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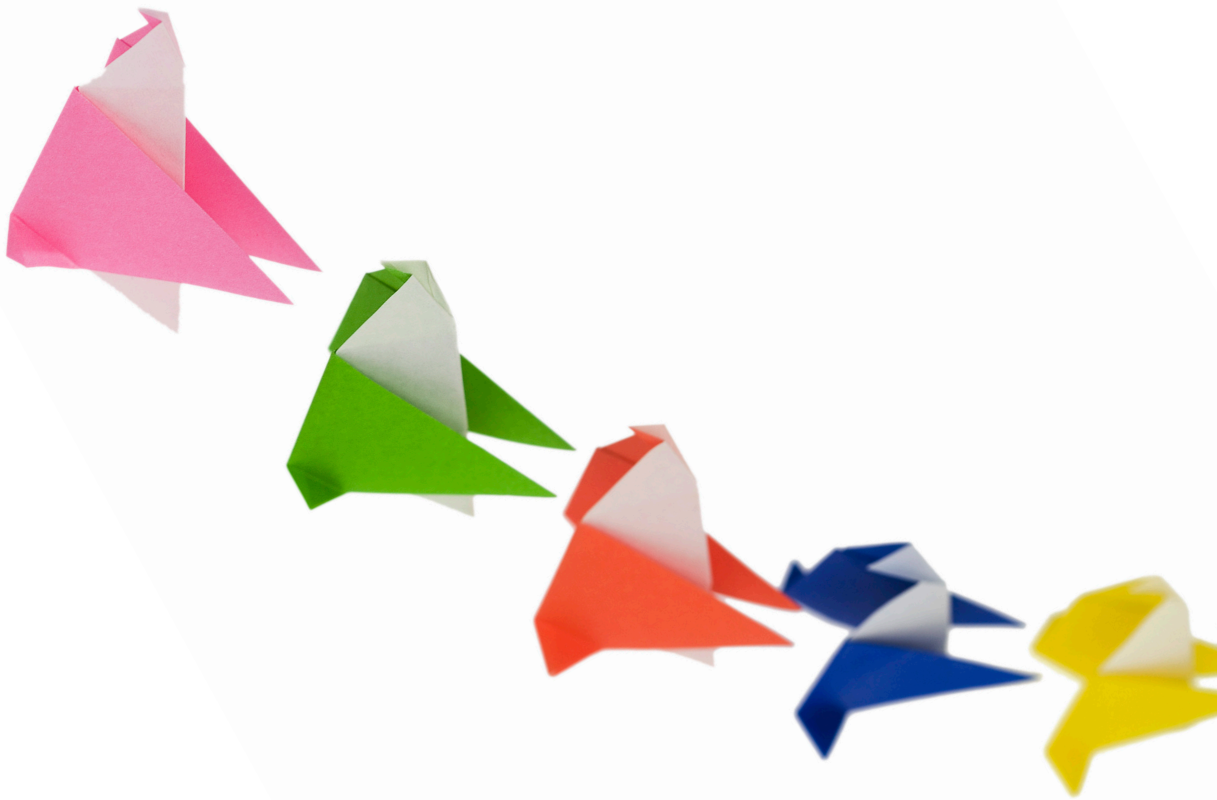

Public sector enterprises in India
Pursuing the triple bottom line

September 2011
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List of Abbreviations

BoD	Board of Directors
BSC	Balanced Scorecard
CenPEEP	Centre for Power Efficiency & Environmental Protection
CET	Centre for Engineering and Technology
CIAL	Coal India Africana Limitada
CIL	Coal Indian Limited
CMD	Chairman and Managing Director
CPSE	Central Public Sector Enterprises
CSR	Corporate Social Responsibility
DPE	Department of Public Enterprises
E&P	Exploration & Production
EPMS	Employee Performance Management System
ERP	Enterprise Resource Planning
FICCI	Federation of Indian Chambers of Commerce and Industry
FPO	Follow on Public Offer
GDP	Gross Domestic Product
GFSI	Global Financial Services Industry
GNOP	Greater Nile Oil Project
GoI	Government of India
HR	Human Resources
ICVL	International Coal Ventures Pvt. Limited
IOCL	Indian Oil Corporation Limited
IOF	Indian Oil Foundation
IPO	Initial Public Offering
IT	Information Technology
JV	Joint Venture
KPA	Key Performance Area
KRA	Key Result Areas
M&A	Mergers & Acquisition
MMT	Million Metric Tons
MoU	Memorandum of Understanding
NTPC	National Thermal Power Corporation
ONGBV	ONGC Nile Ganga B.V
ONGC	Oil and Natural Gas Corporation
OVL	ONGC Videsh Limited
PAR	Performance Appraisal Report
PBT	Profit Before Tax
PDVSA	Petróleos de Venezuela, S.A.
PIVSA	Petrolera IndoVenezolana SA
PMS	Performance Management System
PRC	Pay Revision Committee
PRP	Performance Related Pay
R&D	Research & Development
RC	Remuneration Committee
RDCIS	Research and Development Centre for Iron and Steel
RINL	Rashtriya Ispat Nigam Limited
SAIL	Steel Authority of India Limited
TBL	Triple Bottom Line
USAID	United States Agency for International Development

Table of contents

Message from Consulting Leader – Deloitte India

In the mid-nineties, John Elkington coined the term "triple bottom line" (TBL). It helped to develop a three-dimensional measurement framework of corporate performance. It added two other dimensions to measurement of results apart from financial — environment and social. Today, the three dimensions are people, planet and profit, which lead to sustainable development. Sustainability is underpinned by the well being of corporate, labour and other stakeholder interests that are interdependent.

The "People Bottom line" (human capital) pertains to fair and beneficial business practices toward employees and the community.

The "Planet Bottom line" (natural capital) refers to sustainable environmental practices. Sustainability and global warming are real and critical issues that global businesses must deal with.

The "Profit Bottom line" is the ability of an enterprise to create economic surpluses. Without profits, enterprises would be unsustainable.

Thus, evaluation of corporate performance in the future must include environmental and social dimensions in addition to economic results.

Globally and in India, there are a number of case studies of large corporations which have undertaken significant initiatives towards sustainable development by embedding TBL principles in to their core business processes. Many of these corporations have also adopted standard frameworks like the Global Reporting Initiative to monitor and report their TBL performance.

It is encouraging to see that Indian Public Sector Enterprises (PSEs) have also started taking significant strides as far as TBL is concerned. PSEs in India have always been significant contributors 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. With most of the key CPSEs charting their Corporate Social Responsibility (CSR) plans on the back of the Department of Public Enterprises (DPEs) CSR policy, we expect them to play a key role in promoting sustainable development.

Our attempt in this publication has been to highlight the key drivers underlying TBL initiatives in CPSEs as well as select implementation case studies. Hope you find it useful and interesting.

Roopen Roy
Consulting Leader,
Deloitte India

Message from President ICC

Shrivardhan Goenka
President
Indian Chamber of Commerce

In many developed and developing countries, public enterprises have a major role to play in their economic development, and they contribute significantly to the gross domestic product. India is no exception, with public enterprises playing a prominent role in industrialisation and economic development. Furthermore, central public sector enterprises or department-owned enterprises dominate the infrastructure sectors in India such as railway, post and telegraph, ports, airports and power.
PSEs have adapted well to changing market dynamics and have taken advantage of business opportunities created by liberal economic policies. On the banking front, compared with banks globally, Indian public sector banks have stood their ground and done well to weather the global economic crisis that erupted in 2008 and caught people unawares. The economic slowdown has brought forward a new era in the history of public sector enterprises with their importance in the developing economy being re-established.

During recent years, disinvestment of PSEs has gained significance. PSEs are making substantial disinvestments in several ways including strategic sale to private entities and raising funds through an initial public offering (IPO), or follow on public offer (FPO). Disinvestments by central PSEs through various routes are an indication of the strategic measures adopted by PSEs for becoming more competitive.

Most of the countries across the world has adopted the mixed economy framework that allows for the role of both the public and the private sector (Commercial) enterprises.

In the historical context, whereby the governments in the less developed economies established public sector enterprises to catch up with the more advanced economies. The other classis example of public sector enterprises is to be seen in the specific case of 'natural monopolies' that promises to provide services to the public at low cost.

The eminent role played by the public sector enterprises in India in the industrial and overall development of country is well acknowledged. The country today has a strong and vibrant economy. Globalization and the falling rates of interest and tariffs have forced both the public sector and the private sector in India to operate under more competitive environment. Competition may be summed up as higher total factor productivity, which is a function of economies of scale, better technology, more informed management and improved organizational structure. Both the public and private sector have, in general, withstood the competition and in the process have to become more competitive. The private (Corporate) sector in India has gone offshore and so has the public sector enterprises. They continue to create wealth for the country and it should be our endeavour to encourage the public sector to perform better.

Public Sector Enterprises have made a major contribution to the economic growth of the country by creating a diversified industrial base. Some of the CPSEs have had strong financial result over many years and recently some more have turned the corner.

Moreover, in view of the high economic growth witnessed in the Indian economy and the prospect of higher growth in the near future, the size of the domestic market is increasing. When seen together with possibilities and potentialities of exports, there are newer opportunities for our public sector that should be taken advantage of in the year ahead.

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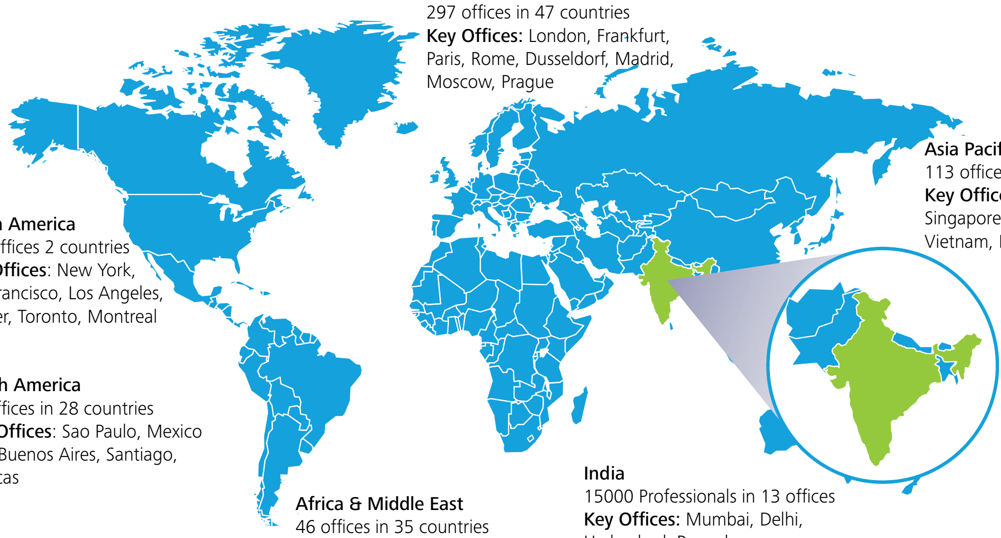
Deloitte: Global network - 140 countries : 182,000 people



Deloitte is a multifaceted professional services firm that offers the breadth of Consulting, Audit and Enterprise Risk Services, Tax, and Financial Advisory services. These services offered by Deloitte to its clients have helped develop an in-depth understanding of various sectors like Public Sector & Government, Healthcare and Life Sciences, Manufacturing, Aviation, Transport and Infrastructure, Energy and Resources, Consumer Business, Global Financial Services Industry (GFSI) etc. Deloitte today is considered a service provider of choice to government entities and public sector organizations over the world. Deloitte brings together a unique combination of experience, scale, and capabilities to help clients address their most complex business problems.

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Deloitte presence in India

About Indian Chamber of Commerce

Founded in 1925, Indian Chamber of Commerce (ICC) is the leading and only National Chamber of Commerce operating from Kolkata, and one of the most pro-active and forward-looking Chambers in the country today. Its membership spans some of the most prominent and major industrial groups in India. ICC is the founder member of FICCI, the apex body of business and industry in India. ICC's forte is its ability to anticipate the needs of the future, respond to challenges, and prepare the stakeholders in the economy to benefit from these changes and opportunities. Set up by a group of pioneering industrialists led by Mr G D Birla, the Indian Chamber of Commerce was closely associated with the Indian Freedom Movement, as the first organised voice of indigenous Indian Industry. Several of the distinguished industry leaders in India, such as Mr B M Birla, Sir Ardeshir Dalal, Sir Badridas Goenka, Mr S P Jain, Lala Karam Chand Thapar, Mr Russi Mody, Mr Ashok Jain, Mr. Sanjiv Goenka, have led the ICC as its President. Currently, Mr. Shrivardhan Goenka is leading the Chamber as its President.

ICC is the only Chamber from India to win the first prize in World Chambers Competition in Quebec, Canada.

ICC's North-East Initiative has gained a new momentum and dynamism over the last few years, and the Chamber has been hugely successful in spreading awareness about the great economic potential of the North-East at national and international levels. Trade & Investment shows on North-East in countries like Singapore, Thailand and Vietnam have created new vistas of economic co-operation between the North-East of India and South-East Asia. ICC has a special focus on India's trade & commerce relations with South & South-East Asian nations, in sync with India's 'Look East' Policy, and has played a key role in building synergies between India and her Asian neighbours like Singapore, Indonesia, Bangladesh, and Bhutan through Trade & Business Delegation Exchanges, and large Investment Summits.

ICC also has a very strong focus upon Economic Research & Policy issues - it regularly undertakes Macro-economic Surveys/Studies, prepares State Investment Climate Reports and Sector Reports, provides necessary Policy Inputs & Budget Recommendations to Governments at State & Central levels.

The Indian Chamber of Commerce headquartered in Kolkata, over the last few years has truly emerged as a national Chamber of repute, with full-fledged offices in New Delhi, Guwahati, Bhubaneswar and Patna functioning efficiently, and building meaningful synergies among Industry and Government by addressing strategic issues of national significance.

The ICC office addresses are as follows:

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The Triple Bottom Line and Indian CPSEs

Introducing the Triple Bottom Line

The term "Triple Bottom Line" (TBL) was first coined by John Elkington in 1998[1] and essentially refers to a set of three criteria used for measuring organizational success: social (people), ecological (planet) and economic (profit). Over the years, the concept has been embraced by many large corporations as guiding principles for the way they strategize and conduct their businesses.

The concept of TBL demands that an organization's responsibility is to all its stakeholders rather than only shareholders. Anyone who is influenced, either directly or indirectly, by the actions of the organization is a stakeholder and the organization's primary objective should be to address stakeholder interests instead of a narrow focus on maximizing shareholder profits.

People, the first dimension of the TBL, relates to fair and beneficial business practices towards its employees as well as the communities which are impacted by the operations of the organization. A TBL company seeks to benefit both these constituencies and not exploit or endanger any of them. It is expected to have objective measures in place for ensuring sharing of value / profits with all employees, employ safeguards against unethical practices like use of child labour and destabilizing of local communities, proactively "give back" to society by contributing to the strengthening of local communities in specific areas like livelihood generation, health, education etc.

Planet, TBL's second dimension refers to sustainable environmental practices. A TBL company endeavours to benefit the environment and not engage in any practice which damages the natural ecological balance. The organization reduces its ecological footprint by carefully managing its consumption of energy and non-renewables. It proactively adopts practices for reducing manufacturing waste as well as processing waste to make it less toxic before disposing it in a safe and legal manner. It embraces practices for assessing the environmental impact (and cost) of its products and services throughout their lifecycle and bears its share of the costs in an objective and transparent manner.

Profit, the third and final dimension of the TBL, represents the economic value created by the organization after deducting all input costs, including cost of invested capital. While the original concept defines profit as the real economic benefit enjoyed by the society in which the environment operates, performance under this dimension is often assessed by measuring the financial profits generated by the enterprise to facilitate objective measurement.

1 "Cannibals with Forks: the Triple Bottom Line of 21st Century Business" by John Elkington, 1998

Since its introduction, the TBL framework has been criticized on different grounds like (a) potential to divert management attention away from their core focus of creating shareholder value, (b) non-compatibility with a monetary based economic system thereby hindering efforts in development of a standard framework through which all three dimensions can be measured and reported.

However, despite these limitations, a large number of organizations across the world have demonstrated their ability to make a significant positive impact on their stakeholders through adoption of TBL principles and practices.

Evolution of Central Public Sector Enterprises (CPSEs) in India

The central public sector enterprises (CPSEs) are an integral part of the Indian economy and have played a prominent role in the country's industrialization and economic development. The evolution of CPSEs in India can be categorized in to 2 distinct phases: (a) from Independence till the beginning of the nineties and (b) post 1991 when a number of measures were taken to facilitate private sector investment (including foreign direct investment) in a number of sectors.

In 1948, immediately after independence, the Government introduced the Industrial Policy Resolution (IPR) which outlined the approach for industrial growth and development in the country. It emphasized the importance of securing a continuous increase in production and ensuring equitable distribution. This was followed by the Industrial Policy Resolution of 1956, which had as its key objectives acceleration of the rate of economic growth and speeding up of industrialization. The economy at this point of time was characterized by high dependence on agriculture (with the agriculture sector's contribution to the GDP being as high as 55% in 1950-51[2]), scarcity of capital and weak base of entrepreneurship. Hence, the IPR 1956 gave primacy to the role of the State to assume a predominant and direct responsibility for industrial development. Consequently, CPSEs were set up / strengthened in the core sectors having strategic importance, public utility services and essential industries demanding large scale investment viz. manufacturing, iron & steel, minerals, heavy machinery etc.

While CPSEs continued to be the primary vehicles for industrial growth during the sixties, seventies and eighties, steps were initiated by the Government to encourage private sector investment in select sectors through the Industrial Policy Resolutions of 1973, which identified high-priority industries for investment from large industrial houses and foreign companies and the IPR 1977 which laid emphasis on decentralization and on the role of cottage and small scale industries. The IPR 1980 focused on the need for promoting competition in the domestic market, technological upgrade and modernization.

The economic crisis in the late eighties and the need to participate in global trade and investment flows led the Government to initiate a series of measures for encouraging private sector (including foreign investment) participation in a large number of sectors. By this time, a number of issues were also observed in performance of some of the CPSEs relating to low productivity growth, over manning, dependence on obsolete technology and inadequate focus on research & development, human resources. Some of the key measures initiated included abolition of licensing requirements for all sectors other than those related to security and strategic concerns, automatic approval of direct foreign investment of up to 51% in most sectors as well as foreign technology collaboration agreements, restructuring of the Monopolies and Restrictive Trade Policies (MRTP) Act[3].

The 1991 Industrial Policy identified essential infrastructure goods and services, exploration of oil & mineral resources, technology development in areas where private sector investment was inadequate and strategic areas like defence equipment as the priority areas for growth of PSEs, with large scale private sector investment being encouraged in other sectors. Chronically sick PSEs which were unlikely to turn around were proposed to be referred to institutions like Board for Industrial and Financial Reconstruction (BIFR) for the formulation of revival schemes. In view of increased competition from the private sector and to improve performance, initiatives to professionalize CPSE Board of Directors coupled with increased delegation of powers to these Boards and adoption of an Memorandum of Understanding (MoU) based mechanism for improving CPSE performance were also launched during the mid to end nineties.

2 http://www.indian-farmers.org/news/Why_AgriGDP_articles.html
3 Source: GoI Industrial Policy, 1991

In line with the philosophy of the Government to refocus CPSEs in select sectors / industries, more than 30 CPSEs were divested during the period from 1991-92 to 2000-2001 through a combination of strategic sales to private partners as well as initial / follow on public offers. The exercise has continued till date leading to significant monetization of Government investment in the CPSEs being disinvested and enabling sharing of the value created with the public at large through listing of CPSEs on stock exchanges.

The various measures around empowerment and performance management have also started to yield results as is evident from CPSE performance trends in the recent past. Many CPSEs have performed admirably well in the post-economic reforms and liberalization phase which is reflected in their robust growth and development. While there were only 5 CPSEs with a total investment of Rs.29 crores on the eve of the First Five Year Plan (1951-1956), there were 249 CPSEs (excluding 7 Insurance Companies) with a total investment of Rs.580 thousand crores, as on 31st March, 2010[4]. The turnover of these CPSEs accounted for around 20% of the country's GDP in 2009-10.

Over time, many of the CPSEs have also emerged as consistent performers across all three dimensions of the TBL as is evident from the following:

- The People bottom line: Golden Peacock Award for Excellence in Corporate Governance awarded to NTPC in 2009, the Randstad Award for human resources management practices & Employer branding to SAIL in 2011
- The Planet bottom line: Award of the Greentech Environment Excellence Award (2008for and the Golden Peacock Environment Management Award 2008 to ONGC
- The Profit bottom line: Out of the eight Indian companies in the Fortune 500 list for 2010, four are CPSEs and one is a public sector bank (State Bank of India: ranking 292). The four CPSEs are IOC Limited (ranking 98), BPCL Limited (ranking 272), HPCL Limited (ranking 336) and ONGC Limited (ranking 361)[5].
- Triple Bottom line: ONGC secured the FICCI award for "Outstanding Corporate Vision - Business Performance, Social & Environmental Action and Globalization" in 2008-09

As part of its efforts towards motivating CPSEs to adopt the TBL approach, the Department of Public Enterprises (DPE), Government of India, has also notified Corporate Social Responsibility (CSR) guidelines for CPSEs. These guidelines, which were notified in April 2010, define CSR as "a concept whereby organizations serve the interests of society by taking responsibility for the impact of their activities on customers, employees, shareholders, communities and the environment in all aspects of their operations".

The guidelines also require mandatory creation of an annual CSR budget through a Board Resolution. The budget has been specified as a percentage of net profit and ranges from 3%-5% for CPSEs with net profit (in the previous year) of less than Rs. 100 Crores, 2%-3% for CPSEs with net profit between Rs. 100 – 500 Crores, subject to a minimum of Rs. 3 Crores and 0.5%-2% for CPSEs with net profit of Rs. 500 Crores and above. The CSR budget would be non-lapsable with any unutilized part being transferred to a centrally maintained CSR fund at the end of every year.

4 Source: PE survey 2009-10
5 The other Indian Companies in the Fortune 500 list include Reliance Industries Ltd. (ranking 134), Tata Motors Ltd. (ranking 359) and Tata Steel Ltd. (ranking 370)

The People Bottom Line

Key drivers

The key stakeholders associated with the "people" dimension of the triple bottom line include i) local communities impacted by the operations of the CPSE and ii) employees of the CPSE.

Local communities

The DPE, as part of its CSR guidelines, has announced specific provisions for interventions to be undertaken by CPSEs for addressing the requirement of local communities. Key areas include:

- Need to develop a CSR action plan outlining key objectives and strategies over the short, medium and long term as against a one-off project based approach. The CSR action plan would also need to be aligned with the business plan of the organization and would need to clearly specify requirements for baseline survey, activities to be undertaken with budgets and time lines, responsibilities and expected results / outcomes.
- Selection of activities for inclusion in the CSR action plan such that the benefits reach the smallest unit i.e. village, panchayat, block or district depending on the operations and resource capability of the CPSE. Identified CSR activities should generate community goodwill and create social impact and visibility.
- Implementation of CSR interventions through specialized agency(ies) including community based organizations, panchayats, self help groups etc.
- Need to undertaking baseline surveys prior to initiation of interventions and monitoring of CSR interventions through a CSR or Social Audit Committee or credible external agency.
- Concurrent as well as final evaluation of CSR projects by an independent external agency.
- Each CPSE to have a separate paragraph / chapter in its Annual Report on implementation of CSR / activities including facts related to physical and financial progress.

In addition, the implementation of CSR guidelines has been made an integral part of the MoU entered in to each year between CPSEs and Government. In the MoU guidelines from 2010-11 onwards, 5 marks have been earmarked out of the non-financial parameters for CSR activities and 5 marks for Sustainable Development initiatives.

Employees

In keeping with the changes that the CPSEs have gone through due to liberalization and globalization, the importance of human resources management as a competitive tool has increased manifold. Most large CPSEs have embarked on initiatives to position themselves as "model employers" offering opportunities for impactful roles with rich job content, rich perquisites, benefits and social security to ward off

challenges from the private sector in attracting, hiring and retaining talent.

The Government on its part has also played a key role in facilitating improvements in efficiency, productivity and economy through rationalization of organizational structures, systems and processes in order to make the CPSEs more competitive in the domestic as well as the global markets. To this end, the DPE constituted the Second Pay Revision Committee (2nd PRC) in 2006 with the specific objective of defining the guiding principles for an objective performance management system (PMS) across all CPSEs as well as a mechanism for sharing of a part of the profits generated by the CPSE with employees through performance related pay (PRP).

Key recommendations which are now in the process of being implemented in individual CPSEs include:

- Development of a PMS based on objective Key Result Areas (KRAs) and specific measurable targets for each employee. Mechanisms for (a) deriving the KRAs for officials in different grades based on the MoU targets for the CPSE and personal attributes & functional competencies of each role holder with specific weights (depending on the grade) and (b) a 5 point rating scale for assessment ranging from "Excellent" to "Poor" have also been defined. CPSEs are expected to follow a bell curve approach for identifying the percentage of employees in individual rating categories.
- Compulsory inclusion of PRP as an integral part of the compensation package for all executives and non-unionized supervisors. The underlying principles for computing the PRP based on (a) profits earned by the CPSE, (b) MoU rating of the CPSE, (c) grade of the official and (d) performance rating of the official have also been specified.
- Constituting a Remuneration Committee comprising at least 3 part time Nominee / Independent Directors and headed by an Independent Director for

Impact - select implementation case studies

Local Communities

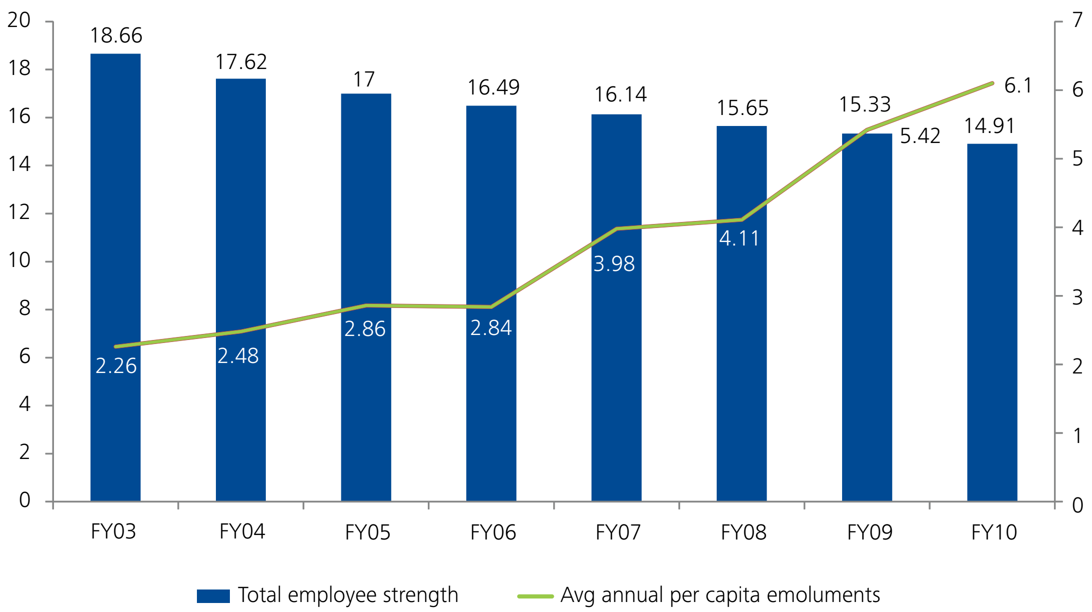
Some of the initiatives adopted by the CPSEs which have had a positive impact on the local community development have been briefly illustrated below:

Illustrative Examples of Community-related initiatives of CPSEs

- IOCL's community-focused initiatives include i) allotment of petrol/diesel station dealerships and LPG distributorships to beneficiaries from among Scheduled Castes, Scheduled Tribes, physically handicapped, ex-servicemen, war widows, etc., ii) unveiling of kisan seva kendras as small-format retail outlets to reach quality products and services to people in the rural areas, iii) setting up of the Indian Oil Foundation (IOF) as a non-profit trust to protect, preserve and promote national heritage monuments and iv) supporting a variety of endeavours in arts, culture, music and dance, apart from organising programs under its own banners of Indian Oil Art Exhibition, Indian Oil Sangeet Sabha and Indian Oil Kavi Sammelan. (Source: IOCL)
- SAIL is serving the community through establishment and maintenance of i) 17 hospitals, 7 speciality hospitals and 54 primary health centres ii) 146 schools in SAIL townships and 286 schools outside townships for educational development, iii) 5 sports academies for hockey, football, athletics and archery (Source: SAIL)
- NTPC has adopted various initiatives for empowering people including i) providing quality education through 48 schools being currently run in NTPC power project townships benefitting 40,000 students. These schools are managed by premier academic societies like the DPS Society, the DAV Society, the Chinmaya Mission Trust, St. Joseph's Society and the Kendriya Vidyalaya Sangathan etc., ii) providing 50% subsidy for organizing coaching classes in power project townships, for students who wish to pursue higher studies in engineering and medicine, iii) conducting regular training programs for teachers to upgrade their teaching and technical skills and organizing workshops for principals through Indian Institute of Management, Ahmedabad and iv) introducing the concept of inclusive education with children with special needs studying alongside other children (Source: NTPC)

Employees

Even today, PSEs are one of the largest employers in the country. While the total number of direct employees in CPSEs has shown a decline during the period 2003-2010, the average compensation levels have increased on account of periodic salary revisions and with adoption of innovative mechanisms for profit sharing with employees like PRP (refer chart below). Further, most of the larger CPSEs also account for significant level of indirect employment generation.



Source: DPE Survey 2009-10

The Government on its part has also played a key role in facilitating improvements in efficiency, productivity and economy through rationalization of organizational structures, systems and processes in order to make the CPSEs more competitive in the domestic as well as the global markets.

Most of the larger CPSEs have already implemented best in class PMS in their respective organizations. Select case studies have been highlighted below.

Illustrative examples of PMS in CPSEs

- Since 1985-1986, SAIL has been following an appraisal system which suffered from a number of issues such as lack of transparency, objectivity, etc. As a result of the recommendations of the 2nd PRC and the guidelines of the DPE, SAIL overhauled its existing appraisal system and developed an on-line Employee Performance Management System (EPMS) based on a benchmarking study conducted of other global and domestic organizations. The EPMS is a transparent process and follows a KPA (Key Performance Area) based performance appraisal system wherein KPAs for individual / department are finalized by breaking down the organization objectives to the individual / departmental level. An individual is expected to maintain an online performance diary and is assessed through multi stage assessment (self, reporting & reviewing). Based on the performance rating, annual salary increment & career progression of employees is determined. Further, the process of 360o feedback has been initiated in SAIL during 2009-10. The EPMS drives a performance based culture by (i) incentivising high performers by identifying their major achievements during the assessment by the PMC (ii) developing poor performers by identifying their shortcomings during assessment phase and preparing specific development plans for them
- IOCL had in place an online PMS (e-PMS) since 2005-2006, but following the guidelines of the DPE regarding PMS, IOCL brought in new structural changes to the existing PMS in order to enhance transparency and implemented them from 2009-2010. IOCL has been able to successfully link the departmental promotions, incentives for individuals and the PRP to the ratings of the PMS. The pay-out of the PRP has been initiated from the year 2009. In following the guidelines of the DPE, IOCL had modified its PMS by aligning the performance year with the financial year. The IOCL e-PMS is transparent, involves goal setting across all grades through KRAs with specific weightages and the appraisal is based on role based KRA and competencies and level based values and potential. The e-PMS is one of the key initiatives which has contributed in IOCL being conferred the “Best Employer Brand in Asia-2010” award in Suntec, Singapore.
- BHEL has adopted Balanced Scorecard (BSC) based system to plan, monitor & measure performance at various levels. The BSC prepared at organization level is cascaded to manufacturing / business unit level and further to department / function / section level. KRAs for employees in these departments / functions / sections are finalized such that these are aligned with the Company targets & objectives. This entire process has been e-enabled wherein the relevant parameters & targets get cascaded automatically. However, it may be noted that Company does not have a 360 degree performance appraisal system.
- NTPC’s performance management system (PACE) is based on joint goal setting principle. This helps track that the performance targets are well discussed and jointly arrived at by the employee and his reporting officer. The process comprises i) Joint target setting by the Senior and his subordinate at the beginning of PACE cycle, ii) Midyear review of targets by the senior and subordinate, iii) Performance feedback by the Senior at the end of evaluation cycle and iv) Training need identification by the Senior and his subordinate based on competency gaps.
  - There is also a system called "Appeal" under which an employee can voice his grievance, if he is dissatisfied by his performance rating. Under the system, he can take up the case with committee constituted for the purpose, which is one level higher than the Performance Management Committee responsible for his performance rating.
  - For senior management positions in NTPC, a system of 360° feedback by peers, subordinate, seniors and customers is prescribed. It is part of the leadership assessment system of NTPC wherein an employee can give feedback in full confidence and complete secrecy through an online feedback questionnaire. This feedback is used for bridging competency gaps in senior management through formulation of Individual Development Plans.

The Environment Bottom Line

Key drivers

With an ever-increasing focus on promoting adoption of sustainable environmental practices, the DPE recognised the importance of Corporate Social Responsibility (CSR), Research & Development (R&D) and Sustainable Development and their contribution in the all-round performance of the CPSE going forward. Consequently, the following provisions have been incorporated in its CSR guidelines notified in April 2010

- Need to develop a CSR action plan outlining key objectives and strategies over the short, medium and long term as against a one-off project based approach. The CSR action plan would also need to be aligned with the business plan of the organization and would need to clearly specify requirements for baseline survey, activities to be undertaken with budgets and time lines, responsibilities and expected results / outcomes.
- Identified CSR activities may be related to United Nations Global Compact Programme on Environment, with every CPSE taking the responsibility for restoring / compensating for any ecological damage taking place as a result of its operations. Under the Global Compact principles, businesses are asked to support a precautionary approach to environmental challenges, undertake initiatives to promote greater environmental responsibility and encourage the development and diffusion of environment friendly technologies. Further, CPSEs should also keep in mind the Environment Management System as per ISO 14001.
- Implementation of CSR interventions through specialized agency(ies) including community based organizations, panchayats, professional consulting organizations etc.
- Need to undertaking baseline surveys prior to initiation of interventions and monitoring of CSR interventions through a CSR Committee or credible external agency.
- Concurrent as well as final evaluation of CSR projects by an independent external agency.
- Each CPSE to have a separate paragraph / chapter in its Annual Report on implementation of CSR / activities including facts related to physical and financial progress.

In addition, the implementation of CSR guidelines has been made an integral part of the MoU entered in to each year between CPSEs and Government. In the MoU guidelines from 2010-11 onwards, 5 marks have been earmarked out of the non-financial parameters for CSR activities and 5 marks for Sustainable Development initiatives.

Impact - select implementation case studies

Increased focus on Research & Development:
With the objective of ensuring sustainable growth and development through enhancement of current performance levels in this competitive and challenging business environment, the CPSEs are ensuring continuous up-gradation and development of products, processes and services through increased research and development. Select examples include:

- ONGC which has ten research & development institutes located across India engaged in varied areas of research such as Exploration, Reservoir Management, Drilling, Production Technology and Offshore thereby providing essential support to keep pace with the latest developments in the technology, through procurement of state-of-the art technology etc.

- Another public sector giant, SAIL has a well-equipped research and development centre for iron and steel (RDCIS) at Ranchi, which helps to produce quality steel and develop new technologies for the steel industry. SAIL also has an in-house Centre for Engineering and Technology (CET). The CPSEs have also adopted sponsored research through collaboration with Universities and reputed research and development institutions. Many of these research initiatives also aim at development of technologies which are environmental-friendly in order to make a positive contribution to the "environment" dimension of the triple bottom line.

Environment-related initiatives:
The CPSEs have set benchmarks on environment protection by adopting various preventive, restorative, positive and pervasive initiatives. Few of such initiatives have been illustrated below:

Illustrative Examples of Environment-related initiatives of CPSEs

- Major CPSEs like SAIL, Coal India, ONGC etc. have Board approved CSR policies
- As part of its environment-protection initiatives, IOCL has invested close to Rs. 7,000 crore in state-of-the-art technologies at its refineries for production of green fuels meeting global standards. To further reduce dependence on precious petroleum products and secure the nation's energy security, the Corporation is now in the process of commercialising various options in alternative fuels such as ethanol-blended petrol, biodiesel, and Hydrogen and Hydrogen-CNG mixture. (Source: IOCL)
- NTPC has adopted various environment planning and preservation activities including i) establishment of the Centre for Power Efficiency & Environmental Protection (CenPEEP) in collaboration with USAID with a mandate to reduce Greenhouse Gas emissions per unit of electricity generated by improving the overall performance of coal-fired power plants, ii) setting up of an Ash Utilization Unit to facilitate maximum usage from the vast quantities of ash produced at its coal based power stations. Over the years, the Ash Utilization level has scaled up from 0.3 million tonne in 1991-92 to 26.03 million tonne in 2010-11, iii) undertaking afforestation programs covering vast tracts of land in and around its projects in a concerted bid to counter the growing ecological threat (Source: NTPC)
- CIL pursues a policy of mine reclamation to make good the lost greenery and degradation of land caused by excavation of land in opencast mining, through continuous afforestation initiatives. These initiatives are monitored through satellite surveillance to track the areas of backfilled zone, plantation status, status of re-settlement etc. viz. Gunjam ecological park near Dishergarh in West Bengal, social forestry in Sonepur Bazari, West Bengal (Source: Coal India)

The Profit Bottom Line

Key drivers

The shift from a State-controlled economy to a market driven economy with the introduction of market deregulation and adoption of liberalization policy in 1991 impacted the operating model of CPSEs, with need for immediate changes in order to succeed in the changed environment. In order to provide for a level playing field for the CPSEs vis-à-vis the private sector in the domestic & global markets, the DPE took a number of key initiatives towards empowering the CPSE Board of Directors and ensuring greater focus on the performance dimension. Some of the key initiatives include:

- Notification of Corporate Governance guidelines to be followed by CPSEs requiring induction of external subject matter experts as Independent Directors on the Board of CPSEs. In cases where the CPSE Boards are headed by an Executive Chairman, there has to be a minimum representation of 50% from Independent Directors and in other cases one-third. The number of Government nominee Directors has been limited to one-sixth of the total strength of the Board, subject to a maximum of two. The Corporate Governance guidelines also include specific provisions in the areas of (i) practices to be followed by the Board of Directors, ii) transparency and disclosure, iii) ethics and conduct, iv) risk management and internal controls which are almost identical to the provisions applicable for listed companies.

- Boards of CPSEs have also been empowered to independently take decisions in the areas of capital expenditure, joint ventures & subsidiaries, organization restructuring, resource mobilization and mergers & acquisitions, subject to defined limits which vary depending on the category of the CPSE. All CPSEs have been categorized in to different groups, namely, Miniratna II, Miniratna I, Navratna and Maharatna, depending on parameters like turnover, profits, dependence on Government financial support. The empowerment varies depending on the category of the CPSE, with the extent of empowerment increasing from the Miniratna II to Maharatna category.

- All CPSEs are also required to enter in to an MoU with their administrative Ministry in the Government before the beginning of the financial year. The MoU, which serves as a consolidated statement

of performance targets for the year, includes both financial and non-financial measures with specific weights being allocated to each parameter together with a 5 point rating scale ranging from "Poor" to "Excellent". A supporting institutional framework for discussing and finalizing the MoU with the concerned CPSE as well as assessment of CPSE performance against the MoU is also in place with the DPE as the nodal coordinator, a Task Force comprising select Government officials as well as external experts which is involved in finalizing MoU targets and assessing performance against the MoU and a High Powered Committee chaired by the Cabinet Secretary for reviewing CPSE performance and identifying potential interventions by Government.

Impact - select implementation case studies

Increased empowerment of CPSEs – securing natural resources and raw material linkages

The increased empowerment of CPSEs in taking key strategic and operational decisions impacting their overall competitiveness can be seen from the various instances where CPSEs have invested in natural resources and raw material linkages outside the country. Select case studies have been presented below.

Illustrative examples of CPSEs securing assets / raw material linkages

- ONGC, India's foremost exploration and production (E&P) CPSE is a "Maharatna" category company and has been a consistent performer. Over the period 1999-2000 till 2008-2009, ONGC has earned an "Excellent" rating 5 times and a "Very Good" rating 5 times[6]. This has empowered ONGC to play a major role in implementing GoI's policy for ensuring oil security for the country by enabling quicker decision making and having a greater ability to respond to international competitive biddings jointly/ by itself for oil and gas exploration in newer geographies and acquiring oil and gas blocks abroad through its International arm of ONGC Videsh Ltd. (OVL). Till date OVL has participated in around 40 oil & gas projects in 15 countries across the world including Myanmar, Russia, Vietnam, Iran, Iraq, Syria, Libya, Nigeria, Sudan, Brazil, Columbia, Cuba, Venezuela and Egypt[7] through a number of alliances and JVs. Some of the key partners of OVL are BP, CNPC, Ecopetrol, ENI, Exxon, Statoil Hydro, PDVSA, Petrobras, Petronas, Petrovietnam, Repsol, Rosneft, Shell, Sinopec, Total and TPOC[8]. Working with these large multinational oil companies has exposed OVL to advanced technologies which are used by these large companies helping it to adopt upgraded technologies. It has also set up various subsidiaries such as the ONGC Nile Ganga BV, the ONGC Narmada Ltd., the ONGC Amazon Alaknanda Ltd., Jarpeno Ltd. and Carabobo One AB. Besides, OVL has also set up the joint venture company of ONGC Mittal Energy Ltd. along with Mittal Investments Sarl in Cyprus. These initiatives have enabled ONGC to occupy the 155th rank in Forbes Global 2000 list of companies in 2010 based on sales, profits, assets and market capitalisation. Some of the select initiatives which meet some of the domestic demand for oil and gas and help India in achieving self-sufficiency in oil while ensuring growth for ONGC are given below:
  - In Vietnam, OVL has made investment commitments of $244 million till March 2011[9] in jointly developing the Lan Tay fields together with British Petroleum and Petrovietnam. OVL which jointly discovered the gas field in 1992[10] had by 2006 recovered its investments and by 2010 has been earning $35.4 million of net revenues[11].
  - A consortium led by OVL formed the JV of PIVSA along with PDVSA, Venezuela's state oil company for 40% ownership of the Carabobo-1-Norte and Carabobo-1-Centro heavy oil blocks in Venezuela. Besides OVL which owned 11% of the stake, the consortium members also included the Indian companies of Indian Oil Corporation Ltd. and Oil India Ltd. having 3.5% stake each which contributed to enhancing the buying power and the eventual success of the consortium. The production at the oil blocks are expected to produce 400,000 barrels per day of extra heavy oil of which approximately 200,000 barrels per day will be upgraded to light crude oil. The license term is for 25 years with an option of extending it to another 15 years.
  - OVL has established the subsidiary of the ONGC Nile Ganga B.V (ONGBV) which is engaged in E&P activities in Sudan, Syria, Venezuela and Brazil. It holds a 25% participating interest in the Greater Nile Oil Project (GNOP) Sudan with its share of oil production of about 2.126 MMT during 2009-2010.
  - OVL also set up Jarpeno Ltd., a wholly owned subsidiary which acquired Imperial Energy Corporation Plc., a UK based E&P unit with its main activities in Russia. Imperial Energy's production was about 0.543 MMT of oil in 2009-2010[12]

6 Source: MoU Ratings and composite scores of CPSEs based on audited data (1989-2009)
7 Source: ONGC Annual Report 2009-2010
8 Source: ONGC Videsh
9 Source: http://www.ongcvidesh.com/Assets.aspx?tab=0#Vietnam
10 Source: http://www.ongc-videsh.com/Company.aspx
11 Source: http://www.thehindu.com/business/Industry/article528471.ece
12 Source: ONGC Annual report 2009-2010

Illustrative examples of CPSEs securing assets / raw material linkages

- Another Maharatna company, IOCL has also been a consistent performer with 9 "Excellent" ratings and only 1 "Very Good" rating over the period 1999-2000 till 2008-2009[13]. This has facilitated quicker decision making which has helped IOCL to respond to changing market demands by setting up various JVs in order to address various stages of the value chain such as (i) Green Gas Ltd. with GAIL (India) Ltd. for gas distribution to Lucknow and Agra, (ii) Petronet LNG Ltd. with Bharat Petroleum Corporation Ltd., ONGC, GAIL (India) Ltd., Gaz de France, ADB for the development of facilities for import and regasification of LNG at Dahej and Kochi (iii) Indian Oil Petronas Pvt. Ltd. with Petronas of Malaysia for constructing and importing facilities for LPG import at Haldia and to engage in parallel marketing of LPG
- NTPC, a Maharatna category company is India's largest power producing company and Asia's second largest electricity generating company by market value. It plays a major role in meeting the country's electricity demand and consumes about 164 million tonnes of coal a year for producing electricity in its plants which have an installed capacity of 35,000 MW[14]. In order to address the growing demand for electricity power and support its future expansion plans, it requires an adequate supply of coal for its plants. NTPC's consistent performance vis-à-vis its MoU targets has helped it to achieve 8 "Excellent" ratings and 2 "Very Good" ratings over the 10 year period of 2000-2001 to 2009-2010 which has empowered it to be able to participate in international competitive tenders in order to acquire coal from overseas through establishment of JVs and alliances with other domestic/ foreign companies. Some of the key JVs which it has established are given below:
  - NTPC along with NMDC, RINL, CIL and SAIL have established a JV called International Coal Ventures Pvt. Ltd. (ICVL) for procuring metallurgical coke and thermal coke from overseas. NTPC, NMDC and RINL holds 14.28% each while CIL and SAIL holds 28.58% each of the share equity[15] .
- CIL, India's foremost coal mining company and the largest coal producer in the world was granted Maharatna status in April 2011. It produces about 81.1% of India's overall coal production and feeds 82 out of the 86 coal based thermal power plants in India supplying coal which accounts for 40% of the total power generation alone in the country. While applying the GoI's policy for ensuring price stability, self-sufficiency in coal and reducing dependence on imports, CIL has been facing various challenges of reduced excavations and declining quality of coal and has realised the need to go beyond Indian shores. CIL's consistent performance over the ten year period of 2000-2001 to 2009-2010 has helped it receive 5 "Excellent", 4 "Very Good" and 1 "Good" rating which has empowered CIL to explore options of acquiring coal mines in other countries through JVs and alliances through its International arm viz. CIL Videsh. It has set up a wholly owned subsidiary of Coal India Africana Limitada (CIAL) in Mozambique which has been awarded prospecting licenses for 2 geological coal blocks by the Government of Mozambique in 2010. Besides the JV of ICVL as given above, it has also been evaluating proposals for acquisition of coal assets in Australia, Indonesia and USA[16].
- SAIL is India's largest steel producer and is a Maharatna category company. It operates 5 integrated steel plants and 3 special steel plants in various locations across India. With 70% of the coking coal used by SAIL being imported annually, SAIL is attempting to provide adequate supply of coal for its plants by entering into JVs and MoUs with various domestic and multinational companies. Its consistent performance of receiving 8 "Excellent" ratings over the last 8 years has helped it to quickly respond to acquisition opportunities of overseas coal blocks over the last 3 years in countries such as Australia, Canada, Russia, Mozambique, etc. SAIL has also established a MoU with RINL for jointly exploring and developing deposits in Qalhat of high grade low silica limestone, another essential input for the production of steel in the Sultanate of Oman for supply to its steel plants

13 Source: MoU Ratings and composite scores of CPSEs based on audited data (1989-2009)
14 Source: http://uk.reuters.com/article/2011/08/05/ntpc-idUK-L3E7J53FE20110805
15 Source: NTPC website
16 Source: CIL website

Overall financial performance

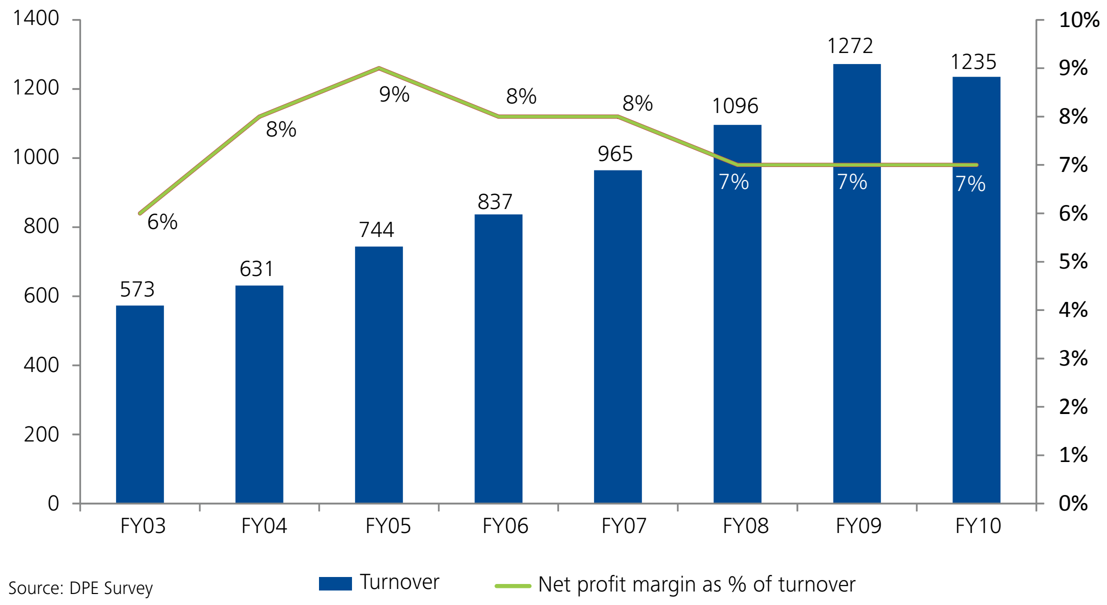
It is widely accepted that the MoU or performance contracting mechanism has contributed significantly to increase CPSE focus on financial and all round performance. As per the PE Survey 2009-10 conducted by the DPE, the number of CPSEs signing MoUs with their administrative departments has increased from 104 in 2001-02 to 202 in 2010-11. Aggregate financial performance of CPSEs has also improved significantly over the years, as corroborated from the following parameters.

Contribution to GDP:

- The contribution of CPSEs in terms of turnover to the GDP has ranged between 22%- 24% during the period FY03-FY10, with the exception of FY10 when the contribution has declined to 19%. This is primarily on account of i) decrease in turnover in FY10 by around 2.9% vis-à-vis FY09 levels, primarily due to reduction in sale of refined petroleum, steel, fertilizer and revenue from the telecom sector and ii) 11.8% GDP growth (at current market prices) registered during the corresponding period
- As reflected in the chart below, the turnover of the CPSEs has increased at a CAGR of 11.6% during the 8 year period, FY 2003-10. During this period the total number of profit making CPSEs have increased from 119 in FY03 to 158 in FY10 and the number of loss making CPSEs have reduced from 105 in FY03 to 59 in FY10.
- At an aggregate level, the CPSEs have recorded an improvement in profitability over the years with the net profit margin as percentage of turnover increasing from 6% in FY03 to 7% in FY10

Contribution to Central Exchequer

- On account of increased profitability and scale of operations, CPSEs have recorded considerable increase in contribution to the exchequer by way of dividend payment, interest payment on government loans and payment of taxes & duties from around Rs. 82 thousand crores in FY03 to Rs. 140 thousand crores in FY10 registering a CAGR of 8%. However, it is observed that the overall contribution to the exchequer have declined in the last 2 years (FY09 and FY10) primarily on account of reduction in contribution towards customs duty (from around Rs. 13 thousand crores in FY08 to Rs. 7 thousand crores in FY10) and excise duty (from around Rs. 69 thousand crores in FY08 to around Rs. 52 thousand crores in FY10) which can be attributed to rationalization of duties
- Payment towards excise duty and corporate tax have accounted for majority of the contribution across the years ranging from around 70% in FY03 to 65% in FY10
- While overall contribution from excise and customs duty, in percentage terms, have decreased over the the 8 year period FY03-10, contribution from payment towards dividend and interest, corporate taxes and

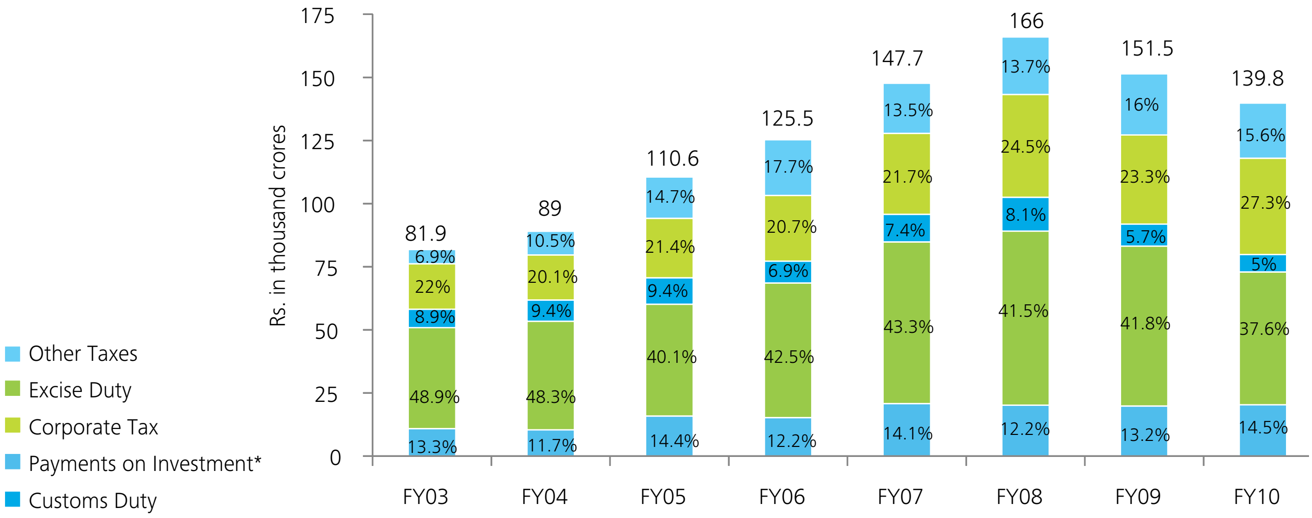


Source: DPE Survey

other taxes have increased over the corresponding period, as reflected in the chart below

reflected in the chart below.

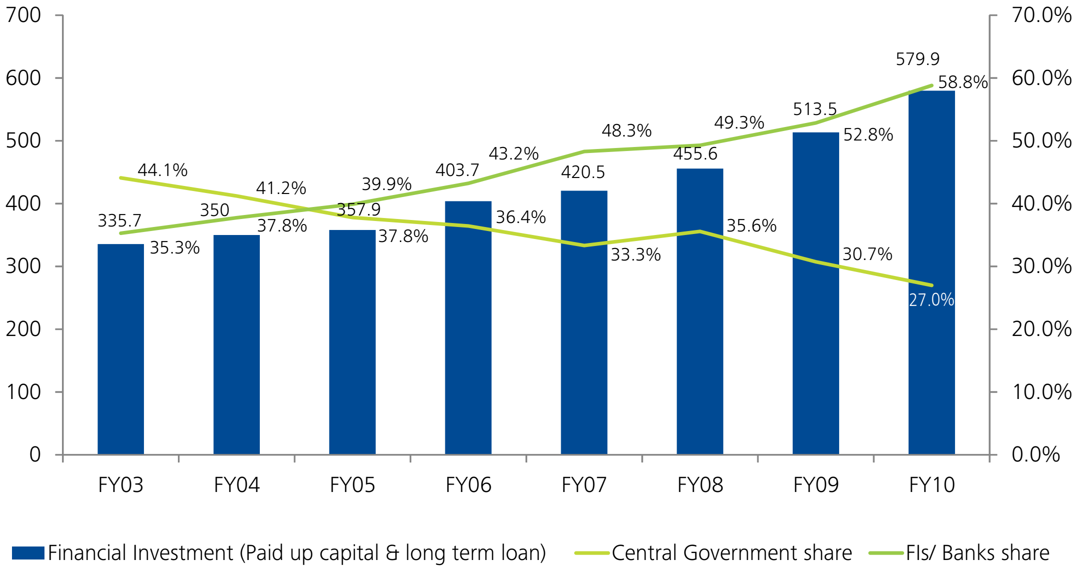
- An assessment of the source of the investments



Source: DPE Survey

Reduced dependence on Government Funds

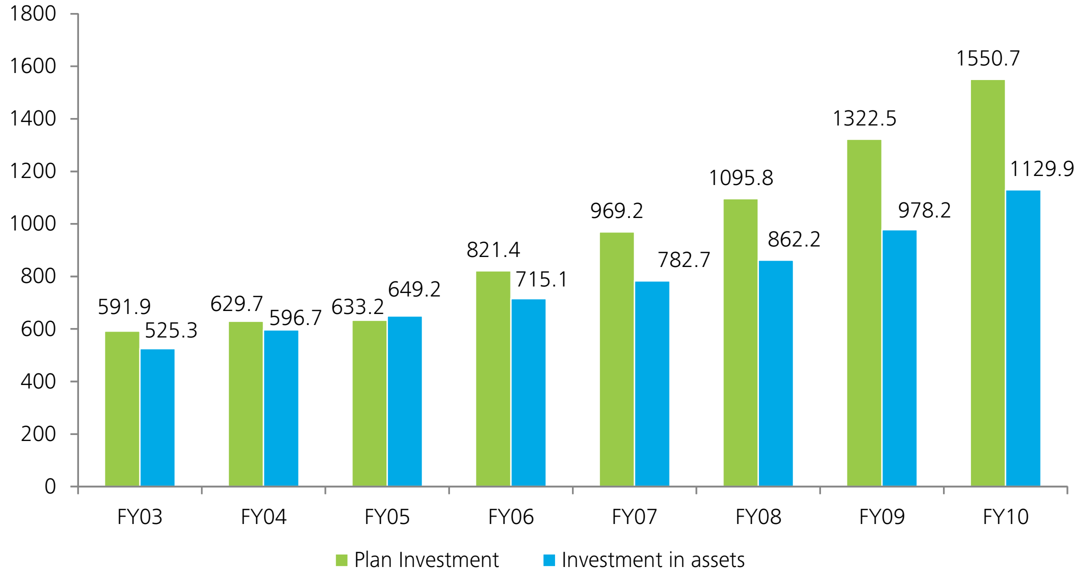
- Increased scale of operations and modernization/ adoption of new technology to remain competitive have prompted increased financial investments in CPSEs. The cumulative investment (paid-up capital plus long term loans) in all the CPSEs has increased at a CAGR of 8% from around Rs.336 thousand crores in FY03 to Rs. 580 thousand crores in FY10 as reflect a strategic move by the GoI to shift equity to FIs controlled by it as a result of which there has been a significant change with the share of the central government declining from around 44% of the total investment in FY03 to around 27% in FY10 while the share of the financial institutions (FI)/ banks and other have increased from around 35% in FY03 to around 59% in FY10 in the CPSEs



Source: DPE Survey

Plan Investments

- The growth of the CPSEs is reflective of the robust increase in plan investments. The plan outlay has increased at a CAGR of 15% during the 8 year period FY03-10.
  - The total investment in assets of CPSE has increased from Rs. 525 thousand crores in FY03 to Rs. 1130 thousand crores in FY10 resulting in a CAGR of 12%.
- A major share of the investments was made by the CPSEs from internal resources (around 55%) which increased from around Rs. 329,000 crores in FY03 to around Rs.850,000 crores in FY10
- With the aim of reducing the demand-supply gap in the various sectors, 138 new projects (as on 31st March, 2010) have been initiated by the CPSEs across sectors through various implementation modes viz. Public Private Partnership (PPP) etc. With 94 of the projects planned as mega projects (each costing Rs. 1,000 crore and above) and 44 as major projects (each costing between Rs. 100 crore and Rs. 1000 crore), this will lead to huge increase in planned investment in the near future. The total cost of these projects is anticipated at around Rs. 429 thousand crores

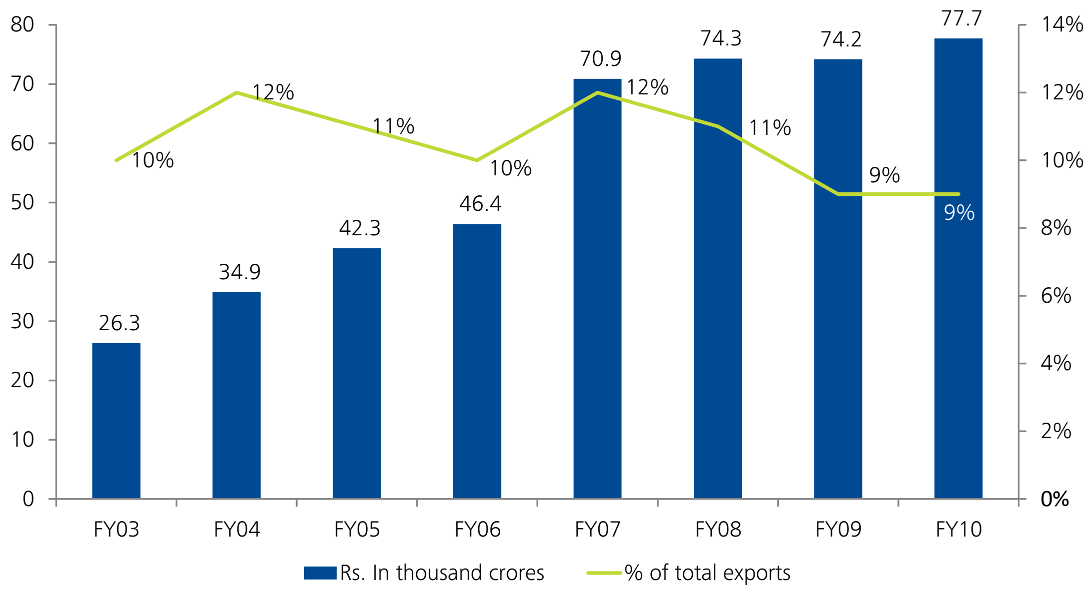


Source: DPE Survey

With the aim of reducing the demand-supply gap in the various sectors, 138 new projects (as on 31st March, 2010) have been initiated by the CPSEs across sectors through various implementation modes viz. Public Private Partnership (PPP) etc.

Contribution to Foreign Exchange Earnings

- Over the years, the CPSEs have increased focus on international trade in goods and services which have directly impact the foreign exchange earnings of the country. The CPSEs have hence significantly contributed to the total foreign exchange earnings primarily through export of goods & merchandise, income from royalty & consultancy services and interest earnings. In FY10 as many as 33 CPSEs were net foreign exchange earners
- During the period FY03-10, CPSEs have recorded an increase in foreign exchange earnings at a CAGR of 17% from around Rs. 26,000 crores in FY03 to around Rs. 78,000 crores in FY10
- The foreign exchange earnings as a percentage of total export earnings of the country has ranged between 9-12% during the period FY03-10



Source: RBI, DPE Survey

Closing Thoughts

For long Industry has pursued a uni-dimensional model of economic wealth creation without considering issues relating to sustainability and the consequent impact on future generations. The key challenge today, both globally as well as in India, is to focus on inclusive growth by ensuring economic wellbeing across all sections of society while at the same time protecting our environment and eco-systems.

It has now been conclusively proved by large corporations in multiple countries that industry can play a significant role in promoting inclusive and sustainable practices while pursuing economic wealth creation by adopting the Triple Bottom Line approach.

Many Central Public Sector Enterprises (CPSEs), as torch bearers of Indian Industry, have also embraced the Triple Bottom Line approach in their quest for sustainable development. The CSR Guidelines for CPSEs introduced by the DPE are also expected to play a key role in helping extend the standard framework, practices and processes which exist today for the profit dimension of TBL to the other two dimensions, namely, people and planet. With the guidelines already requiring highlights of CSR initiatives to be included in their Annual Report, the only other issue which possibly remains to be addressed is the need to adopt initiatives like the Global Reporting Initiative for implementing a single common standard reporting framework across the people and planet dimensions of TBL.

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Notes