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Integrating CSR into Strategic Management: Case of Maharatnas

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Abstract:

Corporate strategy is a long term plan of action which strives to provide the business with the competitive advantage. In the times of growing awareness among the people about the global threats to ecosystem, the businesses need to integrate the corporate social responsibility into corporate strategy so that it can become the source of sustainable competitive advantage. Just as the company has the strategy for products, markets, and business growth, it needs to have a strategy for CSR so that it can become an integral part of company's operations at all levels. The paper attempts to study the role of 'Maharatnas' towards CSR front and how they are designing their business strategies taking into account three dimensions namely economic, social and environment.

Keywords: Triple Bottom line, Corporate Social Responsibility, Sustainable Competitive Advantage, Maharatnas

1. Background of Study

Society makes business possible and provides directly or indirectly with what companies need to succeed, ranging from providing educated and healthy workers, a safe and stable physical and legal infrastructure to consumer market for their products. In return, companies have the obligation to society to operate in ways that are deemed to be socially responsible and beneficial.

Charles Handy makes a convincing and logical argument that the purpose of a business is

Beyond the goals of maximizing profit and satisfying shareholders above all other stakeholders in an organization: "The purpose of a business....is not to make a profit, full stop. It is to make a profit so that the business can do something more or better. That "something" becomes the real justification for the business....It is a moral issue."

Corporate social responsibility (CSR) is a large concept and includes multiple aspects. In broader terms, CSR covers the responsibilities the organizations have towards the societies within which they operate. The World Business Council for Sustainable Development defines CSR as "the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life".

According to Mirvins and Googins (2006), there are five stages of corporate responsibility, each with their own characteristics (figure 1) which provide a framework for understanding the different purposes that companies are pursuing. For instance, a company at the *elementary stage* might define corporate responsibility in terms of creation of profits and jobs, and payment of corporate taxes. A company at the *engaged stage* might conceptualize CSR in terms of philanthropy or environmental protection. Meanwhile, a company at the *integrated stage* might be using CSR as a way to develop strategies which are assessed in terms of societal and environmental performance. The final stage that is *transforming or game changing stage* is the most advanced level of corporate responsibility which Mirvins and Googins believed that yet to be achieved by the companies.

	Stage 1 Elementary	Stage 2 Engaged	Stage 3 Innovative	Stage 4 Integrated	Stage 5 Transforming
Citizenship Concept	Jobs, Profits, taxes	Philanthropy, environmental protection	Stakeholders Engagement	Sustainability/ Triple Bottom Line	Change the Game

*Table 1: Stages of Corporate Responsibility
Source 1: Adapted from Mirvins and Googins(2006)*

CSR has come a long way in India. The companies started focussing on CSR in a big way, shifting their perspective from a mere philanthropy or charity services¹ to sustainable initiatives. For example ITC's E-choupal initiative is a highly successful model Which linked CSR to its core business? For the sustainable competitive advantage, business strategy should promote environmental and social well-being besides profits. In fact, corporate responsibility should be a part of every business decision the company makes, whether it's redesigning the product to minimise adverse environmental impact, improving the communities in which their employees work, fostering a high quality work environment such as work life balance or analysing energy consumption to reduce carbon footprint.

In today's globalising world, the agenda of sustainability and corporate responsibility is not only central to business strategy but will increasingly become a critical driver of business growth. For this, companies have started focussing beyond the conventional financial model. Traditionally, bottom line refers to the "profit" a company makes in financial terms, however, there are two more bottom lines which is captured in the phrase "the triple bottom line" coined in 1994 by John Elkington, the founder of a British consultancy called Sustainability. The second bottom line is the company's "people account"—a measure in some shape or form of how socially responsible an organisation has been throughout its operations towards labour and community/region where a company conduct its business. The third bottom line of the company is "planet account"—a measure of how environmentally responsible it has been.

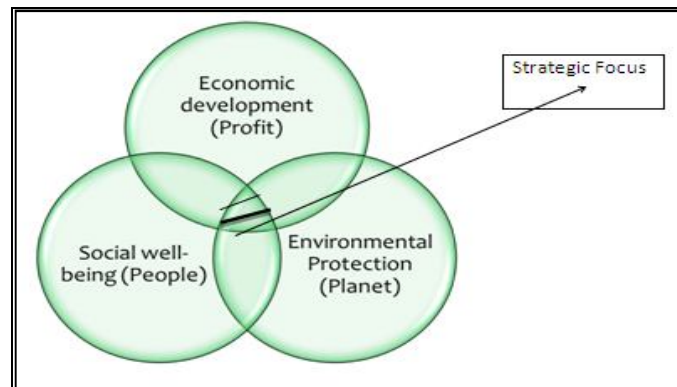


Figure 1: Dimensions of Triple Bottom line

Indian public sector is a long time flag bearer of Indian industries and is always been significant contributor to economic development. Central Public Sector Enterprises (CPSEs) accounted for around 19% of the country's GDP in 2010 and their importance to the economy has been accentuated in the recent past when the global economy was not doing well. Over the years, most of the CPSEs have consciously and extensively promoted corporate social activities. And to further encourage the public sector to undertake CSR activities and to clearly lay out the CSR mandate for the CPSEs, Department of Public Enterprises, Ministry of Heavy Industries and Public Enterprises have issued comprehensive guidelines on CSR in April 2010 according to which CPSEs have to mandatorily create a CSR budget as a specified percentage of net profit of the previous year.

2. Objective

The paper aims to study how the 'Maharatnas' (a special category of CPSEs) which are at the forefront of corporate citizenship have integrated their CSR initiatives with their corporate strategy. Over the years, the concept of Triple bottom line (TBL) has been embraced by many large corporations as guiding principles for the way they strategize and conduct their businesses. So, it would be interesting to see how the 'Maharatnas' take significant strides as far as the TBL is concerned.

The study is descriptive in nature and is done by analysing the annual reports, sustainability reports, investor presentations, corporate policies, press releases and other related data available on the companies' websites.

3. Status of Maharatna

The status of Maharatna, Navratna, Miniratna to CPSEs is conferred by the Department of Public Enterprises to various Public Sector Undertakings. The six criteria for eligibility as Maharatna are:

- Having Navratna status.
- Listed on Indian stock exchange with minimum prescribed public shareholding under SEBI regulations.
- An average annual turnover of more than Rs. 20,000 crore during the last 3 years.
- An average annual net worth of more than Rs. 10,000 crore during the last 3 years. An average annual net profit after tax of more than Rs. 2500 crore during the last 3 years.
- Should have significant global presence/international operations.

Restricting CSR activities to philanthropy or charity may have a negative impact on the organizational climate, that is, it may be possible that if the organization is generous in terms of charities but does not pay adequate attention to working conditions or employees' safety, employees may become cynical. (Waldman et al)

- These prestigious titles provide them greater autonomy to compete in the global market. As on 5th Apr 2012, there are five Maharatna companies -- Coal India Limited (CIL), Indian Oil Corporation Limited (IOCL), NTPC Limited, Oil and Natural Gas Corporation (ONGC) Limited, Steel Authority of India Limited (SAIL).

4. Maharatna and CSR

This section enumerates the sustainable projects adopted by Maharatnas and how they have link them with the communities and move beyond the idea of CSR as philanthropy or charity. Some of the sustainable initiatives undertaken in the three dimensions viz profit, planet, and people are briefly summarised and tabulated.

4.1. NTPC Limited

More than just generating power, NTPC is committed to sustainable growth of power. CSR in NTPC is a deeply ingrained belief of doing business by adding value to the community and society on a sustainable basis through dedicated policies, institutional setup and engagement process to promote inclusive growth. While deciding the appropriate technology for its projects, NTPC integrated many environmental provisions into the plant design and focussed on eco-efficiency in power generation. It helps in maximising the energy extracted from fuel. The technology helps in enhancing operational efficiency besides optimising fuel usage. Consequently, it has avoided more than 30 million tonnes of CO₂ in all and during the year 2010-11, 2.8 million tonnes CO₂ has been avoided.

Profit	People	Planet
-Number one in capacity utilisation globally. -Posting overall performance at the level of 'Excellent' category parameters under the MoU with the GOI. - Seven coal based stations of NTPC among the top ten stations in the country in terms of Plant Load Factor	-Adoption of International Standards like Occupational Health & Safety Assessment System (OHSAS-18000) -Training for contract labours - Women empowerment is an area of priority; set up a women's polytechnic unit in Nainital. -Electrified over 14000 villages & provided connections to more than 23 lakh Below Poverty Line (BPL) households. - helps differently-abled people through its Information and Communication Technology (ICT) Centres	- Created green wealth of nearly 2 crore trees which are proven carbon sinks around the power stations. -Installation of devices for air and water pollution control. - Increasing the share of non-fossil sources in its energy-mix. -Promoting R&D for efficiency improvement and climate change related advancements. - Committed to the objectives of the National Action Plan for Climate Change (NAPCC) of the Government of India.

Table 1

4.2. Steel Authority of India Limited (SAIL)

SAIL is actively involved in the area of creating sustainable incomes for ensuring a strong future for the beneficiaries by imparting them with skills that help them lead a better life and sustain their respective generations. These programmes include promoting rural savings and credit, natural resource management, village infrastructure development, increased agricultural productivity through better management of resources and intensive cropping, and skill development and enhancement of the community.

Places like Bhilai, Rourkela, Durgapur, etc., which today are thriving commercial centres having grown around SAIL's integrated steel plants set up there, were once extremely backward locations without any economic or social infrastructure.

Another remarkable task done by SAIL is ancillarisation. SAIL has been developing ancillary industries from as early as 1978. On an average the company has been adding 45 units annually thus creating employment for nearly 800 people each year.

Profit	People	Planet
- largest steel maker of India with a turnover of Rs 47040.5 Cr in FY2010-11	<ul style="list-style-type: none"> -Developed a transparent employee performance management system (EPMS) for performance appraisal. - To bridge the gap between rural and urban areas, it has adopted 79 villages which have been identified as 'Model Steel Villages' in 8 states across the country and provide the services like medical & health services, education, etc. - provided drinking water to 38 lakh people through installation of 5,153 water sources - constructed roads in 435 villages -146 schools have been set up in the steel townships for providing modern education 	<ul style="list-style-type: none"> -supported setting up of 100-kw Community Solar Power Plants in Jharkhand with the help of Jharkhand Renewable Energy Development Agency. -installing solar street lights at public places to eradicate the problem of power crisis in rural and mines areas of the country. -ecological restoration of barren mined out areas and waste dump sites at SAIL mines

Table 2

4.3. Indian Oil Company Limited (IOCL)

The vision of IOCL is to become the 'Energy of India' and to achieve this, it is focused on Tapping the unique growth opportunities in rural space. It has designed a rural marketing model which is based on low cost, no frills retail outlets (Kisan Seva Kendras) for providing fuel and non-fuel services to rural markets. To give further impetus to its efforts, the corporation is partnering with the Government towards supplying the basic energy needs to the Below Poverty Line (BPL) families through focused schemes such as Rajiv Gandhi Gramin LPG Vitaran Yojana. The sale of solar lanterns through the corporation's retail network and LPG distribution ship supplements these efforts.

Profit	People	Planet
-highest ranked Indian company in the latest Fortune 'Global 500' listings, ranked at the 83rd position	<ul style="list-style-type: none"> -Distributed more than 30000 solar lanterns across the country during 2010-11. -Organised programmes to spread awareness about sustainability among employees. 	<ul style="list-style-type: none"> -Retail Outlet solarisation: aimed to minimize the use of diesel generators thereby reducing carbon emissions. -Ecological Foot printing: assess the operations in terms of carbon emissions, water use and waste generation. -Carbon Neutrality: an endeavour to make all its major events/ workshops/ seminars/ conferences carbon neutral. -Rainwater Harvesting:

Table 3

4.4. Coal India Limited (CIL)

One of the inherent tendencies of coal mining is degradation of the land and environment. CIL constantly addresses the impact of mining activities across environmental and social issues. Eco-friendly mining systems have been put in place in all of its mining areas. To make environmental mitigation measures more transparent, CIL introduced state-of-the-art Satellite Surveillance to monitor land reclamation and restoration for all opencast projects. The company pursues 'Mining with a human face' through socially sustainable inclusive model of growth by making Project Affected People stakeholders in the decision making process for their livelihood.

Profit	People	Planet
-Largest coal producing company in the world. - For previous three consecutive years CIL has bagged 'Excellent' rating in its Memorandum of Understanding (MoU) - a negotiated contract between Government and CIL Management - for performance evaluation on key physical and financial parameters.	- Undertake various community development activities in and around the coalfield areas for the benefit of the local people. - Introduced 'Coal India Scholarships' for 100 Below Poverty Line students. - Mobile Dispensaries and wellness clinics introduced on a large scale. -Provides potable water to about 2.3 million populace in remote corners of CIL's areas of operation	- Pursues a policy of mine reclamation to make good the lost greenery and degradation of land through continuous afforestation activities. Select recent initiatives include social forestry in Sonipur Bazari and Gunjam ecological park in West Bengal. - As a part of 'Clean & Green' programme, massive plantation has been undertaken. - Started integration of Environment Management System (ISO: 14001) with Quality Management System (ISO: 9001) and till date have successfully achieved certification of 53 of its projects.

Table 4

4.5. Oil and Natural Gas Corporation Ltd. (ONGC)

ONGC is India's flagship energy major with interests in Exploration & Production, Refining, Power, Petrochemicals and new sources of energy. ONGC has set a remarkable example of adopting a corporate policy of 'Greening the Vendor chain' in pursuit of the objective of carbon neutrality, where it would give preference to products/services that are eco-friendly. Some of the initiatives in the direction of sustainable growth taken by ONGC are creating a special group known as Carbon Management Group which is responsible for formulating a sustainability strategy for the company, linking of compensation of the functional directors and the CMD with the performance of the company against the parameters which include CSR and Health, Safety and environment, etc.

Profit	People	Planet
-Highest ever net profit Rs. 189.24 bn in FY 2011 -Aggregate dividend for FY'11 at Rs. 35 per share; 20% more than the last year. -Highest ever contribution to exchequer Rs. 317 bn -Net Worth increased to INR 967.09 billion in 2010-11; up by 12% over the last year	-Employs HR initiatives such as appropriate use of mentors, qualification up- gradation and innovative employee engagement schemes. -Encourages participation by employees in the decision making process by allowing them to e-mail their concerns directly to the Chairman and MD. -Spent about Rs 2.2 bn on community activities in FY 2011. -Set up of computer centres in Uttarakhand, Assam etc to impart employment oriented vocational training to unemployed youth. -Community based health services for destitute aged persons in ONGC's operational area	-Part of the Global Methane Initiative (GMI), a technical collaboration between the U.S. EPA (United States Environment Protection Agency) and ONGC formed to build a strong base of knowledge and capacity which helps the reduction of methane emissions. -set up ONGC Energy Centre (OEC) for holistic research for new & alternate energy sources. -sustainable water management policy which includes water foot-printing and reducing the water intensity of their operations

Table 5

5. Conclusion

Corporate Social Responsibility has taken on dimensions beyond that of a formality that companies engage in. It is not remained an either/or issue, rather it is an opportunity to increase competitive advantage through improved recruitment/retention, increased employee morale and productivity, reduced costs, expenses, and risk, better community relations and reputation. In India, the government by itself is not equipped to provide for all the needs of the population and that is where the CSR component of the PSUs takes on immense importance as they have touched populations in the remotest parts of the country. It is quite evident from the analysis that 'maharatna' enterprises, the holders of coveted status, have become aware of the needs of our huge and complex country and are addressing the issues by adopting the sustainable business models which involve all the stakeholders. However,

these are facing certain challenges in terms of allocation of their CSR budget. The data released by the ministry of heavy industries & public enterprises show that the five maharatnas are not able to fully spend their CSR budget in the years 2009-10 and 2010-11 (refer Annexure1). To deal with such challenges, the enterprises need to develop 'leadership capacity' with a focus on integrative thinking, balance of long-term perspective with short-term results and stakeholder engagement.

"The Indian Public Sector has moved into the international league, yet profit is not the primary concern-it still includes people and planet-the ordinary citizen and the environment in which they function." Arup Roy Choudhary, Chairman, SCOPE and CMD, NTPC

"It is not necessary to have a country with enormous inequities-it is within our power to change that through ground level initiatives-this is what CSR is about in the Public Sector." Dr S Parasuraman Director TISS

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Sl. No.	Name of the CPSE	Year	Total funds allocated for CSR (Rs. Crore)	Percentage of Profit After Tax (PAT) of previous year	Funds utilized for CSR (Rs. Crore)
1.	Coal India Limited	2009-10	43.81	2.11	40.14
		2010-11	262.28	2.73	152.33
2.	Indian Oil Corporation Limited	2009-10	37.69	1.28	46.85
		2010-11	131.11	1.28	128.41
3.	NTPC Limited	2009-10	16.74	0.20	20.40
		2010-11	72.37	0.83	72.21
4.	ONGC Limited	2009-10	322.52	2.0	268.87
		2010-11	335.35	2.0	219.03
5.	Steel Authority of India Limited	2009-10	80.00	1.30	78.79
		2010-11	94.00	1.39	68.95

Table 6: Total funds allocated and used for CSR by Maharatnas
Annexure1: Maharatnas and CSR budget

Source: <http://pib.nic.in/newsite/mbErel.aspx?relid=84349>