Compulsory Corporate Social Responsibility: An empirical assessment of managerial perspective in Indian State Owned Enterprises

By

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Abstract

In 2013, India became the first country to introduce a statutory requirement on businesses to engage in compulsory corporate social responsibility (CSR), providing a unique setting for researching challenges and impact of largescale compulsory CSR implementation. Any Indian corporation which had an annual turnover of more than 10 billion rupees was mandated to spend 'at least two percent of the average net profits […] made during the three immediately preceding financial years.' (Section 135, Companies Act 2013). Around 6,000 companies are thought to be affected by the new regime (Indian Institute of Corporate Affairs, 2012). This research examines the managerial perspective on changes to the design, experience and practice of CSR initiatives within SOEs in India.

Before 2013, these SOEs engaged with local charities in a loose, unstructured and ad-hoc manner to conduct its CSR. Most of the focus was on providing donations to local educational institutions and regional social welfare organisations. However, with the advent of 2013 regulations SOEs had to completely alter their CSR regime to make it more structured, impact focussed, policy driven and functional. We have interviewed approximately 50 executives and directors from the top 40 Indian SOEs by revenue over a two years period (2015-16) to understand how the companies are adapting to the new regulations and what changes if any have been made.

We find that while mandatory provisions do increase compliance burden, it does also provide a specific amount of money which needs to be spent and a structured and accountable way to do so. Our calculations show that under the new regulations Indian SOEs have to spend around 30 billion Indian Rupees per annum. This creates a tremendous opportunity for the businesses to invest in socially relevant enterprises and to internalise externalities.

Keywords: *Mandatory Corporate Social Responsibility, State Operated Enterprises, Path dependence theory, India.*

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1. Introduction

In 2013, India became the first (and till date remains the only) country to introduce a statutory requirement on large companies to engage in corporate social responsibility (CSR), providing a unique setting for researching CSR implementation. The purpose of this research is to examine the design, experience and practice of CSR initiatives within State Owned Enterprise (SOEs) in India and explore whether a regulatory approach achieves greater social benefit compared with voluntary CSR activities. We will adopt qualitative approach to investigate CSR initiatives of corporates and the experiences of executives/managers with these initiatives.

We investigate the motives of executives to integrate CSR in their business operations and whether there are differences in motives concerning the several dimensions of CSR. Answering this question is important for policy makers and societal groups (i.e. NGOs) that want CSR to act as force multiplier. If extrinsic (e.g. financial) motives drive CSR, policy makers should implement institutional reforms that increase (financial) incentives. But if executives are motivated to CSR by intrinsic (e.g. ethical or altruistic) motives, policy makers should be careful with providing incentives, because extrinsic motives may crowd out intrinsic motives.[1] Although it is not easy to give a satisfying definition of CSR, the common idea put forward in various definitions of CSR is that companies should conduct their business in a manner which demonstrates consideration for the broader social environment in order to serve constructively the needs of society.[2] Despite wider acceptance of corporate social responsibility principles, there is a long-running debate on whether managers should incorporate CSR policies into their tactical and strategic decisions. One intriguing question has been the source of this great controversy: Can a firm do well while doing good? Most sceptics believe CSR is a vague construct that requires organisations to raise operating costs and to give up shareholder wealth. In contrast, scholars such as Fombrun et al.,[3] Porter and van der Linde[4] and Spicer[5] posit that corporate social responsibility initiatives can lead to reputational advantages, improvements in investors' trust in the company, more efficient use of resources, and new market opportunities, all of which could ultimately be perceived positively by capital markets.

[1] Frey, B. S., & Jegen, R. (2001). Motivation crowding theory. Journal of Economic Surveys, 15, 589–611.

[2] Matten, D., & Moon, J. (2008). "Implicit" and "explicit" CSR: A conceptual framework for a comparative understanding of corporate social responsibility. The Academy of Management Review, 33, 404–424.

[3] Fombrun, C. J., Gardberg, N. A. and Barnett, M. L., 'Opportunity platforms and safety nets: corporate citizenship and reputational risk', Business and Society review, Vol.105 (1), 2000, pp.85– 106.

[4] Porter, M. E. and Van Der Linde, C., 'Green and competitive. ending the stalemate', Harvard Business Review, Vol. 73(5), 1995, pp. 120–35.

[5] Spicer,B.H., 'Investors, corporate social performance and information disclosure : an empirical study', The Accounting Review, Vol. 53(4), 1978, pp. 781–96.

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The paper is divided into four parts, in the first part we discuss the theoretical framework of the study and develop the hypothesis, we then lay the background of the study by discussing the context of mandatory CSR in India starting with a brief discussion of CSR activities before the advent of the statutory requirements, then analyse the mandatory provisions with a focus on their utility and aim, in the second part we trace the development of SOEs in India and scrutinise their role in Indian economy, in the third part we present the methodology and data, and in the final part we analyse the data and provide the findings and recommendations.

2. Theoretical Framework and hypothesis building

This study interprets the perceptions of the top leadership based on the institutional integration of the CSR from the context of the 'path dependency' theory.

The Neo-institutional theory posits that the taken-for-granted assumptions, laws, rules, norms, and boundaries in established organizational fields strongly affect the behaviour of actors (North, 1990; Peng, Sun, Pinkham, & Chen, 2009; Scott, 2014). Much past research has viewed institutions, such as societal laws or cultural values, as macro-level variables that affect an entire society (Meyer, Estrin, Bhaumik, & Peng, 2009). However, Wicks (2001) argued that institutions also occur at the micro level. Specifically, a mind set can develop that affects the firms in that industry or profession in terms of the standards and commercial conventions in that industry or profession (Eisenhardt, 1988; McCloskey, 1994). Employing such a micro-level perspective, Vermeulen, Van Den Bosch, and Volberda (2007) examined how micro institutional forces, including the mind set of managers at the business unit level of a firm, affect incremental product innovation efforts in the financial services industry.

The path dependence analytical framework is part of the school of thought of the historical institutionalism (Steinmo, Thelen & Longstreth, 1992) which considers institutions as structural variables from which stem arrangements of ideas, interests, and powers. They are the focal point of the activity of public policies, in the sense that institutions contribute to structuring them by encouraging or constraining the organizations and their actors and thus their activities.

Path dependency theory starts from the premise that organizations and actors are part of institutions that structure and channel their behavioral standards and activities along established paths. These paths are made up of institutions (with their values, standards and rules) and public policies determined by previous choices that impose constraints on institutional development processes (Pierson P, 1993). Thus, the notion of dependence in relation to the path taken highlights the historical dynamic that dictates that once a path is chosen, it is difficult to change

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it because the processes become institutionalized and are reinforced over time (Palier & Bonoli, 1999). It becomes increasingly difficult to reverse past institutional choices because not following the rules and standards established by previous choices (exit option) generates 'costs' in terms of investment, learning, coordination and anticipation (Bonoli & Palier, 2000).

Inspired by such work, we examine the micro levels of institutions and their impact on CSR approaches in the organisation.

<u>2.1 Hypotheses building</u>

Neo institutional theory argues that institutions operate not only at the macro level of analysis but also at the micro level (Meyer et al., 2009; Scott, 2014). Micro-level institutions shape values and perceptions of how to do business in a given industry or region (Wicks, 2001) while shaping key activities such as innovation and several commercial conventions (McCloskey, 1994, 2010). Thus, individual activities can act to build or maintain institutions (Hobsbawm & Ranger, 1992; Nee & Opper, 2012). In SOEs, one important type of micro institution is the office of the CMDs, whose authority and mindset are very important to firm operations. The background and experience of the top leadership of the firm is critical in setting that mindset and driving key behaviors (McCall, 1998). The main goal of (most) governments is job creation and stability, not necessarily economic efficiency.

Therefore, we can assume if the CMD of the SOE comes from the government or has always worked for the SOE sector, the CMD may be more likely to inherit a mind set that stresses job maintenance and operations, not necessarily firm efficiency or strategic orientation towards CSR (Ahlstrom, 2014). The background of such individuals encourages a mindset, or way of doing things, that is consistent with that of typical government processes and goals—but not necessarily with those of private enterprise (McCall, 1998; Steinfeld, 1998). Therefore, we can formulate dual hypotheses.

H1: Managers in SOE think of CSR as a vehicle for sustainability and giving back to society.

H2: The managers in SOE would give more focus to social aspects of CSR than the legal ramifications.

3. From CSR to Mandatory CSR (MCSR) in India

<u>3.1 Social Context of CSR in India: CSR activities before 2013</u>

3.1.1 *Social and Religious Reasons for engaging CSR*

Corporate responsibility is historically part of an age old normative commitment towards the

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society in India.[6] It is in the form of duty on corporations imposed by the culture and traditions of the country. The foundations of such duty are based on dharma, 'the righteous duty' that is ingrained in the social fabric of the country.[7] Hence, giving and sharing has become embedded in corporate thinking in India. However, on the contrary, scholars have argued that corporates' engagement in social responsibility is for strategic reasons.[8] According to this strategic perspective, corporates use CSR as a tool for profit maximization, and businesses are expected to design social responsibilities to advance their business goals rather than focusing on core societal needs. Even in India, some scholars argue that companies engage in CSR for its reputational, financial, and relational benefits[9] to reap long term benefits such as public empathy during corporate crisis or events that adversely impact their reputation. Nonetheless, CSR in India is predominantly linked to philanthropy with Industrial families of the 19th century such as Tata, Godrej, Bajaj, Modi and Birla setting up trusts and institutions such as schools, colleges, and hospitals for community welfare.[10]

Dharma is often translated as occupational duty, virtues, ethics, righteousness and religion.[11] According to *Bhagvat Gita*, '*Dharma*' sustains the society, maintains the social order; ensures well-being and progress of humanity.[12] *Karma* is the concept of 'action or deed, understood as that which causes the entire cycle of cause and effect'.[13] According to *Dharma* and *Karma*, 'one has to repay these *karmic* debts to follow the path of *Dharma* in their life time'.[14] Both concepts are also found in various other Indian religions such as Buddhism, Sikhism and Jainism. The nexus between the Vedic literature and corporations shows that CSR is a dharmic duty to follow.[15] It started with small merchants contributing individually or through guilds for community welfare while believing that it is an offering to please their deity/god on a small

[6] Anupam Singh and Priyanka Verma, 'From Philanthropy to Mandatory CSR: A Journey Towards Mandatory Corporate Social Responsibility in India' (August 30, 2014). International Journal of Business and Management Invention, ISSN (Online): 2319-8028, ISSN (Print): 2319-801X, Volume 3 Issue 8, August 2014. Available at SSRN: https://ssrn.com/abstract=2532824
[7] G S Dhanesh, 'Why corporate social responsibility? An analysis of drivers of CSR in India' (2015) 29 (1) Management communication quarterly 114-129.
[8] P Rishi and S Moghe, 'Integrating corporate social responsibility and culture as a strategy for holistic corporate success in India' (2013) 51 The journal of corporate citizenship 17.
[9] See Dhanesh 2015
[10] B W Husted, 'Corporate social responsibility practice from 1800–1914: past initiatives and current debates' (2015) 25 (1) Business Ethics Quarterly 125-141.
[11] A Deep, 'Vedic theory of debts and CSR', (2017) 9 (7) International Journal of current research 54263-24268 available online at <http://www.gmferd.com/journalcra.com/sites/default/files/24231.pdf>
[12] B Muniapan and B Satpathy, 'The *Dharma* and *Karma* of CSR from the *Bhagavad Gita*' (2013) 19 (2) Journal of Human Values 173-187.
[13] ibid
[14] ibid
[15] ibid

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scale.[16] This continued with large businesses started by entrepreneurs such as Azim Premji, Rakesh Jhunjhunwala and others making large contributions towards humanitarian projects primarily consisting of poverty alleviation efforts, disaster relief, reforestation, and the building of schools and temples.[17] Businesses like TATA went beyond 'merchant charity with its religious focus'[18] and believed to have a duty towards Indian people. These businesses built hospitals, schools, research institutes, and funded university chairs among others. As one example, the Tatas believe that 'the community is not just another stakeholder in business but it is in fact the very purpose of its existence'.[19]

Thus, in the context of India, CSR is viewed as a manifestation of *Dharma*, essentially 'rooted in the Indian value system that could be found in Vedic literature with the object to lead society to material progress, cultural development and general welfare of its diverse population.'[20]

Dhanesh suggests that business entities making profits is by itself 'righteous' falling within the ambit of *dharma*, thus suggesting that Indian corporates can pursue social objectives to strategically advance their business goals.[21] However, 'Indian society has had an ethos of giving, instilled through cultural and religious traditions and practices, with concepts of *dharma* and sustainability ingrained in the collective psyche of Indian commercial communities'[22] since 'the Vedic periods, circa 1500-600 BCE'.[23] Thus, although strategic pursuits of social responsibility are considered *dharmic*, social responsibility in India has remained conceptually beyond strategic motives thereby upholding the core principles of *dharma* and *karma*.

3.1.2 *The nature of CSR activities in India*

India has a long history of natural business involvement in social causes for national development. The social engagement is mainly in the form of philanthropic donations to charity, service to the community, enhancing employee welfare, and promoting religious conduct. Corporations give funds to charitable or educational institutions, medical facilities and scientific research; running schools and orphanages, tackling child labour issues, and so on.

After India got independence in 1947, CSR activities evolved in meaning and relevance in

[16] P Sundar, *Business and community: the story of corporate social responsibility in India* (2013, Sage)
[17] See Husted 2015
[18] ibid
[19] ibid
[20] Deep 2017
[21] Dhanesh 2015
[22] ibid
[23] ibid

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accordance with the country' s changing social, political, and economic climate.[24] Several businesses were involved in the country's freedom struggle and their duties included abolition of untouchability, women's empowerment and rural development amongst others.[25] Around this time, the Gandhian model of trusteeship gained momentum. Furthermore, corporate engagement was taking a formalised shape although the core principle of moral duty based on Dharma remained the same. 'Starting as pure philanthropy, companies in India have now become more engaged with other aspects of community and environmental welfare', with labour well-being 'in line with the global trends' (Jain & Winner 2016). Companies in India are increasingly realising the importance of being responsible business by involving themselves in activities related to 'sustainability', 'social development' and 'nation-building' (Jain & Winner 2016). One of the most prominent businessmen from India, JRD Tata, suggested that businesses could use their own financial managerial and human resource to provide task forces for social engagements apart from the charities (Gautam & Singh 2010).

3.2 The Need for mandatory CSR

CSR is widely accepted as activities that result in social benefit (Buhmann 2011). While some scholars have defined it with respect to corporate social activities and some have linked it with social contract, others have related it to stakeholder commitments and to shareholder engagements. Following economic liberalisation of India, corporate engagement is moving from moral to strategic engagement. Corporate social contributions are increasingly at the whims of corporates with companies defining CSR as per their strategic needs, and not according to the needs of the society. Thus, many new organisations started viewing CSR as a tool for profit maximization in India. The voluntary nature of CSR has paved way for corporate strategic motives. While a few companies have developed a structured and planned approach, several 'companies are making token gestures towards CSR and spreading their CSR funds very thinly across many activities' (Gautam & Singh 2010) . Furthermore, there is little consistency in CSR reporting with the self-regulatory approach[26] with no clarity emerging on corporates' CSR activities (Jain & Winner 2016). Such variance has led to ambiguity of CSR goals and activities, and CSR activities are not consistent across institutions. This has also paved the way to corporates operating CSR as strategic business goals rather than societal

[24] Tatiana Chahoud et al., 'Corporate Social and Environmental Responsibility in India – Assessing the UN Global Compact's Role' (2007) German Development Institute available online at <https://www.die-gdi.de/uploads/media/Studies_26.pdf >
[25] Singh and Verma (2014)
[26] Chahoud et al., 2007

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needs.

In addition to these, the absence of monitoring coupled with the ambiguity in objectives has made CSR almost untraceable with an unknown number of companies making CSR contributions. Greater transparency and accountability is essential for an effective CSR mechanism within the diverse social structure of India. Furthermore, as Gautam & Singh (2010) have noted, a very little percentile of the companies had written policies on CSR leading to lack of its formal reporting. While some have considered labour and environment as CSR activities, others made random choices of contributing to different charities. In the absence of written policies and reporting, the lack of implementing or channelizing CSR activities has raised the probability of using CSR as tool for profit maximization. Furthermore, as Baron suggests, 'when firms are in the spotlight and a weak incentive to resist stakeholder claims, they become soft targets and they will act in pro-social ways to secure themselves against bad publicity' (Boodoo, 2016).

The philanthropic model of CSR could not prevail for a long time as 'most of the projects lacked involvement of the resource provider', 'resources were not provided in continuity as follow-up' and 'there was no community participation' (Mukherjee & Chaturvedi 2013). In addition to this, socio-economic conditions of the country necessitated serious engagement of corporate bodies towards their traditional duties towards society. A major part of the financial resources allotted for social welfare, through a tax driven system, does not reach the marginalised sections due to corruption. Therefore, introducing a system where corporations systematically engage in welfare is a better alternative to counter the weakness of tax driven system (Mukherjee & Chaturvedi 2013). Also, businesses should assume the responsibility of exhibiting socially responsible business practices that ensure the distribution of wealth and the well-being of the communities where they operate. 'India's business sector has generated wealth for shareholders for decades, the country continues to grapple with problems of poverty, unemployment, illiteracy and malnutrition. Corporate growth is sometimes seen as widening the gap between India and Bharat (rural India) through its income-skewing capability. This gap needs to be bridged' .

An organization's social responsibility arises from the fact that a business enterprise derives several benefits from society, which must, therefore, require the enterprise to provide returns to society (Deodhar 2015). This clearly establishes the role of business organizations for the betterment of society by upholding the age old norms of socio-cultural engagement of businesses through Dharma in India.

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3.3 The new CSR Mandating Legislation of India

3.3.1 *Main objectives*

The Indian government's sense of a dire need to make corporates proactively involve in social and community welfare necessitated legislating and mandating CSR in India with a view to reinforce the corporate duties that were rooted in dharma. The inherent pitfalls of voluntary mechanism and the growing gap between haves and have-not in Indian society encouraged the government of India to develop a more systematic approach to CSR activities. Thus, the new CSR strategy is to facilitate 'an action plan with shift from casual to project based accountability approach' (Sharma 2013) and reducing economic disparity (Sharma 2013). In the process, India has clearly ousted the strategic model and recognized the moral, ethical and social contractual foundations for the social engagement of corporates by legislating CSR.

3.3.2 *Key Provisions*

The provisions under the Companies Rules (2014) have defined CSR while detailing its scope in India. Section 135 of the Act provides that an Indian company, branch/project offices of a foreign company in India with a net worth of Rs 500 crore or more; or turnover Rs 1000 crore or more; or net profit Rs 5 crore or more are required to spend at least 2% of its average net profit for the immediately preceding 3 financial years on CSR activities . Furthermore, the qualifying companies are required to constitute a CSR committee that shall formulate and recommend to the Board a policy which shall indicate the activities to be undertaken, recommend the amount of expenditure to be incurred on the activities referred and monitor the CSR Policy of the company.

The CSR law assumes significance as it allows companies to engage in projects or programs relating to activities enlisted under the Schedule. Flexibility is also permitted to companies by allowing them to choose their preferred CSR engagements that are in conformity with the CSR policy.

The activities that can be done by companies to achieve its CSR obligations provided under schedule VII of the act include eradicating extreme hunger and poverty, promotion of education, promoting gender equality and empowering women, reducing child mortality and improving maternal health, 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 so on. The companies shall give preference to local areas where the companies operate leading to a nexus between business operations and the communities they operate in. Thus, CSR in India has regained and recognised the philanthropic approached

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based on Dharma. It has now taken more formal shape that requires corporates to engage in a well formulated, undertaken, reported and monitored CSR.

Although Indian corporates are required to form their own committees to formulate their CSR choices from among the list under schedule VII and are required to show their spending on CSR activities, they are linked to the societal needs rather than following a random choose and pick model under the act.

Previously, voluntarism and the absence of accountability led to propagating of CSR without having a real impact while gaining undue advantage in the name of CSR. The Indian government has established a monitoring and accountability mechanism that can lead to increased transparency. It has paved the way for corporates to take CSR as a social responsibility for their imminent social obligations than as a business strategy while recognizing the compelling duty of business towards society.

3.3.3. *Expected outcomes and shortcomings*

Increasing number of companies believe that CSR is important for protecting the goodwill and reputation and being socially responsible. It is estimated that 5097 companies in India spent INR 9822 crores, approximately $1.5 billions, towards CSR activities in the fiscal year 2015-16 under the new CSR regime . The overall spending on CSR by 500 listed companies in the financial year 2017-18 is estimated to be INR 11,000 crores . Thus, the mandatory CSR legislation may have contributed to positive 'Corporate Social Performance' in India , while meeting the goal of CSR activities leading to community good will, creating social impact and visibility in the face of greater transparency.

However, several industrialists have expressed apprehensions on mandating CSR. As Singh & Verma (2014) suggest, 'In order to make mandatory CSR acceptable to Indian business community, firstly, Government of India should be able to convince companies that it is not any other sort of tax on the companies; instead, companies who deliberately follow mandatory CSR norm would be duly recognized and there would be reduction on the tax burden for such companies as well....Corporate India feels that it would mean unwarranted intrusion into its affairs and lead to harassment through vexatious inquiries by government inspectors to verify the mode and extent of compliance with the law' and 'Corporate Social Compulsion'.

Nevertheless, following the legislation mandating CSR in India, a study into India's public sector companies suggested that the CSR activities have retained their age old conceptual foundations (Singh & Verma 2014; Sahu 2014). Furthermore, several companies such as

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Bharat Petroleum Corporation Limited, Maruti India Limited, and Hindustan Unilever now have specialized CSR teams that formulate policies, strategies and goals for their CSR programs and set aside budgets to fund them. Thus, this new model of CSR (new) may lead to better corporate social performance and financial performance (Boodoo 2016).

However, there is a big shortcoming in the existing regulations. Although the regulations provide for mandatory CSR spending, and provides a structure and avenues for such a spend, there is no provision to penalise non-compliance with the regulation. In other words, the law does not state what would happen if a company which is mandated u/s 135 to spend 2% of its profits for CSR does not do so. Therefore, it seems that in spite of the path breaking regulation of compulsory CSR, India is only following a hybrid of prescriptive and comply or explain structure. The failure to provide a penalty clause for non-compliance seems to either indicate that the government is confident that companies would comply with the regulation or that there is a general belief that the public relations fallout arising out of such non-compliance is a high enough deterrent. It is well known that 'comply or explain' mechanisms work best in environments with high rule of law and dynamic market for corporate controls.[27] It would be quite interesting to find out if the managers believe that their obligations to promote mandatory CSR is a legal one or not.

4.1 Historical context of PSUs in India

In 1947 following the end of British colonialism in India, the newly independent country faced severe economic turmoil.[28] Independence coincided with partition of the country resulting in the 'unprecedented mass displacement of [12 million] people.'[29] This placed enormous burden on the fledgling state which was already suffering from the spiralling effects of de-industrialisation and unemployment due to the shift away from war economy.[30] Industrial output in the year 1948-49 accounted for 6.6 percent of total national income, employing less

[27] See generally Petra Inwinkl et al., 'The comply-or-explain principle: Stakeholders' views on how to improve the 'explain' approach' (2015) International Journal of Disclosure and Governance 210; Yan Luo and Steven E Salterio, 'Governance Quality in a "Comply or Explain" Governance Disclosure Regime' (2014) 22 (6) Corporate Governance: An International Review 460; Paul Sanderson, 'Flexible or not: The comply or explain principle in UK and German Corporate Governance' (2010) Centre for Business Research, University of Cambridge, Working paper No. 407, available onlilne at <https://www.cbr.cam.ac.uk/fileadmin/user_upload/centre-for-business-research/downloads/working-papers/wp407.pdf>

[28] Dwijendra Tripathi and Jyoti Jumani, '*The Oxford History of Contemporary Indian Business*', (OUP, 2013)

[29] Zamindar, V. F.-Y. 2013. India–Pakistan Partition 1947 and forced migration. The Encyclopaedia of Global Human Migration, <http://onlinelibrary.wiley.com/doi/10.1002/9781444351071.wbeghm285/full> last accessed on 26 February 2018.

[30] Garima Gupta, 'Economic Controls During World War II And Their Continuance' available at <http://ccs.in/internship_papers/2002/10.pdf> last accessed on 26 February 2018.

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than 8 percent of working population, with the sector as a whole suffering from chronic underinvestment and mismanagement.[31] At this juncture the Central Government decided that, owing to low capital base among private citizenry, the development of heavy manufacturing industries requires direct capital infusion and control by the state. It was expected that industrial growth would translate to wider economic growth which in turn would lead to equitable distribution and sustainable development.[32] Accordingly, the Industrial Policy Resolution 1948 'envisaged active engagement of the State in development of industries.'[33] The aim was to establish heavy and basic industries which required large investments and leave the ancillary manufacturing sector to private hands. Thus, India envisaged mixed economy for itself taking the best of both planned/command economy and the free market ideologies embarking on a path of 'democratic socialism'.[34]

India created a Planning Commission in 1950, in lines of the command economies,[35] to 'formulate a Plan for the most effective and balanced utilisation of the country's resources'[36] and assess the outcomes.[37] The industrial base was divided into three categories – state monopolies in industries like the manufacture of arms and ammunition, the production and control of atomic energy and the ownership and management of railway transport; mixed development and ownership model where state would lead but the private enterprise can also participate included industries such as coal, iron and steel, aircraft manufacture, ship-building, manufacture of telephone, telegraph wireless apparatus and mineral oils; the residual industries would be open for private ownership and control.[38]

In practice, apart from few major private industrial houses, most of the heavy manufacturing sectors became state owned and state led.[39] By 1956 when the second Industry Policy Resolution was tabled, it was quite clear that state needed to be at the forefront of industrial

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[31] Planning Commission of India, <http://planningcommission.nic.in/plans/planrel/fiveyr/welcome.html> last accessed on 26 February 2018.

[32] See Babu Thomas, 'A study of competitiveness of industries in Kerala to meet the challenges of liberalised economy' (2014) PhD thesis, available online at <http://hdl.handle.net/10603/25995> last accessed on 26 February 2018.

[33] Industrial Policy Resolution of April 1948 <https://webcache.googleusercontent.com/search?q=cache:NDDSR72i0usJ:https://archive.india.gov.in/spotlight/spotlight_archive.php%3Fid%3D78+&cd=2&hl=en&ct=clnk&gl=uk&client=firefox-b> last accessed on 26 February 2018.

[34] Suresh Kumar Sharma, 'Human resource management practices in Navratna public sector undertakings in India: a case study of Gail India limited', (2012) PhD thesis, Punjabi University, p95, available online at <http://hdl.handle.net/10603/4474> last accessed on 26 February 2018.

[35] ibid

[36] Planning Commission of India, First Five Year Plan (1951 -1956), available online at <http://planningcommission.nic.in/plans/planrel/fiveyr/welcome.html> last accessed on 26 February 2018.

[37] ibid

[38] Industrial Policy Resolution of April 1948.

[39] Tapan Kumar Mohanta, 'Industrial policy of India a study of public policy', PhD thesis, University of North Bengal, p 112, available online at <http://hdl.handle.net/10603/137016> last accessed on 26 February 2018.

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development. This was acknowledged in the 1956 Resolution which stated that sectors like coal, iron and steel, mineral oils etc. which were previously open to private participation in the 1948 Resolution would become state owned and state led. If the State feels that private enterprise is necessary in this sector, then 'the State will ensure, either through majority participation in the capital or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertakings.'[40]

There were three primary reasons for the shift in thought first, there was a growing fear that the disparity in income and wealth may give rise to private monopolies[41] which can threaten the nascent state, secondly, in a socialist pattern of society public utility services should be State owned and operated, third, only State had the resources necessary to invest in these heavy industries.[42] Thus to 'to accelerate the rate of economic growth and to speed up industrialisation'[43] the State assumed direct responsibility of planning, investing and managing. Thus, Indian State became the predominant owner and operator of industrial units in the country.

India started forming government owned centralised companies called Public Sector Undertakings (PSU) or Public Sector Enterprises (CPEs) if the company is owned by Central Government of India it is usually referred to as a Central Public Sector Enterprises (CPE), if the company is owned by a State Government of India it is usually referred to as State Public Sector Enterprises (SPEs), internationally PSUs and CPEs are seen as variants of State Operated Enterprises (SOEs).[44] One of the first was Oil and Natural Gas Corporation which was formed in 1956 to deal with exploration and exploitation of petroleum resources in India. In the same year through the Life Insurance (Emergency Provisions) Ordinance, 1956, life insurance industry was brought under full government control and ownership. All commercial banks were nationalised between 1955 to 1959. Later, Steel Authority of India Limited (SAIL) and Gas Authority of India Limited (GAIL) were formed as consolidating companies in steel and gas sectors.

CPSEs and SPSEs played an important role in Indian economy, they stabilised the economic system, provided employment, was effective import substitution albeit under monopolistic protection, invested in R&D, however there were severe inefficiencies, nepotism, corruption

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[40] Industrial Policy Resolution of April 1956, paragraph 8, available online at <http://dipp.nic.in/sites/default/files/chap001_0_0.pdf> last accessed on 26 February 2018.
[41] ibid para 5
[42] ibid para 6
[43] ibid para 5
[44] See generally Sovarani Borkotoky Sarmah, 'Social responsibility of state enterprises in Assam' (1994) PhD thesis available online at <http://hdl.handle.net/10603/67617> last accessed on 26 February 2018.

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as well. Many of these ills could be blamed on excessive political control which resulted in short sighted decision making resulting in underperformance. In 1991, facing a balance of payment crisis, Indian Government decided to liberalise the economy, removing some of the restrictions on investment areas imposed by the 1956 Resolution.[45] This liberalisation process went on for about a decade and by 2000 all the sectors were open for private enterprises except for atomic energy and associated mineral exploration.

Post 1991 CPSEs came into direct competition with the private enterprises, the Government tackled the situation by several rounds of capital infusion followed by disinvestments for profit making units and closing of non-performing enterprises. The aim was to make CPSEs more efficient, professionalise the board and insulate it from political interference, partial listings were encouraged for top CPSEs so that the companies followed international corporate governance norms and practices.

4.2 Structural breakup of PSUs

In 2012-13 there were 1,321 SPSEs with 298 of them in the non-working category,[46] while there were 234 CPSEs operating and 56 yet to commence commercial operation.[47] CPSEs in 2014-15 contributed to 15.9 percent of India's GDP.[48] CPSEs are organised in five categories - agriculture, mining, manufacturing, electricity and services. These categories are divided into 23 different cognate groups.[49] PSUs are also divided into other income and financial control based categories.[50] Post 1990 liberalisation, as part of corporate governance reforms in the

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[45] See generally Montek Singh Ahluwalia, 'Economic Reforms in India Since 1991: Has Gradualism Worked?' (2002) 16 (3) Journal of Economic Perspective 67 available online at <https://pubs.aeaweb.org/doi/pdfplus/10.1257/089533002760278721> last accessed on 26 February 2018.

[46] Fourteenth Finance Commission as cited in Khurshid A Ganai, 'PSUs: A case of unlocked potential' (2016) Bureaucracy Today available online at <http://bureaucracytoday.com/psumarket.aspx?id=129911> last accessed on 26 February 2018.

[47] See Department of Public Enterprises Annual report 2013-14, by 2015-16 number of operating CPSEs have increased to 244 with 76 yet to commence commercial operation see Government of India, Ministry of Heavy Industries and Public Enterprises, Department of Public Enterprises, 'Public Enterprises Survey 2015 -2016: Annual Report on the performance of Central Public Sector Enterprises' (2017) available online at <http://dpe.gov.in/sites/default/files/PES_Annual_ Report_English.pdf> last accessed on 26 February 2018.

[48] This information was given by Minister of State in the Ministry of Heavy Industries and Public Enterprises Shri Babul Supriyo in reply to a written question in the Rajya Sabha on 23 November 2016, available online at <http://pib.nic.in/newsite/mbErel.aspx?relid=154117> last accessed on 26 February 2018.

[49] See Public Enterprises Survey 2015 -2016 (2017) (n x-4) 5

[50] For Board payment CPSEs are divided into four categories A, B, C and D. 'The parameters adopted for this purpose are quantitative factors like investment (paid up capital + long term loans), capital employed (net block + net working capital), net sales, profit, number of employees, number of units, etc. and qualitative factors like national importance, complexities of problems, level of technology, prospects for expansion and diversification of activities and competition from other sectors. In addition, other factors like image of the CPSE (in terms of its share price, MOU ratings, classification as Navratna/Miniratna, ISO 9000/IS 14000 certification), productivity of the PSE (in terms of capacity utilization) and value added per employee are

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CPSEs, the best performing companies were divided into three categories – *Maharatna, Navratna* and *Miniratna*.[51] They were given higher financial and operational powers to be able to compete in global markets. Our empirical research in this paper focuses on CPSEs in these categories. *Maharatna* companies on average have annual turnover of more than INR 250 billion, annual net worth of more than INR 150 billion, annual net profit after tax of more than INR 50 billion, during the last 3 years. Usually they have significant global presence/international operations. *Miniratna* companies have made continuous profits in the last three years. *Navratna* companies are usually larger *Miniratna* companies which have fulfilled certain efficiency and corporate governance criteria.[52] *Maharatna* companies can invest upto INR 50 billion per annum without permission from the Government, similarly a *Navratna* can invest upto INR 10 billion per annum without prior permission finally depending on the profitability of *Miniratna* the company can invest INR 5 -3 billion without Governmental approval. As of 2017 there are 8 *Maharatna*, 16 *Navratna* and 74 *Miniratna* companies.

All *ratna* companies qualify u/s 135 of the Companies Act, and are mandated to spend 2% of their pre tax average profits of last three years for CSR. During the year 2015-16, 106 qualifying CPSEs have spent over INR 40 billion on CSR activities.[53]

5. Methodology

The present study uses primary data obtained by conducting in-depth personal interviews and issuing questionnaires, which provide the foundations for examination from the outside and inquiry from the inside.[54] This approach provides a platform to understand the leadership perceptions.

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also taken into account.', Department of Public Enterprises, 'Classifications and Categorisations of CPSEs' p89, available online at <http://dpe.gov.in/sites/default/files/Chapter_5_Classification_Final_0.pdf>

[51] *Ratna* in Sanskrit means jewel. *Maharatna* literally translates to large jewel or crown jewel, *Navratna* literally is a Sanskrit compound word meaning 'nine gems' and *Miniratna* is a hybrid word which means small jewel.

[52] 'Criteria for grant of Navratna status :- The Miniratna Category – I and Schedule 'A' CPSEs, which have obtained 'excellent' or 'very good' rating under the Memorandum of Understanding system in three of the last five years, and have composite score of 60 or above in the six selected performance parameters, namely, (i) net profit to net worth, (ii) manpower cost to total cost of production/services, (iii) profit before depreciation, interest and taxes to capital employed, (iv) profit before interest and taxes to turnover, (v) earning per share and (vi) inter-sectoral performance.' Press Information Bureau, Government of India, Ministry of Heavy Industries & Public Enterprises, 'Eligibility Criteria for Grant of Maharatna, Navratna and Miniratna Status to CPSEs' (2014) available at <http://pib.nic.in/newsite/PrintRelease.aspx?relid=107091> last accessed on 26 February 2018.

[53] See Public Enterprises Survey 2015 -2016 (2017) (n x-8) 28

[54] Roger Evered and Meryl Reis Louis, 'Alternative Perspectives in the Organizational Sciences: "Inquiry from the Inside" and "Inquiry from the Outside"' (1981) 6 The Academy of Management Review 385

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A questionnaire is developed as an instrument of data collection. It was finalised after seeking comments and views from the expert groups. It was delivered to respondents who currently hold a top leadership position i.e., chairman and managing directors (CMDs) of SOEs in India. The questionnaire has been designed to capture the perceptions of the top leadership pertaining the issues, challenges and understandability of corporate social responsibility following the compulsory CSR spend being mandated by government of India. The relevant portion of the questionnaire is provided in appendix I.

Using a survey approach, the questionnaire was e-mailed to the corporate leaders of 82 selected organisations belonging to the *maharatna, navratna* and *miniratna* categories of Indian SOEs. The response rate is approximately 42 percent, which is reasonable as per literature (Collins, 2013).

A key limitation to the study is that the sample size is small. Statistical analyses like structural equations have not been conducted as we are not claiming country representativeness or generalizability; rather the surveys are a case study of the selected sample of Indian SOEs. The language in the results carefully uses "surveyed companies" rather than claiming to speak for companies in India. Our intention follows Yin (2013) and Collins, Duppati and Rath, (2013) that is, for theoretical generalizability, testing how our results are similar or are different or can extend the literature on the perceptions and dilemmas of the top leadership on the corporate governance practices and approaches.

6. Analysis of data

6.1 Managerial perspective on the relationship between CSR and sustainability

Out of the 40 managers who were interviewed 38% said that CSR is different from sustainability while the majority of 62% thought that the main focus of CSR is to ensure sustainability.

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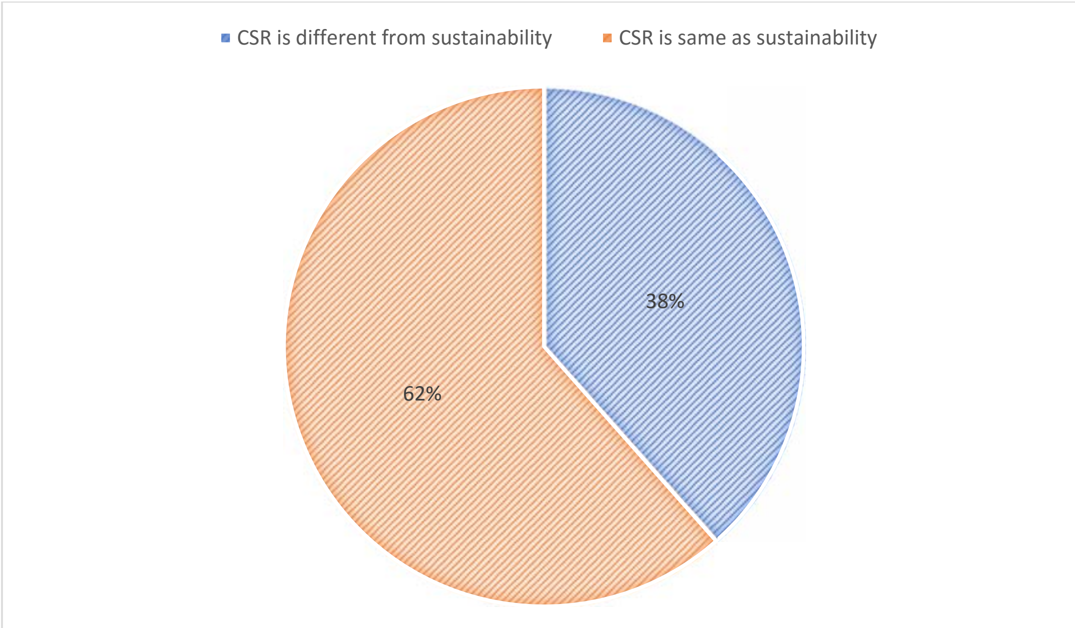
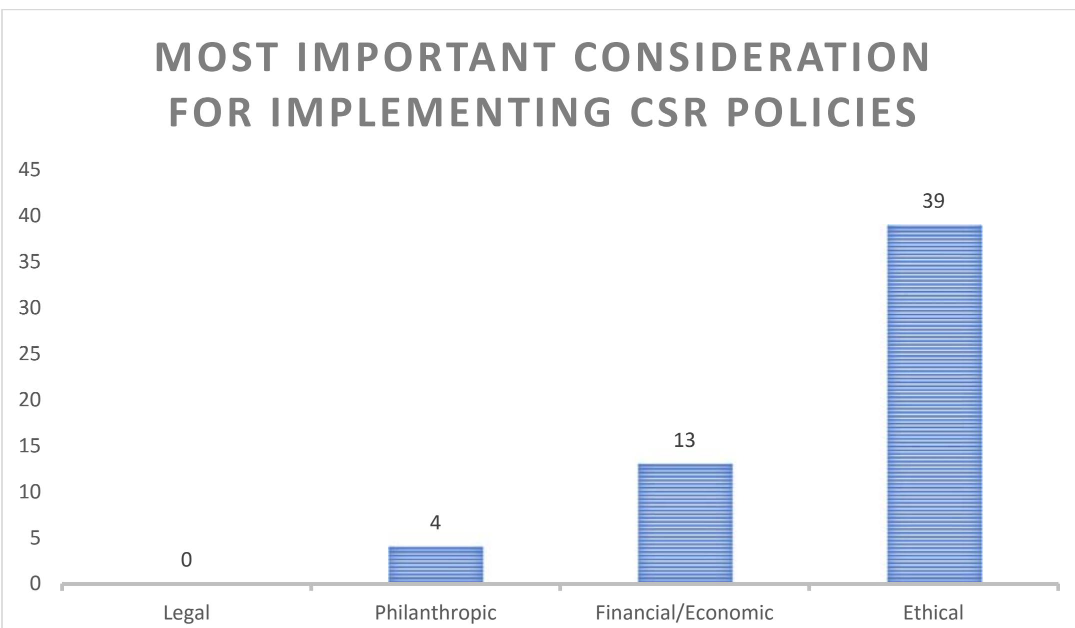


6.2 Motivating factors for CSR implementation in SOE managers

Next, we asked the managers as to what their main consideration is when implementing CSR policies, we gave them the following choices – a) economic, b) legal, c) ethical and d) philanthropy. Managers could choose more than one option.

Surprisingly not a single manger chose legal. All but one chose ethical. 13 managers also chose economic and 4 chose philanthropy.



6.3. Integration of CSR with the SOE

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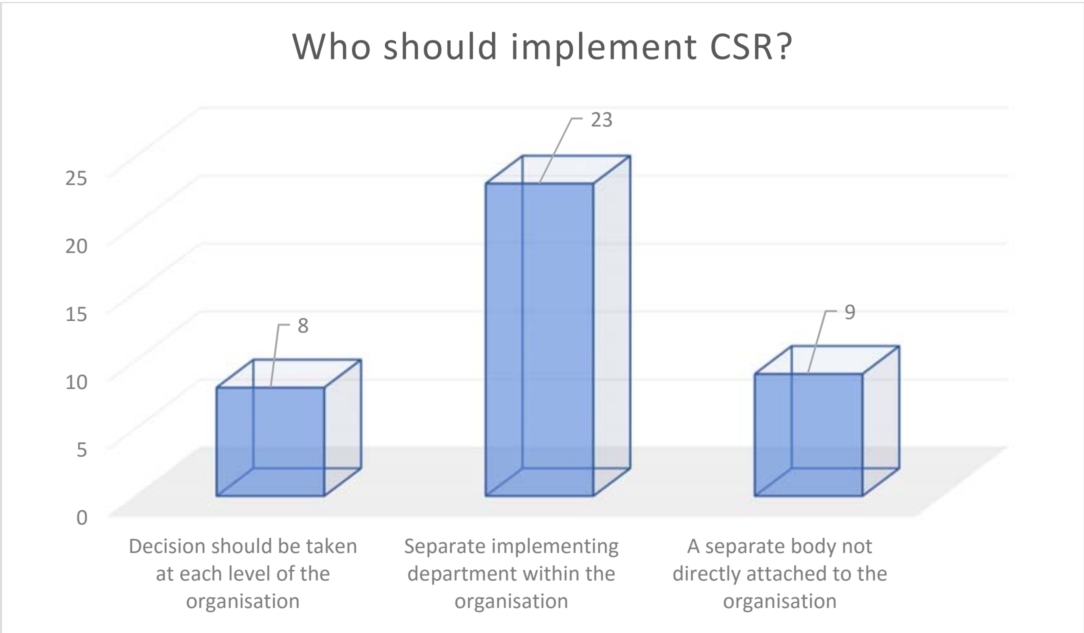
Next, the mangers were asked about their perception on integrating and implementing CSR in their organisation, they were asked as to whether they would like it to be vertically integrated where the managers from each level would be able to choose and implement CSR policies, or, they would like CSR to be a separate department within the organisation, or, if they would like CSR to be implemented by an organisation which is at arms length to the company.

Only 8 managers wanted CSR to be vertically integrated, a majority of 23 supported a separate CSR department within the same organisation, while 9 wanted CSR to be dealt with a completely different organisation.



6.4. How do SOE managers define CSR

3 gave us the legal definition from the Companies Act and associated CSR Regulations, 12 managers opined that it is a payback to the society, 18 held that CSR allows companies to have a net positive effect on the society and empower the society grow in an inclusive manner. Two managers had responses that were different from their peers – one said that CSR refers to the cultural traditions of giving for philanthropy as has been practised for many generations, while the other said that CSR is a persuasive tool for businesses to offset externalities and gain societal approval and concessions.

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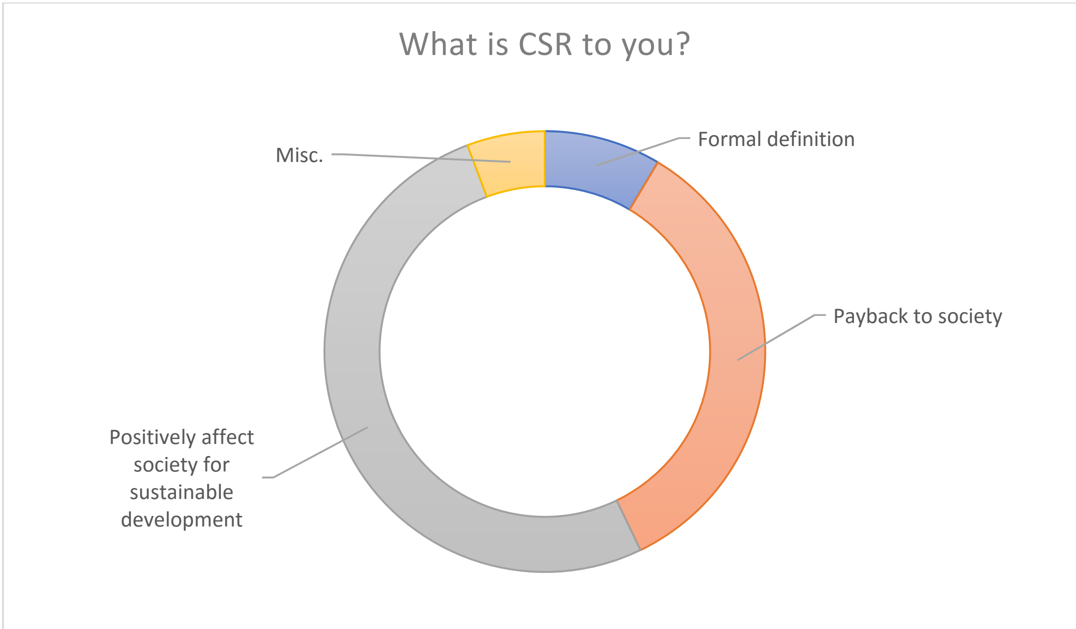

6.5. Managerial perspective on reasons for MCSR

The managers were then asked as to what they think could have been the reason for Government of India to introduce mandatory CSR instead of leaving it at the discretion of the companies.

16 managers thought that the mandatory policy was to make companies give back to the society, 15 thought it was a way to make companies become more socially responsible and morally conscious, 2 thought it was a way to improve corporate governance practice, 6 thought that it was a way for the government to transfer welfare roles onto corporates, while one thought it was a PR exercise.

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6.6. Hurdles on implementing MCSR

Finally, the managers were asked as to what hurdles do they perceive with the mandatory CSR regime.

The managers pointed out several issues such as increase in the likelihood of political interference, problems with balancing stakeholder expectations, that mandatory CSR diverts attention from the core business objectives of the corporation, some suggested that the centralised system envisaged under the Companies Act and the CSR Regulations would put further time constraints on leadership or compromise with accountability. while others rued that the system would not directly involve more employees. Political interference has been a running theme in most of the managerial responses, one of the common refrain was that while CSR is good local political leaders would always try to get a slice of the CSR funding for their pet projects, although CPSEs are autonomous bodies with high level of freedom, however they have to mesh with the local realities and would have to keep the local politicians on their side. Managers were afraid that once the MCSR provisions become well known local politicians who so far were happy with small investments in CSR in their region would demand higher outlay of funds. This can create major complications as a CPSE can have local branches all over the country and each become vulnerable to local political interference. Here is a breakup of the responses.

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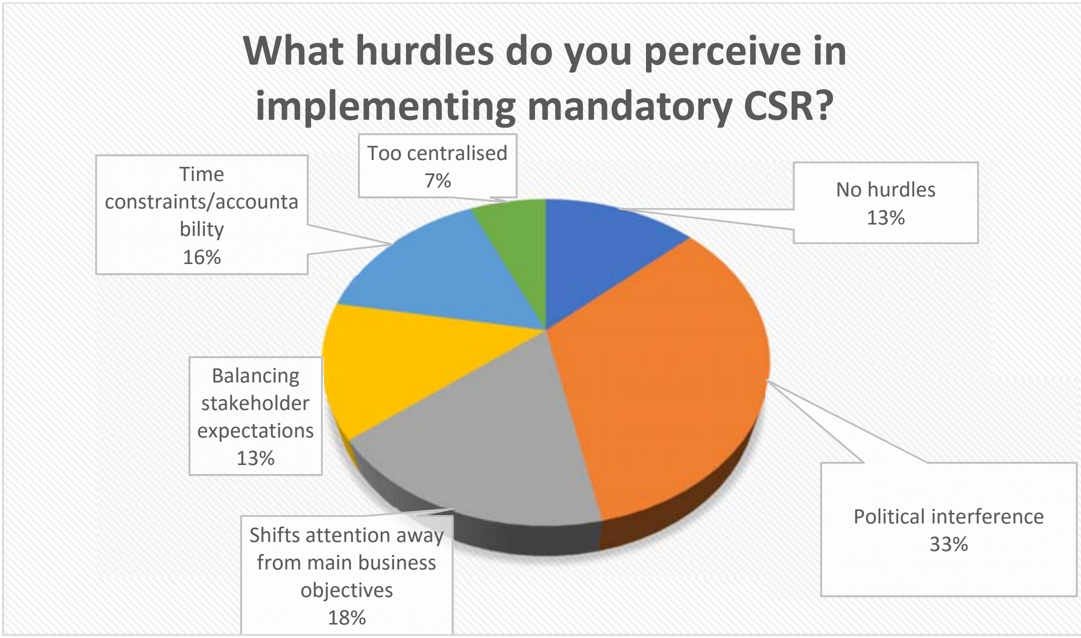

6.7 Analysis

H1: Managers in SOE think of CSR as a vehicle for sustainability and giving back to society.

If we look at the results provided in 6.1, 6.4 and 6.5, it becomes apparent that sustainability is at the forefront of managerial perspective when they think of CSR. MCSR thus becomes a vehicle for SOE managers to propagate the social vision of the State.

H2: The managers in SOE would give more focus to social aspects of CSR than the legal ramifications.

Although the law states that CSR is mandatory, however as we have discussed before there is no legal sanction for non-compliance. Thus, it becomes imperative to find out if managers in SOEs think that they have a new legal obligation to MCSR. We find from 6.2 that managers do not believe that they have any legal obligations for MCSR and it is only voluntary. This shows that inspite of the regulations SOE managers still consider MCSR provisions at best as comply or explain. Another reason for this could be that all the SOEs in this survey spend over 2% of their profits in CSR and thus the provisions related to MCSR does not have any direct financial impact.

7. Recommendations and conclusion

From the survey especially 6.6 we find that about a third of the managers believe that political interference is one of the major hurdles in implementing the MCSR. As discussed managers are afraid that mandatory provisions relating to CSR would only encourage local politicians to ask for more investment in CSR by SOEs in their constituencies. On being asked as to how

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managers though that this problem could be solved in 6.3 the mangers were overwhelmingly in favour of a separate centralised body either within the company (as a department) or outside which can be given the CSR responsibilities.

We tend to agree with the managers that political interference is one of the major stumbling block for efficient resource allocation in India and any positive results that is expected out of MCSR can be offset by increase in political corruption and diversion of funds. Therefore it is imperative that the SOEs are allowed to form at arms length charitable foundation which would implement the CSR policies, this foundation would have its own structure and would be completely separate from the CPSEs. In this way managers in SOEs would not have to divert their attention and can focus on the business aspects. This would also remove the spectre of political interference on implementing officers in the local branches of SOEs. The local managers would have plausible deniability that the CSR is being implemented by separate organisation. Thus the SOE would be insulated from political influence. The separate foundation which is set up to disburse funds for CSR may take into considerations direct application for funds from NGOs and also do independent verifications of recommendations from the SOE employees and management and other stakeholders.

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Appendix I

Open ended question on CSR and implementation

1) Is CSR different from sustainability?

2) What is your perception on CSR integration?
   a) CSR should be integrated into the organisation;
   b) CSR should be a separate department;
   c) CSR should be linked to another agency to deal with CSR activities and CSR spend;
   d) Other - Please comment

3) Which of the following are the important considerations of CSR for the corporates?
   a) Economic consideration;
   b) Legal consideration;
   c) Ethical consideration; and
   d) Philanthropic consideration

4) What major challenges arise in integrating the CSR into the Organisation?

5) What is the motivation of Government of India in introducing the mandatory CSR?

6) How do you define CSR from Indian context?

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