory.

Public Sector Enterprise plays a crucial role in development of the nation's economy. Central Government and State Government set up PSEs to build the industrial capacity and generating employment along with improving socio-economic condition. Central Government establishes Central Public Sector Enterprise (CPSEs) under the Department of Public Enterprise, Ministry of Heavy Industries & Public Enterprise. CPSEs are governed by guidelines issued by Department of Public Enterprise. New Guidelines on CSR and Sustainability for CPSEs came into effect on April 1, 2013. Govt. of India issued revised guidelines for CSR activity carried out by CPSEs taking all stakeholders into account.

As per new guidelines, it is obligatory for CPSEs to disclose its various CSR initiatives and performance to stakeholders. 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.

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, unequivocal message that CPSEs are expected to act in a socially responsible manner at all times.

FINANCIAL COMPONENT

Every year, each CPSE shall with the approval of its Board of Directors makes 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 here under: PAT of CPSE in the previous year and Range of Budgetary allocation for CSR and Sustainability activities (as % of PAT in previous year)

- (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 CPSE 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.

IMPORTENCE AND STATEMENT OF THE PROBLEM

Though India is one of the fastest growing economies, socio-economic problems like poverty, illiteracy, lack of healthcare etc. are still ubiquitous and the government has limited resources to tackle these challenges. A study by the Oxford Poverty and Human Development Initiative estimated that approximately 650 million people, live in poverty. In 2010, the World Bank estimated that about 400 million people in India live on less than U.S. \$1.25 a day. This scenario has opened up several areas for businesses to contribute towards social development. Public Sector Enterprise have been playing a crucial role in development of the nation's economy and many public sector enterprises have been taken the initiatives of CSR practices which have met with varying needs of the society like education, health, livelihood creation, skill development, and empowerment of weaker sections of society. But according to the KPMG India Corporate Responsibility Reporting Survey 2013, there is a need to significantly improve the quality of CSR in India. So there is a need to diagnose the CSR practice in public sector enterprises in India. Hence the study intends to study CSR practices in public sector under takings with special focus on Maharatanas.

OBJECTIVE OF THE STUDY

The main objectives of this paper are

To understand the concept of CSR in India.

To study the existing CSR practices through funds allocation and utilization by Maharatanas.

METHODOLOGY OF THE STUDY

The research paper purely depended on secondary source of information from journals, books, reports from the ministry of Heavy Industries & Public Enterprises, magazines. Data was collected from government official website <http://www.indiacsr.in/en/corporate-social-responsibility-psus-in-india>. To analyze the data, we have been used percentages and averages methods.

CORPORATE SOCIAL RESPONSIBILITY OF MAHARATNAS

Pandit Jawaharlal Nehru, India's first Prime Minister, called public sector units as 'the temples of modern India'. Since India's independence, PSUs have been contributing significantly towards the growth of the Indian economy. The best PSUs were given the title of 'Maharatna' or 'Navratna', and were allowed them greater autonomy to compete in the global market. Now there are seven public sector units are under Maharatna identity, those are Coal India Limited (CIL), Indian Oil Corporation Limited, or Indian Oil (IOCL), National Thermal Power Corporation Limited (NTPC), Steel Authority of India Limited (SAIL), Bharat Heavy Electricals Limited (BHEL), Gas Authority of India Limited (GAIL), Oil and Natural Gas Corp[oration(ONGC).

Awarding of this status entitles the company boards to perform investments up to certain limit without seeking government permission. In 2010, the government established the Maharatna status and raises a company's investment ceiling from Rs. 1,000 crore to Rs. 5,000 crore. The Maharatna firms can now decide on investments of up to 15 per cent of their net worth in a project; the Navaratna companies could invest up to Rs 1,000 crore without explicit government. CSR activities under taken by Maharatnas as environmental protection, women empowerment, village up liftmen, health care, education, job creation, assistance during natural calamities. Among these activities, Maharatna enterprises giving top priority to environmental protection.

Funds allocated and funds utilization for CSR activities for Maharatnas is shown in the Table-1

Table-1

**Funds allocated and utilized for CSR activities by Maharatnas during the period from
2009 to 2013**

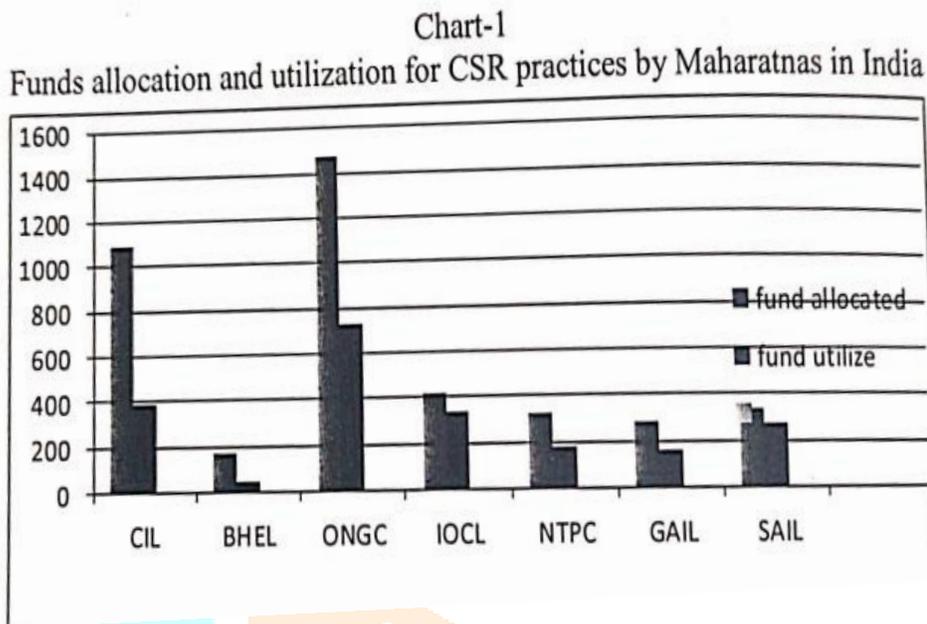
S.No	Name of Maharatnas	Total Funds Allocated (Rs in crores)	Funds utilized For CSR (Rs in Crores)	% of funds utilized to total funds allocated	% of funds unutilized to total funds allocated
1	CIL	1094.42	388.80	35.53	64.47
2	BHEL	170.74	49.11	28.76	71.24
3	ONGC	1473.35	729.98	49.54	50.46
4	IOCL	420.40	341.00	81.11	18.89
5	NTPC	321.63	181.04	56.29	43.71
6	GAIL	284.40	163.06	57.33	42.67
7	SAIL	341.00	269.99	79.17	20.83
	Total	4105.94	2122.98	51.71	48.29

Source: <http://www.indiacsr.in/en/corporate-social-responsibility-psus-in-india>.

From the Table-1 it is clearly observed that total amount of Rs 4105.94 crores were allocated for CSR practice to all maharatnas during the study period from 2009 to 2013 but utilized only Rs 2122.98 Crores, which was amounted to 51.71 per cent. CIL PSU was allocated for CSR activities by Rs.1094.42 crores but utilized only Rs 388.80 crores which is only with 35.53% similarly the allocated and funds utilized by the Maharatnas BHEL allocated only Rs 170.74 crores and utilized Rs 49.11 crores with 28.76%, ONGC allocated Rs 1473.35 crores and utilized Rs 729.98 crores with 49.54%, IOCL allocated Rs 420.40 crores and utilized Rs 341.00 crores with 81.11%, NTPC allocated Rs 321.63 crores and utilized Rs 181.04 crores with 56.29%, GAIL allocated Rs 284.40 crores and utilized Rs 163.06 crores with 57.33% SAIL allocated Rs 341.00 crores and utilized Rs 269.99 crores with 51.71% for CSR practices.

The Table further explains clearly that PSUs which are aimed to serve the nation without commercial objective, they are failing in their social responsibility by not properly spending even the allocated funds available to CSR activities. It is clearly observed by observing the per cent of unspent funds by Maharatnas. BHEL is one of the Maharatnas which utilized funds very abysmally for the CSR activities during the study period.

The data represented in Table-1 is depicted in pictorial representation.



It is found that only half of the amount is utilized for CSR practice from their allocated amount by Maharatnas. Among the seven Maharatnas IOCL, SAIL, GAIL and NTPC enterprises utilized the amount above 50% from their allocated amount.

The inter wise particulars for four financial years of fund allocated and utilized for corporate social responsibility in Maharatna are presented in Table-2

Table-2

Inter details of fund allocated and utilized for CSR in Maharatn as in India

S. No	Financial years	Total Funds allocated (Rs in Crores)	%	Funds utilized For CSR (Rs in Crores)	%	Variation in between fund allocated and utilized
	1	2	3	4	5	6=(5-3)
1	CIL	1094.42	26.65	388.80	18.31	-8.34
2	BHEL	170.74	4.14	49.11	2.31	-1.83
3	ONGC	1473.35	35.88	729.98	34.38	-1.50
4	IOCL	420.40	10.24	341.00	16.06	+5.82
5	NTPC	321.63	7.83	181.04	8.53	+0.70
6	GAIL	284.40	6.93	163.06	7.68	+0.75
7	SAIL	341.00	8.30	269.99	12.71	+4.41
	Total	4105.94	100.00	2122.98	100.00	

Source: [http://www.indiacsr.in/en/corporate social responsibility-psus-in-india](http://www.indiacsr.in/en/corporate-social-responsibility-psus-in-india).

At the intra verification, in the total allocated funds (Rs 4105.94 crore) for CSR practices in Maharatnas ONGC allocated high amount and stands in first position with 35.88% when compare to other enterprises followed by CIL with 26.65%, IOCL with 10.24, SAIL with 8.30%, NTPA with 7.83%, GAIL

with 6.93. and BHEL with 4.14% respectively but in fund utilized category in Maharatnas, ONGC stands for first position with 34.38% followed by CIL with 18.31%, IOCL with 16.06%, SAIL with 12.71%, NTPC with 8.53%, GAIL with 7.68%, BHEL 2.31% respectively. In the variation category total fund utilized from total fund allocated in Maharatnas, IOCL, SAIL, GAIL, NTPC having positive sign (with +5.82, +4.41, +0.75, +0.70 respectively) means utilization of the fund is greater than that of allocated fund and CIL, BHEL, ONGC having negative sign (with -8.34, -1.83, -1.50) means utilization of fund is less than that of allocated fund from the total fund for CSR practice in Maharatnas. It is very clear CIL, BHEL and ONGC not utilized funds properly for CSR practices.

Table-3

Period wise details of fund allocated and utilized for CSR practice by Maharatnas in India

S.No	Financial years	Total Funds allocated (Rs in Crores)	Total Funds utilized (Rs in Crores)	% of funds utilized to total funds allocated %	% of funds unutilized to total funds allocated
Before mandatory to spend 2% from PAT	2009-10	559.81	506.85	90.54	9.46
	2010-11	986.20	693.66	70.34	29.66
	(2011-12 Till sept 2012)	1247.93	398.47	31.93	68.07
	TOTAL	2793.94	1598.98	57.23	42.77
After the Mandatory to spend 2% from PAT	2012-13	1312.00	524.00	40.00	60.00
	GRAND TOTAL	4105.94	2122.98	51.70	48.30

Source: <http://www.indiacsr.in/en/corporate-social-responsibility-psus-in-india>.

In the period wise analysis, the time period is divided into two parts as before and after Companies Act, 2013 (the mandatory of companies have to spend 2% from their PAT for CSR practice). In the before part Rs 4105.94 crores allocated and Rs 2122.98 crores utilized for CSR practice in Maharatnas for three financial years. It is observed that percentage of fund utilization is decreased from 2009 to 2010 to 2011 to 2012 with 90.54%, 70.34, 31.93% and it is also observed that average three years fund utilization is 57.23 percent in Maharatnas for CSR practice. After the mandatory Rs 1312 crores fund allocated and Rs 524 crores utilized for CSR practice its percent is 40 for the financial year 2012-13. It is found that average allocated fund for CSR practice is lower before the mandatory when compare to after the mandatory. But it is quite opposite in case of utilized fund for CSR practice, average utilized fund is higher before the mandatory when compared to after mandatory.

It is further observed from the Table-3 that the mandate of spending the amount on CSR activities shown negative impact on Maharatnas where they have utilized only 40 per cent of the funds allocated but there is long way to go for attaining 100 per cent utilization even after mandating them to spend funds under CSR activities. Maharatnas fund utilization apatite is much better than before when compared to after issuing mandatory guidelines of the Companies Act of 2013 regarding CSR spending.

CONCLUSIONS AND FINDINGS

CSR activities under taken by Maharatnas are so widely like environmental protection, women empowerment, village up liftmen, health care, education, job creation, assistance during natural calamities. Among these activities, Maharatna enterprises giving top priority to environmental protection.

Only half of the amount is utilized for CSR practice from their allocated amount to Maharatnas. Among the seven Maharatna enterprises, IOCL, SAIL, GAIL and NTPC enterprises utilized the amount above 50% from their allocated amount.

Before implementation of Companies Act, 2013(the mandatory of companies have to spend 2% from their PAT for CSR practice), average allocated fund for CSR practice is lower when compare to after the mandatory. But it is quite opposite in case of utilized fund for CSR practice, average utilized fund is higher before the mandatory when compared to after mandatory requirement.

It is suggested that as the per cent of unutilized funds to funds allocated to CSR activities of Maharatnas found to be more than 50 per cent, this amounts will be carry arry forward to the next years and to be utilized productively for the CSR activities only in the years to come.

As per the provisions, loss making companies are not mandated to earmark specific funding for CSR, but they must pursue CSR policies by integrating them with their business plans, strategies and processes which do not involve any financial expenditure as well as may collaborate with profit making Central Public Sector Enterprises and assist them in ingenious way without financial support in CSR and sustainability activities. Hence, Maharatnas will consider this opportunity to utilize their unutilized sanctioned CSR funds optimally through loss making PSUs.

Maharatans need to choose best projects to implement CSR activities and priorities should be given accordingly to support the backward districts but not simply spending for the sake of utilization of funds allocated for CSR activities.

Maharatnas 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 these Maharatnas they can feel motivated and undertake more and more CSR activities. Maharatnas should feel some kind of recognition such as receiving an award so as to push the level of their CSR activities. Further, Maharatnas feel CSR expenditure should be liable for a tax deduction, which would act as a major incentive for carrying out CSR projects.

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