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Corporate Social Responsibility Practices in Indian Petroleum Companies: A Case Study of Selected PSUs

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Abstract *Corporate Social Responsibility (CSR) is not a very new concept, it is an old concept. Earlier, in India it was optional to the company that they may contribute voluntarily towards CSR but after the Companies Act 2013, it was formally introduced in the business environment and was made mandatory for those companies whose net worth and profit cross a threshold limit. They should contribute 2% of the average net profit of just preceding three years profit. This paper primarily focuses on CSR practices of some selected public sector petroleum companies in India. The study has been conducted based on the Annual Reports of seven selected public sector companies. Five years of data on CSR spending from 2009–10 to 2014–15 were examined. Moreover, the pattern of expenses was also examined. Since petroleum companies are giants of the India economy and contribute significantly towards the Gross Domestic Product (GDP) of our country. Thus it is necessary to look into how these companies are contributing towards CSR. An attempt has been made to examine the early impact of Section 135 of the Companies Act.*

Keywords *Companies Act 2013, Corporate Social Responsibility, Gross Domestic Product, Petroleum Companies*

INTRODUCTION

Indian petroleum industry has been playing a significant role in the upliftment of the Indian economy. The performance of this sector influences the performance of the entire economy. Petroleum is a non-renewable natural resource and with the advancement of the technology, the consumption for the petroleum product has been raising. The petroleum companies are playing a significant role in the society through various welfare activities.

These companies are also taking care of the society. Again, social responsibility is a novel term but after the enactment of the Companies Act 2013, the Corporate Social Responsibility (CSR) has become mandatory for certain class of companies in India. It has forced certain petroleum companies to take their welfare activities more seriously and organize their activities at CSR front.

CSR is one of the very important aspects of the petroleum companies because petroleum industry is the giant of the entire economy. If petroleum companies do not perform for a single day, the entire economy will become stagnant as petroleum is the core product which supports other industries and petroleum companies are directly and indirectly contributing towards the economy constantly. Since it is the giant of the economy and society, it has its own obligation to the society that will ensure the existence of petroleum companies in the long run. Sustainable development of the companies not only helps the companies but also helps in uplifting the society as a whole and CSR makes it attainable by setting a suitable sustainable development policy within the provision of the Companies Act 2013.

The success of any company cannot be measured merely by monetary gains but also how its activities are affecting the society namely CSR aid, an organization's mission and guide to achieve the goal, and vision of the company.

CSR concept is based on the moral responsibility of the company as an artificial entity towards anyone who is directly or indirectly influencing or affecting by its activities. In the decision-making process of a company, it has not only its sole responsibility towards its various stakeholders but also to look after the society from where the company is utilizing the resources.

LITERATURE REVIEW

Aras, Aybars and Kutlu (2010) stated that social responsibility undoubtedly is important and fundamental to the sustainable operation of the organization along with the financial performance. In the paper, authors investigated the relationship between the financial performance and the CSR activities with the help of different approaches. In the investigation, authors found that there is some casualty that was lagging between the financial performance and CSR. However, authors establish that there was a significant

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relationship between the CSR activities and the size of the firm but authors were unable to establish any relationship between financial performance and CSR activities.

Shah and Bhaskar (2010) in their case study of the Bharat Petroleum Corporation Ltd. found that there is a significant relationship between a business organization and the society. The existence of an organization is only possible in the society and moreover, the organization utilizes the resources of the society and hence in they are supposed to return for the same to the society.

Gautam and Singh (2010) studied CSR practices by taking a sample of 500 companies. They have presented CSR as a strategic tool arising due to performance consideration and the societal pressure. It is found that a business and society integration is a convergent path. In the study, it is found that many companies have mere gestures towards CSR but very few companies had their structured and planned CSR approach. The companies are mainly allocating their CSR fund very thinly towards a number of activities as per their own needs as every company is defining their CSR as per their own way.

Bansal, Parida, and Kumar (2012) in their study found that companies nowadays are operating not only to earn profit but also to take into consideration the needs of the society, as the companies are to compensate for the benefit that they are receiving from the society. Moreover, the social responsibility nowadays has taken a new direction and new shape with the demand of both the society and the organization together.

Prasad (2012) stated that the CSR is just a face of the industry for smooth operations business. The author articulated that CSR is just a medium for earning a profit. Further, it also explored that companies nowadays are investing a lot in different areas but nobody is taking care of the need of the poor. However, profit earning is essential and natural for the business organization but CSR should be natural and beyond the statutory obligation for the companies.

From the review of the literature, it appears that there is a number of works on corporate social responsibility but there is no such work on corporate social responsibility by the petroleum industries. The present work is also pioneering in respect of corporate social responsibility performance in the context of Companies Act 2013 and the CSR Rules 2014.

RESEARCH OBJECTIVE

In present paper the following objectives are taken into consideration:

- To identify the spending pattern Indian petroleum companies towards CSR activities.
- Comparison of CSR spending practices among the state-owned petroleum companies in India before and after the Companies Act 2013.
- To identify the present status of CSR spending practices by the Indian petroleum companies.

CSR of petroleum industries has become necessary since they are contributing a lot towards the economy and ultimately towards the nation as a whole. Since CSR is a new concept and from the available literature it is seen that there is no such study made on CSR of state-owned petroleum industries in India. Therefore, it gets immense importance to study the CSR of state-owned petroleum industries in India.

METHODOLOGY

The study is purely an empirical study. From the available sources, there are 117 firms operating in the Indian petroleum industry. These include companies engaged in exploration & production, refining, marketing and distribution of petroleum products. There are total 33 firms in the public sector, 79 firms in the private sector, 4 firms in Joint Venture and 1 firm in the corporate sector. For this sample, six companies are selected. This study is covering five years of data, i.e., from 2009–10 to 2014–15 of the state-owned companies engaged exclusively in the petroleum business covering before and after of the Companies Act 2013. The sample of six companies selected for analysis of CSR practices all qualified to perform CSR activities.

DATA ANALYSIS

Before the Companies Act 2013, CSR was voluntary. But after the enactment of the Companies Act 2013, it became mandatory for the company to perform CSR activities if the company satisfy the condition laid down in the Act and follow the CSR Rules 2014. Let us analyse the CSR spending pattern of petroleum industries after the Companies Act, 2013.

Table 1: Comparison of CSR Spending by Petroleum Companies during FY 2014–15 (in rupees crore)

Companies	Financial Year 2014–2015			
	2% of the average net profit of the previous three years	Actual spending on CSR during 2014–15	Percentage	Rank
BPCL	78.59	33.95	43.2%	6
OIL	60.54	113.31	187.2%	1
HPCL	35.81	34.07	95%	4
IOCL	115.32	116.01	100.6%	3
GAIL	76.24	49.84	65.4%	5
ONGC	405.02	495.23	122.3%	2
Total	771.52	842.41	109.2%	

(Source: Annual Report of BPCL, OIL, HPCL, IOCL, GAIL and ONGC from 2011–12 to 2014–15)

Table 1 shows the comparison of CSR practices of petroleum companies after the Companies Act. The comparison is made mainly to show the deficiency of spending on CSR with the mandatory amount of requirement to be spent on CSR. However, from the table, it is clear that out of six companies, four companies spent on CSR higher than the amount required to be spent on CSR, other companies spent less than the required amount, i.e., not even fulfilling the requirement of the Act.

From Table 1 it is clear that during the FY 2014–15, BPCL has to spent INR 78.59 Cr. whereas BPCL spent INR 33.95 Cr. indicating that there is still a deficit of INR 44.64 Cr. That has to be spent on CSR by BPCL. OIL has to spend INR 60.54 Cr. but spent INR 113.31 Cr. meaning thereby that OIL has spent a surplus of INR 52.77 Cr. than that of the requirements, 2% of the average net profit of HPCL during the FY 2014–15 was INR 35.81 Cr. while HPCL actually spent INR 34.07 Cr. From these figures it is clear that HPCL has to spend on CSR an amount of INR 1.74 Cr. to satisfy the provision of the Act. IOCL has to spend on CSR INR 115.32 Cr. but actually spent INR 116.01 Cr. indicating that INR 0.69 Cr. the amount has on CSR than that of the requirement. GAIL has to spend on CSR INR 76.24 Cr. but actually has spent INR 49.84 on CSR. Clearly indicating that there is a deficit of INR 26.4 Cr. the amount that has to be spent on CSR by GAIL. ONGC has to spend on CSR INR 405.02 Cr. and actually spent on CSR amounted to INR 495.23 Cr., i.e., invested a surplus of INR 90.21 cr. on CSR during the FY 2014–15.

After the Companies Act 2013, OIL spent 187.2% above the required amount followed by ONGC 122.3% and IOCL 100.6%. Whereas HPCL, GAIL and BPCL spent 95%, 65.4% and 43.2% respectively. Again in the financial year 2014–15, some of the petroleum companies spent amount more than the mandatory amount and some of the companies spent less than the mandatory required amount. But the overall spending of CSR by the petroleum companies is 109.2% more than the mandatory required amount.

The pattern of CSR spending by the petroleum industries before the Companies Act, 2013

There was no rule before the Companies Act 2013 but the company used to spend a significant portion of their profit on CSR. Though there was no rule related to CSR before the Companies Act 2013 still 2% of the average net profit of previous three years has been calculated to see the pattern of CSR spending of state-owned petroleum industries in India. The spending pattern on CSR can be presented with the help of the Table 2.

Table 2: CSR Spending Pattern before the Companies Act 2013 (in rupees crore)

Companies	FY 2013–14		FY 2012–13		FY 2011–12		FY 2010–11		FY 2009–10		Average	
	Reqd. Amt.	Actual Amt. Spent	Reqd. Amt.	Actual Amt. Spent	Reqd. Amt.	Actual Amt. Spent	Reqd. Amt.	Actual Amt. Spent	Reqd. Amt.	Actual Amt. Spent	Reqd. Amt.	Actual Amt. Spent
BPCL	53.57	34.38	36.81	17.88	29.44	-	25.47	-	25.69	-	39.20	10.45
OIL	66.78	60.52	66.16	37.48	59.63	-	51.07	-	43.74	-	51.48	19.60
HPCL	23.67	-	22.37	21.76	25.01	-	22.77	-	20.07	-	22.78	4.35
IOCL	106.53	87.74	109.37	78.97	144.14	-	137.44	-	134.22	-	126.34	33.34

Companies	FY 2013–14		FY 2012–13		FY 2011–12		FY 2010–11		FY 2009–10		Average	
	Reqd. Amt.	Actual Amt. Spent	Reqd. Amt.	Actual Amt. Spent	Reqd. Amt.	Actual Amt. Spent	Reqd. Amt.	Actual Amt. Spent	Reqd. Amt.	Actual Amt. Spent	Reqd. Amt.	Actual Amt. Spent
GAIL	80.34	71.89	74.91	64.65	69.03	-	63.36	-	56.97	-	68.92	27.31
ONGC	454.29	341.25	433.15	-	405.43	-	345.45	-	330.64	-	393.79	68.25

(Source: Annual Report of BPCL, OIL, HPCL, IOCL, GAIL and ONGC from 2009–10 to 2013–14)

Since the Table 2 showed CSR practices before the Companies Act 2013 but also the 2% of the average net profit of previous three years has been calculated in order to see the spending pattern on CSR by petroleum companies. As there was no rule and the companies can spend on their own on CSR.

From the table, it is clear that most of the companies started spending on CSR. After 2012, there is probably the impact of the passing of the Companies Act 2013. So, the company might have started voluntary spending on CSR. Since the Companies Act 2013 redrafted. No company spend exactly 2% of the average net profit of the previous three years.

CSR Reporting Practices

As per the CSR Rules 2014 it is mandatory for those companies who are engaged in CSR practices must display its CSR activities on the Annual Report as per the format is given in the CSR Rules 2014. Let us see how many companies display their CSR activities in the Annual report

Table 3: CSR Reporting Practices of Petroleum Companies

Companies	Mandatory Reporting Period (After Companies Act 2013)	Voluntary Reporting Period (Before Companies Act 2013)
BPCL	Yes	No
OIL	Yes	No
HPCL	Yes	No
IOCL	Yes	No
GAIL	Yes	No
ONGC	Yes	No

(Source: Annual Report of BPCL, OIL, HPCL, IOCL, GAIL and ONGC from 2009–10 to 2014–15)

The Table 3 reveals the reporting practices relating to CSR of state-owned petroleum companies in India. The mandatory reporting period in the above table indicates the period after the Companies Act 2013. And the voluntary reporting period indicates the period before the Companies Act 2013. As per the CSR Rules 2014 it is necessary for all those companies who are required to perform CSR activities by satisfying the rules must report their CSR activities in the Annual Report of the company. And in the above table, it shows that all the state-owned petroleum companies have reported their CSR activities in the Annual Report of the company as per the format is given in the CSR Rules 2014 for the Financial Year 2014–15. It indicates that all the state-owned petroleum companies are abiding by the Act. But taking into the voluntary reporting period (i.e. the period before the Companies Act 2013), it means that performing on CSR is voluntary in nature in one sense and reporting of CSR activities in the Annual Report is also voluntary in nature. Since the period is voluntary in nature and therefore the companies did not report the CSR activities in the Annual Report. But taking in to account the mandatory period again, it can be said that the industries are aware of the New Companies Act 2013 and therefore reported their CSR activities in the annual report of the companies.

Comparison of CSR practices Before and After Companies Act 2013

CSR is a term introduced in the Companies Act 2013 but before the Act came into force it was voluntary, i.e., any company willing to spent on CSR can spend. But after the Companies Act 2013 CSR has become mandatory for certain industries those who will fulfil the requirement of the act. Let us compare the CSR practices of state-owned petroleum companies before and after the companies act.

Table 4: Comparison of Pattern of CSR Practices before and after the Companies Act 2013 (in rupees crore)

Companies	CSR after Companies Act 2013 (mandatory period)	Average amount spent as CSR before companies act 2013 (Voluntary period)
BPCL	33.95	26.13
OIL	133.31	49.00
HPCL	34.07	10.88
IOCL	116.01	83.36
GAIL	49.84	68.27
ONGC	495.23	170.63

(Source: Annual Report of BPCL, OIL, HPCL, IOCL, GAIL and ONGC from 2009–10 to 2014–15)

The Table 4 shows the pattern of spending on CSR after the Companies Act 2013 and taking two years average of the amount spent on CSR before the Companies Act 2013. However from the table, it can be seen that out of six industries the amount spent has increased to five companies while in case of one company the average amount spent on CSR before the Companies Act 2013 has decreased.

Comparison of Constitution of CSR Committee and Display of CSR activities before and after the Companies Act 2013

As per the CSR Rule 2014, every company must constitute CSR Committee and must display their CSR activity on the website. However, there was no such provision before the Companies Act 2013. Let us compare the constitution of CSR Committee and Display of CSR activities on the website before and after the Companies Act 2013.

Table 6: Constitution of CSR Committee and Display of CSR Activities on Website

Companies	Constitution of CSR Committee for the FY 2014–15	Display of CSR activity on Website for the FY 2014–15
BPCL	Yes	Yes
OIL	Yes	Yes
HPCL	Yes	Yes
IOCL	Yes	Yes
GAIL	Yes	Yes
ONGC	Yes	Yes

(Source: Annual Report of BPCL, OIL, HPCL, IOCL, GAIL and ONGC for 2014–15)

From Table 6 it appears that the all the state-owned petroleum companies have constituted the CSR Committee and displayed their CSR activities on the website of the industries. It is the mandatory requirement of the companies to constitute CSR Committee and also to display CSR activities on the website as per the CSR Rules 2014. Thus all the industries are fulfilling the requirement of the law, i.e., constituting CSR Committee and also displayed CSR activities on the website.

FINDINGS

The following are the major findings of the study

1. After the Companies Act 2013, OIL spent 187.2% above the required amount followed by ONGC 122.3% and IOCL 100.6%. Whereas HPCL, GAIL and BPCL spent 95%, 65.4% and 43.2% respectively. Again, in the financial year 2014–15, some of the petroleum companies spent more amount than the mandatory amount and some of the companies spent less than the mandatory required amount. But the overall spending of CSR by the petroleum companies are 109.2%, more than the mandatory required amount.
2. Before the FY 2012–13, there is hardly any petroleum company in India spending on CSR. Over the period of time, the spending on CSR activities has increased significantly.
3. All the companies started CSR reporting in the annual report after the Companies Act 2013.
4. All the companies have reported their CSR activities in the Annual Report as per the direction of the Act after the Companies Act 2013 but there was no such reporting before the Companies Act 2013.

CONCLUSION

In the above context, we can say that CSR which was absolutely voluntary or philanthropic in nature for many years but after the implementation of the Companies Act 2013, CSR is included within the purview of the said act. However, all the companies are not required to perform CSR activities but only those companies which satisfy the basic requirements of the CSR Rules 2014 are compulsorily required to perform CSR activities as per the direction of the act.

In India, petroleum companies are significantly contributing towards the CSR. A significant amount of increase in CSR spending practices among the Indian petroleum companies can be seen. As compare to spending practices in CSR by the Indian petroleum companies before the Companies Act 2013 the activeness and the amount of spending in CSR has been increased significantly.

However, it is seen that almost all the petroleum companies did not fulfil the requirement of the Act, i.e., not even spending 2% of the average net profit of the previous three years profit. But the pattern of spending on CSR, the amount spent on CSR after the Companies Act 2013 has increased significantly compared to before Companies Act 2013.

Moreover, for the successful implementation of CSR in India more and more depends on the awareness among the public, participation of NGO's, etc. are required.

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