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Dynamics of CSR in India: Special Reference to Oil and Gas Industry

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Abstract ***The world we live in today is changing. The thing that was acceptable years ago is being questioned today. The shift is from legislation towards morality. And morality is the only question on everyone's mind. Earlier, a company existed by the shareholder value, meaning profits for shareholders. The situation has now evolved and more firms are concentrating on the stakeholder value. The empirical evidences show that those companies that have contributed to stakeholder value have benefited. Corporate Social Responsibility is also part of the shift. This study aims to provide an understanding of the nature of corporate social responsibility (CSR) practices in Indiawith reference to oil and gas industry. The purpose of this paper is to add strength to understand the dynamics in CSR practices and the context in which they are performed. Though post 2013, the amendment and mandatory disclosure. Specifically, it explores the current status and extent of corporate social responsibility activities undertaken and implemented by the oil and gas companies also if the present CSR policy is capable of delivering on these larger issues .The CSR expenditure of these companies during 2013-18 was analysed using content analysis to ascertain patterns and trends in corporate social reporting by Indian oil and gas companies.***

Keywords: Developing economy, Oil & Gas sector, Corporate social Responsibility, Corporate social reporting, ,Pattern study Content analysis, India.

I. INTRODUCTION

The rapid growth post liberalization has made India a global player.The gradual and continual increase in petroleum and allied products have triggered the demand. Every other industry whether in the occupation towards service industry, manufacturing among others has fuelled the demand While the benefits are in large magnitude and ensure modernization and development but the downsides have been alarming in case of environment , livelihood development.The vision of inclusive growth and sustainable development recommends that firms in this sector consider the environment and larger eco-system into their core operations. The massive oilspills , oil-drilling processes, require strict environmental compliance and monitoring. The oil & gas companies have been vigilant in the issue. After regulatory environmental compliance, encouragement for eco-friendly systems and technologies and efforts towards energy efficiency, the amendment of the Companies Act 2013, is a significant step towards legal recognition for sustainable development and corporate social responsibility as an essential factor of major business entities. In an inclusive definition of CSR, (Blowfield & Frynas, 2005) have proposed CSR as an umbrella term that each recognizes that :

(a) companies have a responsibility for their impact on society and the natural environment, at times above legal compliance and the liability of individuals;

(b) companieshave a responsibility for the behaviour of others withwhom they do business (e.g. within supply chains); and

(c) business needs to manage itsrelationship with wider society, for reasons of commercialviabilityortosociety.

II. BACKGROUND

Oil and gas industry has always been in the eyes of regulators for the processes it involves and the magnitude of impact to the environment and the society on the minutest case of negligence , therefore consistent on the ESG construct. These critical issues are the drivers for a focused and sustainable CSR strategy for this sector. The key concerns related to the oil and gas sector are the environmental impact of the industry such as oil spills, the social impact of the industry on local communities and economic difficulties created by the inflow of oil revenues. This is the prime reason , the oil and gas sector has been among the leading industries in championing CSR. The main reason of the oil industries being the spenders is the highly visible negative effects of day-to-day operations such as oil spills and the resulting impacts on the livelihoods and protests by civil society groups and indigenous people. Oil and Gas sector worldwide has been in the scanner of environmentalists, social scientists.

The oil and gas industry has significant critical areas which suggests a robust CSR programme which is referred in the Global Reporting Initiatives (GRI), Oil and Gas Sector Disclosure as well as IPIECA guidelines . The critical areas discussed are as follows

a. **Oil spills and Prevention :**Adequate investments in safety measures and the prevention of oil spills is one of the foremost concern of this industry. The policies and guidelines framework addresses all aspects such as impact on flora, fauna, wildlife, marine life, people, water bodies need to be in place.

b. **Energy Efficiency &Renewables :The**industry has a high impact on GHG emissions and climate change. Oil and Gas companies need to move towards a product mix that consists of renewables. They need to adopt a framework which focuses of product innovation and use with reduced environmental impact.

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c. **Water :O**il and gas companies need relatively large quantities of water depending on the oil extracting techniques.

xtracting ground water from "water stressed" regions, leads to its contamination of water bodies ,chemical leaks, and oil or chemical spills resulting in water pollution and deprives local communities of drinking water.A company must understandthe global water challenges and how it affects and createsrisk .

d. **Collaborate for climate change:T**he oil and gas industry impacts climate change, hence it needs collaborations with users like other industries for reducing impacts as well as customer advocacy. Genuine efforts in this area should be made to find workable solutions.

CSR in developing countries is largely focused on socio-economicissues such as poverty alleviation, community development and health-care, promoting education ,skill development and infrastructuredevelopment, in contrast to the CSR priorities in Western countries such as issues related tobusiness ethics, fair trade, green marketing, climate change and socially responsible investments. Similarly, the CSR domain in India as is defined around socio-economicactivities focusing on meeting the development goals of the country.

The developments and systematic approach in CSR in India followed the mandatory disclosure amendment in the Companies Act. The actions , expenditure , thrust areas have now been clearly defined and moved from being philanthropic to being more strategic. Governments intervention through the amendment in Sec135 of Company Law in 2013,regarding categorizing the thrust areas as well as mandatorydisclosure of the spendings.

III. LITERATURE REVIEW

The presence of CSR and sustainability in the corporate level is defined in numerous ways based on the relevance, necessity, time and/or the context as shown in table no.1

There is no universal corporate sustainability definition Dahlsrudin 2006, conducted content and frequency analyses of 37 definitions of CSR identified five dimensions: the environmental dimension, the social dimension, the economic dimension, the stakeholder dimension and the voluntarinessdimension. The essence of this understanding has been accepted and its emphasis that companies should consider these dimensions rather than externalisingand socialising its costs and privatizing profits.

Table 1: Evolution Of Csr

Defined as	Proposed by	Year
Stakeholder theory	E. Freeman	1984
Corporate Social Performance	D. Wood	1991
Corporate Social Responsiveness	W. C. Fredrick	1994
Triple Bottom Line	J. Elkington	1999
Bottom of the Pyramid	CK Prahalad	2004
Corporate Citizenship	A. Crane , D. Matten, J. Moon	2008
Corporate Sustainability	R. Gray	2010
Shared Value	M. E. Porter, M.R. Kramer	2011
Corporate Sustainability and Responsibility	W. Visser	2011
Conscious Capitalism	J. Mackey, R. Sisodia, B. George	2013

IV. RESEARCH METHODOLOGY

The main criteria of this study was to identify the thrust areas, the efforts on CSR front as a whole, the expenditure pattern and extent of reporting.

The purpose of this paper is

i. To explore the current status and extent of corporate social responsibility activities undertaken and implemented by the oil and gas companies.

ii. To identify if the present CSR policy is capable of delivering on these larger issues based on evidence from the oil and gas sector.

A qualitative methodology is adopted for this study of this dynamiccontext. Content analysis of the relevant CSR policy documents , annual reports , sustainability reports of the organisations identified was carried out . The relevant data on CSR spending and spending pattern was analyzed from their respective websites. The analysis of the extracted data was done with reference to the mandatory disclosure clause of Sec 135 of Company law.

- The research is set post implementation of the Sec 135 amendment in the Companies Act regarding mandatory disclosure of CSR spending (2014-2018).
- 19 companies from oil &gas , drilling , refinery sectors were chosen for the study.
- The Annual reports andSustainability Reportsof these 19 companies were studied in detail and content analysis was done. It coveredall five areas of CSR reporting including environment, health and hygiene, community involvement, education and skill development and others relating to inequality and the employment of disabled people. The paper also studied the spending and spending patternand reasons of not being able to spend the prescribed amount.
- Five of the companies namely Aban Offshore, Haldia Petrochemicals, Chennai Petrochemicals, Mangalore Refinery and Essar Oil reported loss and were not entitled for the expenses.
- Castrol India was not included in the study due to insufficient online data.

V. ANALYSIS AND DISCUSSION

i.Current Status of Corporate Social Responsibility in Oil &Gas Industries: This paper finds that most companies disclosed information on expenditure and the deployment to various projects running and initiated in the said financial year .The analysis is based on the total expenditure done by the O&G industry .

Table2: CSR Expenditure by Oil & Gas sector (in crores)

	2017-18		2016-17		2015-16		2014-15	
	Amount (cr)	No. of Companie	Amount (cr)	No. of Companie	Amount (cr)	No. of Companie	Amount (cr)	No. of companie
Prescribed expenditure	2098.72	15	1856.3	14	1880.46	13	1840.46	15
Actual Spending	2158.4	15	1720.22	14	1720.72	13	1738.29	15
Amount over spent	133.02	7	133.61	4	174.76	5	264.77	5
Amount unspent	74.4	6	130.29	10	334.85	8	375.94	10

Source : Extracted and Consolidated from Annual Reports

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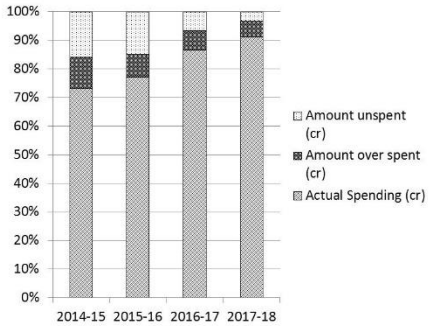
The table above gives the expenditure on CSRby the O&G sector. The data compares the CSR spending for four consecutive years 2014-15 to 2017-18 post amendment of Company's Act.In 2014-15 , 15 companies qualified the 2% criteria based on their three years average profit for CSR expenditure. The total prescribed contribution of the 15 companies in 2014-15 was INR 1840.46cr which increased by 258.26cr INRto 2098.72 cr INR in 2017-18 with a contribution of 15 companies. The data shows the actual spending on a downward trend in the first two years though the prescribed spending showed an upward trend. The spending details in 2017-18 showed shows an optimistic upward trend where the prescribed expenditure as well as the actual spending has gone up. Interestingly the CSR expenditure left unspent / unutilized also has been reduced drastically from 375.4cr INR to 74.4 cr INR .

Further the pattern also shows reduction in surplus CSR expenditure from 264.77cr INR to 74.4 cr INR . It is also found that in 2014-15, the major overspenders were RIL , IOCL and OIL, HPCL and Gujarat Gas company. In allINR 264.77 was overspent. RILalone spentINR 228cr and constituted 86 % of the total overspent amount. One possible reason could be the 2% cap in the expenditure. RIL, IOCL, GAIL, OIL and HPCL were the overspenders. RIL and GAIL constituted 79% of the total overspendings. GAIL in 2014-15 could only spend INR 71.9 cr of INR 118.67cr prescribed CSR expenditure. GAIL had managed to carryover previous years deficit of INR 46.78 cr. RIL saw a steep decrease in the overspending from INR 228.63 cr to INR 42.7 cr which is more than INR 180cr.



(Desai, Pingali, & Tripathy, 2015)identify a potential problem with the 2% rule thatlarge companies, who usually spend more than 2% of their profits on CSR related activities,could "anchor" their CSR spending on the minimum stipulated limits which, in turn, couldactually reduce their CSR spending. This pattern was noticed in RIL and OIL which is evident decrease in the actual spendings. The decrease in actual spending though cannot be only attributed to the 2% clause . The other significant reason was found to be the thrust areas for CSR as specified in the Schedule VII of Sec 135. Activities identified under Schedule VII focus on social development .Many of the projects that were carried out as CSR activities before 2013 were now not a part of schedule VII , like direct benefits to employees and their children , renewable energy projects would be considered as a CSR activity provided it is not a part of the particular company's business. It was seen that in many cases, those projects were accounted in the CSR expenditure could not be included after the amendment.

ii. Reasons furnished for spending less than prescribed: Out of 14 companies in the Oil & Gas sector,10 in 2014-15 and 8 in 2015-16 spent less than their prescribed amount and subsequently to just 6 companies in 2017-18. The unspent amount also saw a reduction from 375.94 to 74.4 crINR since 2014-15 . As per the guidelines it is mandatory to specify reasons for not been able to spend the prescribed expenditure. The organizations have

1. Delayed Projects : In all five companies in total reported delayed projects due to various reasons like the key deliverables could not be accomplished ,

a. Delayed start - committed project delayed

Table no:2

Reasons for not being able to spend prescribed amount	No. of Companies
Delayed	5
Transition phase	4
Lookout for sustainable projects	3
Bills pending hence showing not spend	1

Source : Extracted and Consolidated from Annual Reports.

b. Identified and initiated a few of them though identified and initiated couldnot take of due to circumstantial issues.

c. The major reason of delay was identifying a credible and competent agency for the identified activities

2. Transition phase : The other major reason for not being able to spend the prescribed amount was as the previous activities were in transition phase as the project progress was awaited .In some case the fund allocated in the projects were not utilised fully and theprojects were still ongoingLesser utilisation this FY because of long gestation period 3-5 yrs and in some of them had long gestation period of 3-5 yrs ,therelease of allocated amount depends on the deliverables decided in advance.
3. Lookout for sustainable projects
4. Bills pending hence showing not spend

The Ministry of Corporate Affairs clearly specifies that not being able to spend the prescribed amount cannot be carried forward, it is over and above the prescribed spending accrued to that year . As per mandatory disclosure statement it needs to be specified as to why the prescribed amount could not be utilized in the specified financial year. Failing to specify the reasons of the same the directors in the CSR Committee are liable to pay a penalty and/or an imprisonment.

iii.The spending pattern : CSR Act has clearly defined in the Schedule VII of Sec 135 a list of 11 broadly defined categories and 38 activities (as shown in Annexure I) to be taken up for CSR spendings, any activity beyond the specified items will not considered CSR Spending. The companies normally have identified various thrust areas ich they focusupon.

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Table no.3											
SPENDING PATTERN											
	Schedule VII Categories										
Category	i	Ii	iii	iv	V	vi	Vii	viii	ix	X	xi
No. of Companies	13	15	6	10	3	0	3	1	0	8	3
Source : Extracted and Consolidated from Annual Reports.											

The spending pattern was studied by identifying various heads of CSR fund allocation. The allocation of CSR funds to various categories according to Schedule VII is represented in the table no2. The fund distribution is based on the ongoing and new projects initiated under the defined categories. It was seen all the big spenders followed the schedule VII norms ,where as the low spenders identified certain activities within the CSR thrust areas and focused on them .

iv. Upon analysis of interaction with CSR headsand representativesand thoroughly examining the Government policy it was be inferred that the firms are facing lot of challenges as the amendment is recent and lot of clarity is needed for the same . The challenges faced are as follows:

1.

SR Metrics: The main challenges faced by organisations ismeasuring the financial as well as the non-financial impact of CSR activities. The implications on communities and society at large, and the intangible, impact on the brand and reputation. The CSR metrics should be able to look at long term impact and benefits rather than going after the short term welfare.

2.

he effective deployment of CSR funds: Though there is a steady increase in the prescribed expenditure as well as actual expenditure is seen , but there appears to be a disconnect in what the requirements at ground level and what the companies are allocating money for.The government though has taken a soft stand till now towards corporates with unspent CSR expenditure , but it is committed to add a quality dimension to the CSR spends. With quality dimension in mind, a panel is established to audit the expenditure as it amounts to thousands crores of money. The establishment of panel as has been critically commented by many corporates. But the concern is this huge amount is utilised to its worth and does not become a collection of disparate projects with myopic objectives or even in the run to align the CSR money as “guilt-money” with no or little social impact.

3.

he organisations are focussing more on compliance ratherthan on CSR thrust areas ,thus clearly indicating investment in areas that are priorities for the government. Most of them have alternated it as a compliance and branding exercise with associated tangible benefits. The organisations are still struggling with the issue of identifying right projects, partnering with the right organisation or developing an appropriate in-house department/ foundation for proper implementation of their CSR projects.

4.

echnological intervention: It is the need of the hour to deliberate on how organizations can leverage technology to engage in a better way with the society rather than just investing a part of the revenue towards CSR activities.

5.

he Act is treated as work in progress. Since it was enforced changes have been made , rules are reformulated to make it flexible so as to accommodate discrepancies and necessary inclusion One of the significant changes is the initiative to support social entrepreneurship to create employment and socially beneficial products through venture funds . Boards can now add and suggest amendments to the prescribed list (Schedule VII) if they justify the inclusion within the framework of the Act and Rules.

VI. CONCLUSION

CSR has now come down to clarification and reorientation of the purpose of business. The question is to rethink that the purpose of business is to be profitable, or to serve shareholders/ stakeholders. Ultimately, the purpose of business is to exist responsibly and be responsive to serve society, through the provision to enhance our wellbeing, aligning with the ESG construct. In the words of David Packard, co-founder of Hewlett-Packard :Why are we here? Many people assume, wrongly, that a company exists solely to make money. People get together and exist as a company so that they are able to accomplish something collectively that they could not accomplish separately - they make a contribution to society.

The oil and gas industry is the heart of the sustainability factor owing to the various environmental issues as discussed above like oil spills, water issues, energy concerns leading to significant emissions.Moreover use of oil & gas is highly energy and resource intensive with serious pollution issues. CSR intervention, hence, has ever since been the concern of the Oil and Gas companies but the focus post amendment has become more impact oriented and aligned to a larger cause. Pre 2013 saw a more independent intervention in CSR expenditure with major players spending upto 4% of their profits. The activities were more diverse and random vis-à-vis post amendment which is more causeoriented as well as focussed and aligned to national interest. The present exercise has alsoensured integrating CSR conceptually to the organisations DNA with clarity and coherence . The individual commitment of the companies in O&G sector when analysed finds it more socially responsive.

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Castrol India
Indraprastha Gas
Mahanagar Gas
Mangalore Refinery And Petrochemicals Ltd.
Gujarat Gas Company
Chennai Petroleum Corporation
Essar Oil
Aban Offshore
Haldia Petrochemicals

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