



## CORPORATE SOCIAL RESPONSIBILITY: A CASE STUDY OF NALCO AND BHEL

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### **Abstract**

*Indian companies are practicing Corporate Social Responsibility (CSR) for decades. Of late CSR has been receiving increasing attention from all the stakeholders after the introduction of the Companies Act, 2013. This paper traces evolution of CSR over time and emphasises its need and importance. Besides, two random case studies of Central Public Sector Enterprises (CPSEs) have been made regarding their CSR spending over a period of six years covering 2008-14. In the process, attempts have been made to find out whether there remains any correlation between sales, profit and CSR investment in the corporate world.*

**Keywords:** *Corporate Social Responsibility, Companies Act, 2013, CSR Spend.*

### **INTRODUCTION**

World Business Council for Sustainable Development defines Corporate Social Responsibility (CSR) as “The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”. CSR can be thus be understood as the additional commitment by business to improve the social and economic status of various stakeholders involved while complying with all legal and economic requirements ( *Ghose, 2012* ). The three major elements of CSR are *product use* which focuses on contribution of industrial products which help in well being and quality of life of the society, *business practice* which focuses on good corporate governance and gives high impetus for the *environmental well being and equity* which tries for distribution of profits equitably across different societies especially the host community ( *War hurst, 2001* ) CSR has a significant role in controlling the perils of uncontrolled development, satisfying the needs of the present generation and at the same time ensuring that the resources of future generations is not jeopardized. Companies are more than willing to report on their contributions to the maintenance of a sound environment, a healthier society and ethical business practices through both internal and external action within the countries in which they operate. ( *Ghose, 2012* ).

### **NEED FOR CORPORATE SOCIAL RESPONSIBILITY**

Corporate social responsibility in India has traditionally been considered as a philanthropic activity. And in keeping with the Indian tradition, it was an activity that was performed but not deliberated. However, as India is gradually inching towards globalisation, the CSR activities undertaken by companies is getting more strategic in nature and discernible also.

The current trend of globalization has made the firms realize that in order to stay a in a competitive environment they need clearly defined business practices with a sound focus on the public interest in the markets ( *Gray, 2001* ), *Firstly*, the increase in competition among the multinational companies to gain first mover advantage in various developing countries by establishing goodwill relationships with both the state and the civil society is ample testimony to this transformation. *Secondly*, in most of the emerging markets, the state has a duty to protect the interests of the general public and thus gives performance to companies which take care of the interest of all the stakeholders. *Thirdly*, emerging markets have been identified as a source of immense talent with the rising levels of education. It has been observed that consumers consider switching to another company’s products and services, speak out against the company to family/friends, refuse to invest in that company’s stock, decline to work at the company and boycott the company’s products and services in case of negative corporate citizenship behaviours ( *Edenkamp, 2002* ). *Fourthly*, firms all over the world are beginning to grasp the importance of intangible assets, be it brand name or employee morale. Equity created on the basis of a company’s reputation or brand can easily be harmed or even lost particularly for companies whose brand equity depends on company reputation. Reputation is built around intangibles such as trust, reliability, quality, consistency, credibility, relationships and transparency, and tangibles such as investment in people, diversity and the environment. Only firms that have gained the goodwill of the general public and ideal corporate citizens, are in a position to develop these intangible assets into strategic advantages. CSR can be integral element of a firm’s business and corporate-level differentiation strategies. *Fifthly*, CSR is an important factor for employee motivation and in attracting and retaining top quality employees as well. Innovation, creativity, intellectual capital and learning are helped by a positive CSR strategy. *Sixthly*, better risk management can be achieved by in-depth analysis of relations with external stakeholders. Given the increase in cross-border business relationships and the threat of cross-border litigation, boards have to consider the risk management standards of business partners, and even suppliers. CSR also helps in compliance with regulation and the avoidance of legal sanctions, while the building of relationships with host



governments, communities and other stakeholders can enhance a company's reputation and credibility and be important with regard to its future investment decisions.

### **THE FOUR PHASES OF CSR DEVELOPMENT IN INDIA**

The history of CSR in India can broadly be divided into four phases which run parallel historical development of India. At the same time, concurrent development of different approaches towards CSR is also observed. However, the phases are not static and the features of each phase may overlap the other phases.

#### **The First Phase**

In the first phase, charity and philanthropy were the main drivers of CSR. Culture, religion, family values and tradition and industrialization had an influential effect on CSR. In the pre-industrialisation period, which lasted till 1850, wealthy merchants shared a part of their wealth with the wider society by way of setting up temples / maths/ dharmasalas for a religious cause. Moreover, these merchants helped the society in getting over the phases of famine and epidemics by providing food from their godowns and money and thus securing an integral position in the society. With the arrival of colonial rule in India from the 1850s onwards, the approach towards CSR started changing. The industrial families of the 19<sup>th</sup> century such as Tata, Godrej, Bajaj, Modi, Birla, Singhanian were strongly inclined towards economic as well as social considerations.

#### **The Second Phase**

In the second phase, which almost coincided with the independence movement, there was increased stress on Indian industrialists to demonstrate their dedication towards the progress of the society. This was when Mahatma Gandhi introduced the notion of "trusteeship", according to which the industry leaders had to manage their wealth so as to benefit the common man. *"I desire to end capitalism almost, if not quite, as much as the most advanced socialist. But our methods differ. My theory of trusteeship is no make-shift, certainly no camouflage. I am confident that it will survive all other theories."* This was Gandhi's words which highlights his argument towards his concept of "trusteeship". Gandhi's influence put pressure on various businesses and industrialists to act towards building the nation and its socio-economic development. According to Gandhi, Indian companies were supposed to be the "temples of modern India". Under his influence, business established trusts for schools and colleges and also helped in setting up training and scientific institutions. The operations of the trusts were largely in line with Gandhi's reforms which sought to abolish untouchability, encourage empowerment of women and rural development.

#### **The Third Phase**

The third phase of CSR (1960-80) had its relation to the element of "mixed economy", emergence of public sector undertakings (PSUs) and laws relating labour and environmental standards. During this period, the public sector was seen as the prime mover of economic development in India. Because of the stringent legal rules and regulations surrounding the activities of the private sector, the period was described as an "era of command and control" and the private sector was almost 'forced' to take a backseat. The policy of industrial licensing, high taxes and restrictions on the private sector led to corporate malpractices. This led to enactment of legislation regarding corporate governance, labour and environmental issues. PSUs were set up by the state to ensure suitable distribution of resources (wealth, food, etc.) to the needy. However, the public sector were effective only to a certain limited extent. This led to shift of expectation from the public to the private sector and their active involvement in the socio-economic development of the country became absolutely necessary. In 1965 Indian academicians, politicians and businessmen set up a national workshop on CSR aimed at reconciliation. They emphasized upon transparency, social accountability and regular stakeholder dialogues.

#### **The Fourth Phase**

In the fourth phase (1980 until the present), Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy. In the 1990s the first initiation towards globalisation and economic liberalisation were undertaken. Controls and licensing system were partly done away with which gave a boost to the economy the signs of which are very evident today. Increased growth momentum of the economy helped Indian companies grow rapidly and this made them more willing to participate in CSR activities and able to contribute towards social cause. Globalisation has transformed India into an important destination in terms of production and manufacturing bases of TNCs are concerned. As Western markets are becoming more and more concerned about labour and environmental standards in the developing countries, Indian companies which export and produce goods for the developed world need to pay a close attention to compliance with the international standards.



## **PRESENT SCENARIO OF CSR IN INDIA**

As pointed out earlier, CSR is not a new concept in India. Ever since their inception, corporates like the Tata Group, the Aditya Birla Group, Indian Oil Corporation, to name a few, have been involved in serving the community in several forms and manners. Through donations and charity events, many other organisations have been doing their part for the society. The basic objective of CSR in these days is to maximize the company's overall impact on the society and stakeholders. CSR policies, practices and programs are being comprehensively integrated by an increasing number of companies throughout their business operations and processes. A growing number of corporates feel that CSR is not just another form of indirect expense but is important for protecting the goodwill and reputation, defending attacks and increasing business competitiveness.

Companies have specialised CSR teams that formulate policies, strategies and goals for their CSR programs and set aside budgets to fund them. These programs are often determined by social philosophy which have clear objectives and are well defined and are aligned with the mainstream business. The programs are put into practice by the employees who are crucial in undertaking this process. CSR programs ranges from community development to development in education, environment and healthcare, provision of improved medical and sanitation facilities, building schools and houses, and empowering the villagers and in process making them more self-reliant by providing vocational training and a knowledge of business operations. Many of the companies are helping adjacent communities and villages by providing them good standard of living. Companies are also, increasingly joining hands with non-governmental organisations (NGOs) and use their expertise in devising programs which address wider social problems.

CSR has gone through many phases in India. The ability to make a significant difference in the society and improve the overall quality of life has clearly been proven by the corporates. Not one but all corporates should try and bring about a change in the current social situation in India in order to have an effective and lasting solution to the various social woes that affect Indian society. Partnerships between companies, NGOs and the government should be facilitated so that a combination of their skills such as expertise, strategic thinking, manpower and money to initiate extensive social change will put the socio-economic development of India on a fast track.

## **EMERGING CSR SCENARIO IN INDIA**

Over the years, Corporate India has played a significant role in the socio-economic development of the country. Its innovative approach, appropriate technological interventions, skilled manpower, geographical spread and the capacity to compete with the best in the world has instilled much confidence and hope that India is well on its way to becoming a global super-power. Economic liberalisation initiated at the start of the decade of the 90's has given much impetus to this process. The developing world now looks up to India to provide leadership on how corporates can integrate their efforts with the developmental process in the country in a seamless manner. This synergy is critical if any nation intends to leverage the strength of its corporate sector for nation building.

One, therefore, feels a sense of hope and optimism that this progression will gain further momentum as we move together in partnership under the provisions of the new legislation enacted through Section 135 of the Companies Act 2013. The enabling provisions of this path-breaking legislation also have the potential to make a significant contribution to corporate governance, since CSR will now be directed right from the vantage position of the Board of every company that falls within the ambit of this Act and the Annual CSR Report will be part of the Directors Report each year. (Gahlot, 2013)

## **OBJECTIVE OF THE STUDY**

Prior to 2013, it was not mandatory for Indian companies to invest in CSR and more so disclose their investment or budget details pertaining to CSR. However, in 2009, the Ministry of Corporate affairs, Government of India has issued an indicative voluntary guideline for undertaking the CSR. It was only in 2013, the new Companies Act, embodied a provision regarding CSR. No doubt, Indian business has a long tradition of working within the values that have defined our national character for millennia. Keeping the broad assumption that voluntarily almost all the companies engage themselves in CSR, the present paper examines to what extent the CSR activities have been embraced by two companies. Through random sampling, two public sector companies have been selected so as to analyse their CSR activities since PSUs are expected to be the champions of CSR. The companies are National Aluminium Company (NALCO) and Bharat Heavy Electricals Limited (BHEL). Data regarding the two companies have been collected from their annual reports of six years covering 2008-14. Thus the main objective is to examine their CSR spent vis-à-vis their sales and profit and analyse the relationship (if any), between CSR investment and sales and profit of the sample companies. The correlation coefficient of these parameters have been calculated and presented in Table 1

**Table 1**

Year	NALCO (Rs in Crore)			BHEL (Rs. in Crore)		
	Sales	PAT	CSR Spent	Sales	PAT	CSR Spent
2008-09	5094.52	1272.27	22.25	76440.40	9635.52	3.00
2009-10	5055.66	814.22	13.84	33154.48	4326.92	4.00
2010-11	5958.98	1069.30	16.65	41854.66	6053.36	21.55
2011-12	6611.57	849.50	34.22	14181.71	1044.17	36.46
2012-13	6916.48	592.83	30.99	21594.14	3503.77	37.96
2013-14	6780.85	642.35	29.00	38388.82	3460.78	46.54
<b>Total</b>	<b>36418.06</b>	<b>5240.47</b>	<b>146.95</b>	<b>225614.21</b>	<b>28024.52</b>	<b>149.51</b>
<b>Average</b>	<b>6069.68</b>	<b>873.41</b>	<b>24.49</b>	<b>37602.37</b>	<b>4670.75</b>	<b>24.92</b>
Correlation of Sales and CSR = + 0.18 Correlation of PAT and CSR = -0.46			Correlation of Sales and CSR = -0.54 Correlation of PAT and CSR = -0.70			

*Source: Annual Reports of NALCO and BHEL (2008-09 to 2013-14)*

## FINDINGS AND INTERPRETATION

- The two sample PSEs provide a contrasting picture of CSR spent during the six year period under study covering 2008-09 to 2013-14. The CSR spent of BHEL continuously increased from Rs. 3.00 crore in 2008-09 to Rs. 46.54 crore in 2013-14 and the average of which stood at Rs. 24.92 crores in the study period. NALCO CSR spent, on the other hand fluctuated and the average is calculated at Rs. 24.49 crores. However, when compared with sales figures, the average CSR as a percent of sales for BHEL stood at 0.01 percent whereas for NALCO it worked out to be 0.40 percent for the study period. The correlation coefficient between sales and CSR investment for the two stood at -0.54 (BHEL) and +0.18 (NALCO) respectively.
- In case of both the PSEs, profit after tax and CSR expenses moved independent of each other. The correlation coefficient are worked out to be -0.46 (NALCO) and -0.70 (BHEL). Thus it is clear that the CSR investments by the public sector giants were made irrespective of profit level.

It is evidenced from the above results that there is hardly any correlation between PAT and CSR investment. This implies that profit volume hardly acts as an inducement to undertake CSR activities and vice-versa. This explodes the myth that profit and profitability positively influence companies to spend on CSR activities. Similarly, the sales volume which often acts as an inducement to increase CSR activities have has any impact on the CSR activities of the two sample PSEs. Thus CSR investments made by these two PSEs have moved independent of their sales volume.

## CONCLUSION

The findings of the above two companies regarding the CSR investment may not provide us with a benchmark but indicates that CSR investment have remained more or less a discretion of the corporate sector in general and PSEs, in particular. Therefore there hardly remains a linear relationship between CSR and the performance indicators. Clause 135 introduced by the Companies Act 2013 would go a long way in strengthening the social indicative taken by the companies and also induce corporates to move out of their slumber. According to the Indian Institute of Corporate Affairs, of the 1.3 million companies in India, about 6000-7000 companies will be covered under the new CSR rules. CSR investment by corporate India will also increase manifold once it starts being reported from the financial year 2014-15. CSR investment has wide ramifications across the globe especially in countries like India. The culture of social responsibility needs to go deeper in the governance of business so that companies undertake CSR both voluntarily and statutorily akin to the India's ancient wisdom 'Basudheveika Kutumbakam'.

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