

# A STUDY ON CORPORATE GOVERNANCE TOWARDS CSR PRACTICES

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## Abstract

Corporate governance and CSR are two sides of the same coin. The practice of effective corporate governance is the first step toward CSR. Following laws and regulations, being transparent and accountable, and making decisions in the best interests of the people are all examples of good governance. Corporate governance and CSR are both important in shaping the objective function and the constraints that companies face. The paper focused on the Corporate Governance towards CSR Practices of selected Maharatna CPSEs. The aim of study the concept and board of directors and CSR Committee Chairman and Member. The study concluded that, to increase CSR adoption, the study may need to increase the vigilance and capacity of the regulatory and judicial systems in the context of CG reform.

**Keywords:** Corporate Governance, Corporate Social Responsibility, CSR Committee, CPSEs, Laws and Regulations

## 1.Introduction

The practice of corporate social responsibility is a step in the direction of effective corporate governance. The companies that practice good corporate governance are also those that are socially and environmentally responsible. CSR has made India the only country which has regulated and mandated for qualified categories of companies registered under the Companies Act, 2013. Section 135 of the Act said every company having net worth >Rs.500 crore, turnover >Rs.1000 crore and net profit >Rs.5crore in the three preceding financial years. The employees and stakeholders including the shareholders have an important function to perform as far as the twin objectives of good corporate governance and the practice of CSR are concerned. An effective corporate governance means that internal democracy and external responsibility go hand in hand, all the stakeholders have a duty towards the company to persuade the management to follow ethical and social norms of doing their business. This is an indication of what has been called shareholder activism and stakeholder involvement which means that the entire stakeholder and the shareholders can exercise power over the actions of the board and the management to guide them towards the practice of good corporate governance and CSR. In the study concentrates Corporate Governance towards CSR Practices of selected Maharatna CPSEs.

### Maharatna CPSEs

The following criteria are eligible to be considered for grant of Maharatna status in CPSEs:

- owning Navaratna status
- Listed on the Indian stock exchange, with a minimum prescribed public shareholding as per SEBI regulations
- An average annual turnover > Rs. 20,000 crore during the last three years
- An average annual net worth > Rs.10,000 crore during the last three years
- An average annual net profit > Rs. 2,500 crore during the last three years
- Vital global presence or international operations

## 2. Review of Literature

**Nava Subramaniam et al. (2017)**<sup>1</sup> their study provides evidence on the governance of CSR policies and activities by Indian central government-owned companies i.e. Central Public Sector Enterprises within a mandatory regulatory setting. An interview data collected from 25 senior managers in 21 CPSEs to assess the dynamics of CSR implementation within CPSEs. The findings indicated most managers believe that a mandatory policy has enhanced the accountability and commitment of governing boards and senior management to CSR.

**Dima Jamali et al (2010)**<sup>2</sup> their study focused on a distinction between two types of healthcare organizations (profit and non-profit), this paper aims to investigate sound governance principles across different types of healthcare organizations in the context of a developing country, together with understanding of corporate social responsibility. The study is based on a qualitative interpretive methodology, comprising in-depth interviews with top hospital executives drawn from 21 Lebanese hospitals describing both the profit and non-profit varieties. The findings suggested basic governance differences between for profit and non-profit hospitals in terms of managerial structure, ownership and the role of the board of directors, as well as orientations towards corporate social responsibility. There is a general lack of understanding and corporate governance best practices in for-profit hospitals, whereas non-profit hospitals are more in line with corporate governance best practices, and more aware of corporate social responsibility.

**Dima Jamali et al (2008)**<sup>3</sup> their paper seeks to highlight the increasing cross-connects or interfaces between Corporate Governance and Corporate Social Responsibility, insights from a developing country perspective. The researchers used qualitative interpretive research methodology was adopted, drawing on in-depth interviews with the top managers of eight corporations operating in Lebanon. The findings suggested that the majority of managers conceive of Corporate Governance as a necessary pillar for sustainable CSR. These findings are significant and interesting, implying that recent absorption with CG in developing countries is starting to be compensated by some interest to CSR and the need to move beyond CG conformance toward voluntary CSR performance.

## 3. Objectives of the Study

- ✚ To study the Corporate Governance towards CSR Practices of Selected Maharatna CPSEs.
- ✚ To know the grading and number of Board of Director, CSR Committee Chairperson and Member of selected Maharatna CPSEs.

## 4. Research Methodology

For the study five selected Maharatna CPSEs as on November, 2022. The list of the selected Maharatna CPSEs are as follows;

1. Bharat Heavy Electricals Limited (BHEL)
2. GAIL India Limited (GAIL)
3. Hindustan Petroleum Corporation Limited (HPCL)
4. Oil and Natural Gas Corporation Limited (ONGC)
5. Steel Authority of India Limited (SAIL)

**Data Source:** The study is entirely based on the secondary data. The data were collected from various websites, company's annual reports, journals, articles, etc.,

## 5. Corporate Governance towards CSR Practices of Selected Maharatna CPSEs

### 5.1 Bharat Heavy Electricals Limited (BHEL)

BHEL operates within a strong Corporate Governance framework that emphasizes commitment to quality governance, transparency disclosures, consistent stakeholder value enhancement, and corporate social responsibility. BHEL aims to go far beyond the regulatory framework and basic requirements of Corporate Governance, consistently focusing on gaining the trust of its various stakeholders, including shareholders, customers, employees, suppliers, and society at large. The company has created a framework to ensure transparency, disclosure, and fairness to all stakeholders, particularly minority shareholders. BHEL's Corporate Governance framework is built on four pillars: transparency, full disclosure, independent monitoring, and equity for all. To strengthen this, BHEL has signed an MoU with Transparency International to adopt 'Integrity Pact'. The corporate structure, business procedures, and disclosure practices are all in good working order.

- ✓ The following principles help to strengthen corporate governance at BHEL:
- ✓ The Board's independence and versatility
- ✓ All personnel's integrity and ethical behaviour

- ✓ Acceptance of obligations to all stakeholders - shareholders, customers, employees, suppliers, and society
- ✓ High levels of disclosure and transparency v. Complete compliance with all laws in all areas in which the company operates
- ✓ Achievement of the aforementioned goals while remaining compassionate to people and environment

The company believes that conducting business in accordance with the Corporate Governance procedures and Code of Conduct exemplifies each of the core values and positions BHEL to deliver long-term returns to shareholders, favourable outcomes to customers, attractive opportunities to employees, and making suppliers the company's partners in progress and societal enrichment. BHEL has identified Seven Thrust Areas for its CSR initiatives. These are detailed in the CSR policy of BHEL. All of the activities in these thrust areas correspond to the activities and areas listed in Schedule VII of the Companies Act of 2013.

## 5.2 GAIL India Limited (GAIL)

The company believes that good corporate governance is essential for fostering a positive organizational culture. It is displayed to stakeholders through responsibility, accountability, consistency, fairness, and transparency. In accordance with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and DPE guidelines on Corporate Governance. The details of the Board's meetings and composition, the details of the Board's statutory committees' meetings and composition, including the terms of reference, the Company's policy on Directors' appointment and remuneration, as well as their shareholding in the Company, the details of the establishment of a whistle - blowers mechanism, the details of the Annual General Meeting, information pertaining to the Dividend declared, IEPF Details and other matters, etc. form part of the report on the Board. There are no significant and material orders issued by regulators, courts, or tribunals that will have an impact on the Company's going concern status and operations in the future. The Company's Statutory Auditors examined and certified the Company's compliance with the conditions outlined in the SEBI (LODR) Regulations, 2015 and the DPE guidelines on Corporate Governance.

The company remains committed to undertaking CSR projects that benefit the communities in and around its work centres and result, over time, in improving the local populace's quality of life and economic well-being. Organization takes a multi-stakeholder approach, working with communities, government and non-government organisations, academic institutions, and others to identify emerging issues, develop projects, and effectively respond to challenges. To maximize sustainability, scalability, and transparency, the company strives to follow best practises in identifying, implementing, sustaining, and monitoring its CSR interventions. The company believes that responding to people's needs, benefiting communities, and protecting the environment will ultimately lead to the larger community's goal of sustainable progress.

## 5.3 Hindustan Petroleum Corporation Limited (HPCL)

HPCL believes in good Corporate Governance practices, ethics, fairness, professionalism, and accountability in order to increase the value and interest of its stakeholders on a long-term basis and to create an environment of trust and confidence among its stakeholders. Corporate Governance at HPCL refers to the systematic processes, policies, rules, regulations, and laws by which companies are directed, controlled, and administered by management in order to meet the aspirations and societal expectations of stakeholders. HPCL places a premium on conducting its business in accordance with policies, internal and external regulations, and in a transparent manner. As a Government Company, its operations are scrutinised by several external authorities, including the Comptroller and Auditor General of India (CAG), the Central Vigilance Commission (CVC), and Parliamentary Committees, among others. HPCL's Corporate Governance is based on the following main principles and practices:

- ✓ Well-developed internal controls, systems and processes, risk management, and financial reporting;
- ✓ Full adherence and compliance with laws, rules, and regulations;
- ✓ Timely and balanced disclosures to stakeholders of all material information on operational and financial matters;
- ✓ Clearly defined management performance and accountability;
- ✓ Improved accuracy and transparency in business operations, performance, and financial position.

The Company, for example, has a well-defined Policy framework for effective Corporate Governance implementation. These policies framework includes Director and Senior Management Personnel Code of Conduct, Integrity Pact to improve transparency in business operations, Public Grievance Redressal Mechanism, Whistleblower Policy, Manual of Authority Limits and Procurement Handbook.

The Corporation fulfilled its CSR obligation by implementing a variety of CSR initiatives in the focus areas of Childcare, Education, Healthcare, Skill Development, and Community Development. CSR Policy also states that any surplus resulting from CSR projects, programmes, or activities shall not be included in the Company's business profit.



#### 5.4 Oil and Natural Gas Corporation Limited (ONGC)

The company is committed to conducting business in a legal, ethical, and transparent manner, and it adheres to the highest standards of corporate governance. As a result, the Company has been consistently rated "Excellent" for its compliance with the DPE Guidelines on corporate governance. As the country's leading energy explorer and one of the largest diversified energy conglomerates, committed to helping secure India's energy supplies safely and sustainably for years to come by adhering to ethics and transparency and adhering to the highest standards of corporate governance.

ONGC has been reaching out to marginalised and deprived sections of local communities and bridging developmental gaps through its CSR Programs, primarily in the thrust areas of Healthcare, Sanitation, Education, Skill Development, Promoting Art and Culture, Disaster Management, Environmental Conservation, and other focus areas specified under Section 135 of Schedule VII of the Companies Act, 2013. The Company's developmental activities have been consciously directed toward improving the country's Human Developmental Indices, thereby meeting the objectives of the United Nations Sustainable Development Goals.

#### 5.5 Steel Authority of India Limited (SAIL)

The company is committed to the highest corporate governance standards, which are reflected in its vision and credos. The Company's Corporate Governance philosophy is to ensure transparency, disclosures, and reporting that fully conform to laws, regulations, and guidelines such as the Companies Act, 2013, SEBI (LODR) Regulations, 2015, and DPE Guidelines, and to promote ethical conduct throughout the Organization, with the primary goal of increasing shareholder value while being a responsible corporate citizen. SAIL has policies in place to ensure transparency, accountability, disclosures, and reporting. Ethical conduct is promoted throughout the Organization with the primary goal of increasing shareholder value. SAIL's efforts as a responsible corporate citizen and nation-building partner have been recognized through awards and accolades. The company believes that building trust will improve its reputation and increase the trust of its investors and stakeholders. In accordance with this, SAIL has been proactively and regularly sharing critical information with all stakeholders through the use of various communication channels.

The social goal of SAIL is synonymous with corporate social responsibility. Aside from manufacturing steel, your company's goal is to conduct business in ways that provide social, environmental, and economic benefits to the communities in which it operates. For any organization, CSR begins with an awareness of the impact of its operations on society. Your company has been structuring and implementing CSR initiatives since its inception, with the underlying philosophy and credo of making a meaningful difference in people's lives. These efforts have resulted in the transformation of once-obscure villages, where SAIL plants are located, into large industrial hubs. Company's CSR initiatives have always been carried out in accordance with the Companies Act, 2013, the Companies (corporate Social Responsibility Policy) Rules, 2014, the Companies (CSR Policy) Amendment Rules, 2021, and the DPE Guidelines on CSR & Sustainability, 2014. SAIL implements CSR projects in and around steel townships, mines, and remote locations across the country in the areas of rural development such as maintenance of Model Steel Villages, education, healthcare, immunisation, ante/post-natal care, access to drinking water, sanitation, road side tree plantation, environment sustainability, women empowerment, assistance to senior citizens, sustainable income generation through self-help groups, and promotion.

#### Grading of CPSEs on the basis of compliance with Guidelines on Corporate Governance of CPSEs for the Year 2020-21

S.No	Maharatna CPSEs	CPSEs Letter Received	Grade
1	BHEL	(No. 12-(11)/2015-PE-XI dated 13.04.2021)	Excellent
2	GAIL	(No. ND/GAIL/SECTT/2021 dated 13.04.2021)	Excellent
3	HPCL	(No. Co. Secy./VM/527/2021 dated 16.11.2021)	Excellent
4	ONGC	No. CA-31037/3/2018-PNG (25877) dated 3.12.2021)	Excellent
5	SAIL	(No.13/2019-Coord (FTS 9114) dated 31.05.2021)	Excellent

Source: Department of Public Enterprises

#### Number of Board of Director, CSR Committee Chairperson and Member

Year	Particulars	BHEL	GAIL	HPCL	ONGC	SAIL
2017-18	BOD	16	16	15	16	14
	CSR Committee	7	4	5	6	7
2018-19	BOD	11	16	16	18	16
	CSR Committee	9	4	7	5	8
2019-20	BOD	13	19	16	10	11
	CSR Committee	7	4	4	4	4

2020-21	BOD	9	14	11	8	10
	CSR Committee	7	4	5	4	4
2021-22	BOD	12	15	14	13	13
	CSR Committee	6	4	4	8	6

Source: Company's Annual Report

## 6. Conclusion

Good governance and social responsibility can also help companies in making a positive social impact and contributing to society's overall well-being. This research makes two significant contributions. It implies a clear two-way relationship and growing overlap between Corporate Governance and Corporate Social Responsibility. This paper makes the case for considering them all at once and in a systematic manner. Practitioners must account for the fact that CG and CSR have more in common. To increase CSR adoption, the study may need to increase the vigilance and capacity of the regulatory and judicial systems in the context of CG reform.

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