

The CSR Opportunity for Image Building in Oil Marketing Companies in the Context of India's Fuel Pricing Policy

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Abstract

The downstream oil industry in India is perhaps the most dysfunctional of all Government controlled sectors and the hitherto 'National Champions' have seen a significant deterioration in their equity among major stakeholders. As companies that were already in the forefront of CSR even before it was fashionable or mandatory the Oil marketing PSUs have not been able to fully unlock the opportunities for utilising long CSR plans in bridging the increasing perception that they are loss making entities slowly dying out as just another set of Public Sector Enterprises. PSUs, as per their very structure, have a top down approach to CSR and much of the implementation is being done by their HR personnel who may not have the requisite professional skills to conceive and implement long gestation CSR projects. In addition there is a serious lack of communicating CSR successes aligning it with the Brand promotion strategy, an opportunity that the OMCs can fully explore.

Key Words: CSR Branding Communications, Oil Marketing PSUs, Corporate Image, Companies Bill 2011, Retail Autofuels Pricing, Government of India Policy, Social Reporting, CSR Foundation

Introduction

The Ministry of Petroleum and Natural Gas in India administratively controls a mixed bag of companies in the upstream, downstream and gas business like ONGC, IOCL, BPCL, GAIL and others. There is even an engineering and construction PSU like EIL. The prominent among these companies are the downstream petroleum companies, those that are in the public eye, in the news for hiking the prices of petrol, diesel and kerosene. These companies – IOCL, BPCL & HPCL - that sell auto fuels and domestic LPG are also known as Oil Marketing Companies (OMCs). The OMCs are

independent corporates, listed on the stock exchange, but in many ways controlled by the Government of India. The OMCs are the largest of its kind in the country, find themselves in several Global (Fortune Global 500, June 2012) and National sales (ET 500, Business Standard 1000) rankings lists and in an oblique sort of way faithful to shareholders, especially the majority kind who are determined to run them to the ground; making them sell products and services below an equitable return of investment.

The downstream PSU petroleum companies in India are seen as the face of the Government's policy on fuel prices and bear the burden of the perceived high cost of auto fuels. They are seen as poor investor brands in a modest list that would prominently feature RIL or ONGC as good stocks. The OMCs, repeatedly in the limelight and showcased ubiquitously in television news flash visuals during periodic price hikes, have a rich history as companies set up by the Government and nationalised to provide energy security to the country (B.K. Bakhshi, 2009/Biplab Dasgupta, 1978).

Over the last decade there is a growing perception that the OMCs are consistently loss making and in the process decaying as corporate entities. The angst against the Government for constantly increasing fuel prices is often transferred to the OMCs. Oil price rise has been a global trend and the supply for oil and gas is guided by a combination of factors the major of which are Supply and Demand, Trading Speculation, the US Dollar's exchange rate, political disruptions, geo-political conflicts and actions by cartelised supplier groups. For a very long period, between 1861-2010, roughly 150 years, oil prices adjusted for inflation (in 2010 dollars) have been in the \$10-30 range for all but about 35-40 years (www.wtrg.com).

Initially, the consumption of Petroleum products in India was largely steady but soon in the 1980's and 1990's it increased and import of petroleum products soared from 2.2 million tonnes in 1975 to nearly 18 million tonnes in 1995. Today, we import almost 80% of our petroleum needs and there has not been any long term action plan to ensure our energy self sufficiency though we do have quite a few vision documents that sound promising. The dearth of any meaningful long term policy on retail fuel prices has led to the OMCs having dysfunctional balance sheets. Though there is a public perception of losses, the PSEs are to a large extent compensated through a fairly convoluted and complicated mechanism that is often put up to public scrutiny within the government and outside by the Media (Energy Digest).

The once feted OMCS often praised as 'National Champions' or the 'pride of the Nation' are today seen as pale shadows of their former self. However, the companies themselves have not made any significant effort to change this perception, besides offering plaintive cries that they need to 'stay healthy for the sake of the nation', often referring to their 'contributions to society, nation' and their roles in 'meeting the energy needs of a growing nation...'. Among all the companies in the Government sector, the petroleum companies have been contributing to society much before the word CSR became fashionable in India.

Evolving CSR in India

Before the 1990s, private and public sector companies were doing community

development which is a sort of basic form of CSR. The Public Sector, more focused on CSR due to their social mandate, was intricately woven as it were into the larger command economy model of socialist development. Targeted at immediate communities, living in the vicinity of their respective production units or plants, such CSR also included some 'Good Citizenry' which meant doling out tree guards, gardens in roundabouts, bore wells in localities as well as sewing machines for women welfare. Structured Corporate Social Responsibility was a relatively new phenomenon in India, which increased perhaps after the early 1990s liberalisation when there was a sudden growth of private Indian companies who were suddenly crowned the "New National Champions", largely in the IT, Telecom, BPO, Pharma space. These New National Champions were from the private sector and even acquired a 'Nationalistic MNC' halo and gained good mileage for their CSR projects.

There are different perceptions of what CSR should mean from different societies across the world. In the United States, it has been defined much more in terms of a philanthropic model. Companies make profits, unhindered except by fulfilling their duty to pay taxes. Then they donate a certain share of the profits to charitable causes. It is seen as tainting the act for the company to receive any benefit from the giving. The European model is much more focused on operating the core business in a socially responsible way, complemented by investment in communities for solid business case reasons (Isabelle Maignan & David Ralston).

The Parliamentary Standing Committee on Finance, headed by the former Finance Minister, Yashwant Sinha, first proposed that companies with a turnover of Rs 1, 000 crore or net profit of Rs 5 crore or more should earmark 2% of their net profit for the preceding three years on CSR. This was immediately seen by India Inc as an unwarranted intrusion into its affairs and which they suspect will lead to harassment by vexatious inquiries by government inspectors to verify the mode and extent of compliance with the law.

Interestingly, when the Companies Act, 1956, was promulgated there were only 30, 000 companies in the country while in 2012, there were 8, 50, 000 firms in India. It introduces concepts like responsible self-regulation with adequate disclosure and accountability, ushers in enhanced shareholders' participation and provides for a single forum to approve mergers and acquisitions. In a debatable level playing field, the Bill says that all companies must "ensure" they spend at least 2 per cent of their net profit towards corporate social responsibility (CSR) activities, a move that has drawn both criticism and appreciation from the stakeholders but one that promises to change the way CSR has been perceived so far. CSR would also be mandatory for companies like their tax liabilities (Draft Companies Bill 2011).

Flagging CSR investments in Central PSUs

But is the Government setting the benchmark? Quite a few Blue-chip Central Public Sector Enterprises like Coal India, ONGC and SAIL have not fully utilised their funds allocated for undertaking corporate social responsibility (CSR) projects in 2011-12 (Economic Times, May 23rd, 2012). Of the five Maharatna PSUs, four of them — Coal India, ONGC, IOC and SAIL — have not fully used funds earmarked for CSR in

the last fiscal. During 2011-12, CIL earmarked an amount of Rs 553 crore but spent merely Rs 77 crore while ONGC allocated Rs 378 crore and utilised only Rs 121 crore, the figures tabled in the House said (The Hindu Businessline, Dec 11, 2012)

SAIL allocation was Rs 64 crore and utilised amount was Rs 61 crore, for carrying out CSR activities. However, NTPC exceeded the limit of allocated amount for carrying out CSR activities in the last fiscal. As regard to 16 Navratna PSUs, 4 of them — BHEL, GAIL, Hindustan Petroleum and RINL — have not fully utilised the allocated amount for carrying out such projects, the figures showed. However, another five Navratna PSUs — Bharat Petroleum, National Aluminum Company, Oil India, PFC and Rural Electrification Corporation — have fully utilised these funds during the period under review.

Another six Navratnas — Bharat Electronics Ltd, Hindustan Aeronautics, NMDC, Neyveli Lignite Corp, Power Grid and Shipping Corporation have exceeded the limit of allocated amount. According to the guidelines on CSR for CPSEs, the CSR budget has to be mandatorily allocated through a board resolution as percentage of net profit in the previous year. PSUs whose net profit is less than Rs 100 crore have to contribute 3-5 per cent of their income for CSR while PSUs with profits between Rs 100-500 crore would be required to earmark 2-3 per cent. Further, those companies earning a profit of Rs 500 crore and above, CSR spending should be between 0.5 to 2 per cent of their net profit. However, the jury is out on whether such mandatory allocation is democratic in the first place (S. Jaganathan, HT Mint, Feb 24, 2013). The OMCs are operating under a different circumstance where their CSR could deliver more value.

Conclusion: Branding CSR and Communicating Effective Narratives

Despite the recent trend in professional CSR there has also been a rather unflattering view of charity in most 'promoter' companies. It is seen as a mere 'socialite' activity. One satirical observation was that 'Social Work was a way for Indian businessmen to keep their Mother's and Daughter-in-Laws in Employment...' (Manu Joseph, The Open, June 2012). Family plays an important role in India...in companies too! Across the country, there is an established practice to put name plates of Parents and Family legends on park benches, educational institutions, hospitals and water fountains. In many cases the contribution is drawn from family trusts but quite a few even come from the CSR funds of listed companies headed by 'Promoters'.

Among the few Indian companies known for aligning good CSR and Corporate Governance with business has been the House of Tatas. Tata companies are known for being good paymasters, having a caring culture, including the setting up of integrated townships providing efficient municipal type services. The group is also known for being ethical, counted on to doing the right thing and its profits often ploughed back to society through a maze of trusts and holding companies. Besides this, the group was also known for pioneering many industries in fields such as Aviation, Steel, Hospitality and Automobiles amongst others. The positive impression of the 'CSR' activities of the Tata Group often impacted on the larger Corporate Image of the Group, if that distinction was ever to be made (Srivastava, Negi, Vipul Mishra & Shraddha Pandey, IOSR)

At an implementation level, CSR often mixed with welfare activities most often driven by HR departments. But soon Indian promoters started recognizing the need for a focused external approach that took CSR out of the organization. With the markets recognizing the importance of the 'Promoter Face' in the company's image, the lines between Corporate Image, CSR image and the 'Promoter Reputation' often coalesced. This perhaps started a tendency among private Indian listed companies to set up 'Foundations'. Recent studies indicate that 55 % of large Indian companies have established foundations working mainly in the areas of education, health and rural development. Their number has increased steadily in the last few decades and is set to increase with the passing of the New Companies Act with its much discussed clause of 2% mandatory CSR spending (Christiana Peruzzo, Innovaid CSR Advisory).

The CSR image of the Company and its Corporate Image are not distinct. But in the Public Sector the scenario is slightly different. While there is an acknowledgement that the PSUs have a social role (CSR Image) which they may be fulfilling the organisational reputation (Corporate Image) is one of 'inefficiency' which is a bit of a conundrum. Much of the CSR activities drawn up by the OMCs have not really caught the imagination of the general public though there is an acceptance that they have been doing some good community service. Communicating CSR efforts is as important as undertaking them. The top three reasons for rolling out CSR projects by companies, irrespective of what sector they come from, is Image Perception, Goodwill and Branding (TF-TNS CSR Survey, Times Foundation, 2013)

The opportunities for the OMCs to recapture the lost ground of their Corporate Image are many and a broad outline of a proactive approach would be,

To formulate a CSR strategy that is more forward looking and aligned to not just the Corporate Vision but also the Corporate Image Promotion Strategy. Such a strategy would need to go beyond just Press Releases, Conferences and Events. The CSR projects being implemented by the OMCs could be presented in a strikingly visual narrative story that would reach out to a combination of mass audiences and opinion leaders.

To give CSR efforts long term sustenance and enable the emergence of 'concrete' success stories to communicate, the OMCs can set up independent 'Foundations' that represents the Company's brand image but operates externally. This would free up internal HR and Administrative resources from being engaged in CSR projects for which they may not have sufficient professional competencies. In addition, it may give CSR projects the required focus from a customized team, notwithstanding the clear accounting advantage and ease in tax compliance.

Since they are Government owned, the biggest challenge for OMCs is to prevent the encroachment of positions by the Civil Service hierarchy; eager to find parking spaces in PSU organisations (this has been the experience of one of the OMCs who attempted a Foundation). Top Management leadership is vital to prevent this and a start could be to professionally decentralise the structure of the Foundation and prevent its formation in the National Capital.

Studies have also shown that there is a greater need for Communications specialists to present social reporting through Annual Reports from an Accounting perspective (Lorraine Sweeny & Joseph Coughlan, 2008). A reading of the Annual

Reports of the Top Ten companies in India, based on sales turnover, shows that those with dedicated 'Foundations' had a more qualitative style of reporting.

The opportunity for the Oil Marketing Companies is to restructure their CSR models, bring in more professional inputs, explore possibilities of setting up 'Independent Foundations' that can be firewalled against outside influences resulting in a better implementation of CSR programmes in the long term. It would also help in building a 'Narrative' of the flagship projects which can then be effectively communicated in conjunction with the larger Corporate Image promotion policy. Ultimately, it will help them bridge the perception that they are loss making entities and convey to stakeholders the positive consequences of their good deeds.

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