EFFICACY OF CORPORATE SOCIAL RESPONSIBILITY IN CORPORATE GOVERNANCE STRUCTURES OF FAMILY OWNED BUSINESS GROUPS IN INDIA

Raveena Naz *

* Centre for the Study of Law and Governance, Jawaharlal Nehru University, New Delhi, India
Contact details: Jawaharlal Nehru University, New Delhi, 110067, India

Abstract

The concept of ‘Corporate Social Responsibility’ (CSR) has often relied on firms thinking beyond their economic interest despite the larger debate of shareholder versus stakeholder interest. India gave legal recognition to CSR in the Companies Act, 2013. CSR in India is believed to be different for two reasons: the dominance of family business and the history of practice of social responsibility as a form of philanthropy (mainly among the family business). This paper problematizes the actual structure of business houses in India and the role of CSR in a context where the law identifies each company as a separate business entity while the economics of institutions emphasizes the ‘business group’ consisting of a plethora of firms as the institutional organization of business where capital owned or controlled by the family group is spread across the firms through the interlocked holding structures. Within this framework, the largest family firms, which are part of family owned business groups, top the CSR expenditure list. The governance structure of family firms allows family owned business group to show mandatory compliance of CSR even when they actually spend much less than what is prescribed by law. This aspect of the family firms is not addressed by the CSR legislation in particular or corporate governance legislation in general in India. The paper illustrates this with an empirical study of one of the largest family owned business group in India Reliance Industries Limited (RIL), which is well acclaimed for its CSR activities. The paper demonstrates how the business group through these series of shareholding network reduces its legally mandated CSR liability. The paper thus indicates the inadequacy of CSR legislation in India because the unit of compliance is an individual firm and it assumes that each firm is independent and only connected to each other through market dealings. The law does not recognize the inter-connections of firms (through common ownership and control) in corporate governance structures of family owned business group and hence is inadequate in its design to effect the threshold level of CSR expenditure. This is the central argument of the paper.

Keywords: Business Group, Corporate Governance, CSR, Family Firm

1. INTRODUCTION

The corporate scandals and the financial crisis in the recent past have had serious repercussions on the economy as well as on the society. Not just the business sector and shareholders but the public was also equally affected. It was in this context the need...
for corporate behavior to cope up with the interest of the larger society seemed inevitable.

CSR is usually referred to as the act of minimizing the negative externalities of business in society without compromising the rights of the shareholders. There were serious conflicts between the ‘property conception’ (Allen 1992) and the ‘social entity conception’ (Allen 1992) of business ethics and behavior since the later part of the nineteenth century. The need for a balance between the interest of the shareholders and the stakeholder became prominent by the next century and it was in this scenario the legal recognition to Corporate Social Responsibility was introduced in India by the Companies Act, 2013. The CSR provision was enacted with ostensibly a two-fold objective of not compromising the rights of the investors and simultaneously considering corporations as potential vehicles of social change serving larger public interest.

After the enforcement of CSR policy, the question was whether it should be mandatory or voluntary. Government control of behavior in any society whether it is individuals or corporations are through regulations or through incentivization (Ryznar and Woody 2015). In India, the policy adopted for CSR is a regulatory approach. Adhering to the letters of the legislation suggests the interpretation that there is no incentive attributed to the firm when it is complying with the CSR provision though the government seems to be taking a liberal stand in the case of CSR compliance.

CSR in India is very different from the developed world because of the dominance of the family business structure and the practice of social responsibility in the form of philanthropy, which has a long history. Family run business houses show features of what is conceived as CSR today and this prominence remained unaltered even in 2015 when companies like Mahindra & Mahindra, Tata, Infosys, and Reliance feature at the top of the CSR list. This paper attempts to examine the economic and social responsibility of business and the environment in particular and the corporate governance legislation in general. In contrast, the economics of institutions emphasizes the ‘business group’ consisting of a plethora of firms as the institutional organization of business where control or the control of the family group is spread across the firms through the interholding (interlocked holding) structures. The interholding structure, common directors, and related party transactions exercise a significant form of hierarchical control over the activities of the business group which is not recognized by the CSR legislation in particular and the corporate governance legislation in general. This organizational structure of the business groups is pivotal in the matter of CSR expenditure but the law is unable to capture it. This is the central argument of this research which is illustrated with a detailed case study of India’s topmost business group whose flagship company is Reliance Industries Limited (RIL).

2. THE PROBLEMATIC OF CSR IN INDIA

The primary motivators for corporate philanthropy in India had been the ethical perception combined with religious and cultural context prevalent in India. It was in the early twentieth century that the trusteeship theory of Mahatma Gandhi urged for the utilization of wealth for the welfare of the community. The incapacity of the state to resolve the socio-economic challenges, the role of NGO’s (mainly during the Bhopal gas disaster), need for meeting the global demands for greater transparency and disclosure led to the debates on the social responsibility of business groups in India.

Corporate Social responsibility seems to be a well-accepted concept based on two liberal premises: first, everyone has to behave in a responsible manner and second, no one has the liberty to intrude into the free-living of another person. Even then, India became one of the few countries to give legal force to the social responsibility of business by the enactment of the Companies Act, 2013. This seems to be a very radical step forcing the corporate which was once recognized as a mere private economic entity to take up or add to the job of the state i.e., social welfare.

Recently India made drastic changes in the company law arena by passing the Companies Act 2013, in which section 135 specifically enforces Corporate Social Responsibility (CSR). The law is perhaps the first of its kind in Indian history recognizing the scope of utilizing corporate strengths towards fulfilling country’s social objectives (Sharma 2013). Companies Act 2013 was argued to have been enacted to meet the regulatory requirements of the emerging economic and business environment and to make the Indian legislation in par with the globally accepted standards. Increased accountability, efficient reporting, higher accountability for auditors, uncomplicated restructuring, enhanced director responsibility, social responsibility of business, democracy and supremacy of shareholders were some of the few objectives of the legislation. Companies Act, 2013 deals with the concept of Corporate Social Responsibility. By this section the companies which have a net worth of Rs 500 crores (approx. 74367246.28 USD) or more, or turnover of Rs 1000 crores (approx. 148734492.57 USD) or more or a net profit of Rs 5 crores (approx. 743672.46 USD) or more during a financial year are required to spend 2% of their average net profits of the preceding three financial years on socially responsible activities.

The first and foremost problem associated with CSR is the balance of interest between the shareholders and stakeholders. The companies who are regarded as inherently commercial will not be in a better position than the state in identifying social issues. Can corporations identify and effectively resolve the pressing needs of the society? When CSR was discretionary, it was being used by the companies as a strategic step to create the image of a responsible citizen in the minds of the public. In fact, the supposition that mandatory CSR will resolve this problem is not true which will be discussed in detail in the later part of this paper. The major policies of CSR fail to recognize the implications of social responsibility of business and the environment in which they operate. The business provides goods and services to people, provide employment opportunities and pay taxes. Is the social cohesion of the business fulfilled while doing so? CSR debate tends to de-emphasize the already prevalent legal standards. For example, there are legislations which regulate the activities of the company like the environmental laws. The labour laws set standards for the treatment of employees. The law relating to companies regulates the governance mechanisms in the companies so that the investors are not misled.
By these regulations, if suitably implemented, companies are supposed to be compelled to behave more ethically. CSR often is also viewed as a restriction of the right of the shareholders to pursue their ends.

Even though many studies had been done in the area of mandatory CSR in India, there is very less literature available on the issue of CSR in business houses. The ‘mom and pop’ image attributed to the family business in India do not exist anymore. Not just in India but also all over the world, the family business is a major contributor to the economy of a country. The Confederation of Indian Industry states that family business contributes to 60-70 percent of the gross domestic product of most of the developing as well as developed countries. As per a study by KPMG, family business contributes to two-thirds of India’s GDP. Eleven out of thirty companies that benchmark Senex are family firms contributing to 30% of the market value of Sensex (Srivastava 2011). Cadbury too, although independent that family business constitutes the foundation of world business community (Cadbury 2000). Hence, there is no debate over the fact that family business plays an important role in the economy of a country. The business family builds an image in the minds of the people that they are responsive to the needs of the society because a ‘family’ constitutes them. There is a difference of opinion on the question whether family business is more responsive to the demands of the society. Can we expect a higher rate of corporate social responsibility among family business than other business? How is the CSR of family firms different from their nonfamily counterparts? This question becomes relevant when one observes that the family-run business houses top the CSR expenditure list in India.

It is doubtless that the related party transactions are a relief at times of financial distress but in the end they prove detrimental to the interests of the shareholders. It is also observed that the managers involved in RPT’s might be involved in tunneling and ‘transfer the wealth and profits of the firms to themselves’ (Munir & Gul 2010). Granting of loans, selling of assets and writing of dues when done by the controlling authority to siphon off the funds expropriate the wealth of the minority shareholder. In the family firms, which are projected as socially responsible, the related party transactions helps to reduce the assets and profits upon which the mandatory CSR spend is calculated.

The distinct feature of a family business is the multiple roles, which a single member plays in the business. This combines management and ownership, which leads to many corporate governance contradictions. The family members are usually the independent board and chairman of the company. Offic and chairman being the same person creates governance issue regarding monitoring and decision making. The combination of these powers in one person is an obstacle to the check and balance within the corporate governance structure.

Tax avoidance is the legal means of avoiding tax. The tax is supposed to be paid from the taxable profits of a company. Paying of tax reduces the retained profits of the company. Tax planning is motivated even for competitive purposes because paying taxes reduces profits, which then reduce the value of shares. As per the artificial entity view, where the corporation is a creature of the state, the CSR activities are considered as part of the corporate mission for paying tax. Whereas, according to the real entity view, the corporation is a separate entity distinct from its shareholders and the state.

Therefore, like an ordinary citizen, the corporation can use the tax avoidance measures which are justified because of corporate considerations. When the corporation acts as an aggregate of the shareholders it would be a violation of the rights of the shareholders if a portion of their profit is used for the society. Thus in this view, CSR would be unjustified. Even though there is no express provision in the Act regarding tax incentives for CSR activities, certain CSR activities mentioned in Schedule VII of the Act is eligible for exemption from the taxable profits of the company. Here emerges a fundamental question: when a company projects itself to be socially responsible, is it proper for the company to resort to tax avoidance practices?

3. PREFERING BUSINESS GROUPS OVER STAND ALONE FIRMS

3.1. Definition of a business group

According to Khanna and Palepu, “Indian business groups are collections of publicly traded firms in a wide variety of industries, with a significant amount of common ownership and control, usually by a ‘family’” (2000:867). A business group is a “collection of firms bound together in some formal and/or informal ways” (Granovetter, 1995: 95). Khanna and Rivkin (2001) define business group as “… a set of firms which, though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated action” (p. 47-48). Khanna and Yafeh (2007:331) also say about the legally independent firms with formal and informal ties are operating in “multiple (often unrelated) industries”. According to Schneider (2009), “diversified business group is a set of legally distinct firms that operate in three or more unrelated business activities and that are subject to centralized control, usually through significant equity holdings or other financial connections” (p. 180-181).

While Leff (1978:663) stresses on the common administrative and financial control of business groups with a similar commercial background as an adherent, Strachan (1976) stresses on the long-term association of the men who manages and owns these groups. Granovetter (1995:454) on the other hand simply says about the formal and informal ties which bind groups together. Though these features are present in the Indian business houses a much more
appropriate definition was forwarded by Encarnation (1989) which stresses on the presence of “houses, strong social ties of family, caste, religion, language, ethnicity and region reinforced financial and organizational linkages among affiliated enterprises (Encarnation 1989:43). This definition seems to be more relevant in the Indian context where in the evolution of business groups, social ties of the family and caste played an important role in developing the empire for the business groups as well as accessing capital.

Khanna and Yafeh (2007) argue that the business groups share common attributes and they vary in structure, ownership (there could be vertical control as pyramid structure or horizontal control through shareholdings) and other dimensions which are the dependent on the circumstances of their emergence and are sometimes the responses to different economic conditions (for example why there are conglomerates than business houses in the United States).

3.2. Adhering to a business group structure

Schneider (2009) argues that the literature on business groups “misses the crucial external constraints or parameters that decisively shape group structure (p. 188). Ghemawat and Khanna (1998) argue that the tax code seemed, as in many other countries, to have played an important role in encouraging group formation” (p. 40). Khanna and Rivkin (2001) in ‘Estimating the Performance Effects of Business Groups in Emerging Markets’ addresses the role of business groups as a striking feature of emerging economies.

“A possible rationale for the superiority and pre-dominance of the group form in emerging markets is that the group structure insulates the controlling shareholder from institutional investor pressure and takeovers, and bestows undisputed control and economic influence with limited capital investment. The group form may be preferred also because of legal considerations, especially in relation to corporate liability and the ability of the controlling shareholder to choose not to bailout ailing group firms” (Khanna & Yafeh, 2007:341). Another reason is the benefits of a business group is mitigating the cost of diversification and in accessing international capital markets with ease “providing an extrajudicial mechanism for property rights enforcement, either by investing in reputation or through their close relationships with the bureaucracy” (Khanna and Palepu, 2000:886).

The reason for adhering to a business group structure as is that the entrepreneurs and firms can easily get access to inputs such as capital, raw materials and labour, technical and operational know-how and “markets, including distribution channels and contracts with foreign and domestic customers or with the state” (Guillem, 2000:364) where “in an emerging economy, access to resources is very sensitive to the kinds of policies that the state implements to promote economic development” (Haggard 1990 in Guillem p. 365).

Ghemawat and Khanna (1998) in their work ‘The Nature of Diversified Business Groups: A Research Design and Two Case Studies’ show that even under the Industries Development and Regulation Act 1951 and similar regulations that followed, the groups were in a better position in securing licenses and allocation of capital from state-controlled financial systems when compared with standalone companies.

This literature enlists tax (Ghemwat & Khanna 2007), unlimited control with minimum investment and access to inputs (Khanna & Yafeh 2007), reducing the cost of diversification (Khanna & Palepu 2000) as the pros of resorting to a business house structure. Also business groups “grew out of the ability to set up new business ventures across a variety of industries quickly and at low cost” (Guillem 2000:363). Khanna and Yafeh (2007) says that the business groups can act as paragons when they play a positive role in underdeveloped economies or can be parasites when they act detrimental to social welfare due to ‘rent-seeking and monopoly power’.

Even in a business house structure, the constituent firms remain legally independent and they are closely united together with a maze of economic and social ties and are mostly associated with a single extended family (Rivkin & Khanna 2001). The fact that business groups are group of firms having separate legal entity, have common ownership exercising significant financial and administrative control through equity holding and other financial connections, presence of a family and brought together by formal and informal ties is very true in the case of India where the legislation considers the companies to be independent legal entities and the business groups are mostly associated with a family. Thus arise the question why are business groups often controlled by families.

3.3. Why family pivotal in business group formation and functioning?

A “...characteristic of the system relating to control is that most Indian managing agencies were founded as partnerships among members of a single family. This nexus between the managing agency and the business family established the structural basis for the family-controlled conglomerates that have dominated the Indian economy since independence” (Reed 2002:251). Khanna & Rivkin (2001) have argued that the formal and informal ties of family can be used as mechanisms “through which intragroup transaction costs are lowered, by encouraging information dissemination among group firms, reducing the possibility of contractual disputes, and providing low-cost mechanisms for dispute resolution” (Khanna and Rivkin 2001:50).

Bagchi (1967) says about the presence of Hindu joint family and ‘unorganised’ money market as potential weapons in the hands of big business in India. It criticizes that most of the company law reforms in India are making life easier for the investor. “If therefore we encourage the continued existence of private property in industry and thereby of concentration of private economic power we shall be condemning ourselves to a system of inefficient autarky- a state of affairs abhorred by all liberal economists; that such a state of affairs is also inimical to long-term economic growth has not somehow been appreciated by all socialists in India” (p.1618).

This element of family ownership and control (through the interlocked holding of shares, related party transactions, and common directors) are not addressed by the legislation in India. Further, the various institutions of doing business in India such as the Hindu Undivided Family, Partnerships, Limited Liability Partnerships, companies are helping the
business houses to tunnel their assets across these institutions to escape from the liabilities prescribed under various legislations. The concentrated ownership and family control leads to tunneling and expropriation of the minority shareholders is addressed as a major issue of corporate governance (Ghemawat & Khanna 1998). It is also recognized that the pyramidal control structures, cross-shareholding are helping the families control corporations with minimum investment. If a few families control large swaths of an economy, such corporate governance problems can attain macroeconomic importance affecting rates of innovation, economy-wide resource allocation, and economic growth” (Morek, Wolfenzon, & Yeung 2005:653).

4. ADOPTION OF CORPORATE GOVERNANCE CODE IN INDIA

Reed (2002) ‘Corporate Governance Reforms in India’ article questions the adoption of the Anglo-American model of corporate governance and their efficiency when applied to the Indian context. The models of governance developed by the political and economic elites have served their own interests than the interest of the society as a whole. The traditional market-based corporate governance models focus on the financial practices that aim at governing corporate performance (American Law Institute, 1982, 1990; Cadbury, 1993; Charkham, 1989; Hart, 1995; Kay & Silberston, 1995; Lowenstein, 1996; Shleifer & Vishny, 1997; Williamson, 1988). Researches (Millar et al 2005) have shown that no country has a perfect system of corporate governance “and that in the international context of the 21st century the ideal system is most likely to be a holistic combination of several existing successful systems” (Millar et al. 2005:163). Murthy (2011-2012) says that there are three players in corporate governance: the shareholder, management and directors who are elected by shareholders and accountable to them. The major objective of corporate governance should eliminate the asymmetry of benefits between the owner-managers and the rest of the shareholders which has been the aim of the different committees on corporate governance. Supporting the argument of Reed (2002), Som (2006) ‘Corporate Governance Codes in India’ argues that the ‘transplanting of international corporate governance practices’ cannot resolve the problems regarding the ownership concentration, creditor participation, prevalence of insiders and promoters and disclosure, transparency and enforcement practices. Most of them addresses only three areas: independence of the board, responsibilities of institutional investors or shareholders and transparency of business structure and organization (p.4156). The failure of ownership structures, failure of boards and accounting practices are commonly agreed features of corporate governance practices. The concept of dominant shareholders is unstructured as there is difficulty in establishing the total effective holding where the proportionate amount to be spent on CSR activities. Moreover, the small firms which actually contribute to the profit of the business houses are exempted from the liability of the CSR criteria.

These processes are demonstrated in this research through a case study of Reliance Industries Limited (RIL) which is rated as one of India’s top companies for CSR.

As per the Annual Reports of RIL, its CSR expenditure had increased from Rs. 351 crores (approx. 52205806.89 USD) in 2012-13 to Rs. 711.72 crores (approx. 105857313.052 USD) in 2013-14. In 2014-15, the expenditure reached Rs. 760 crores (approx. 113038214.35 USD). This study demonstrates how the company which is the largest contributor to CSR in India is actually taking the benefit of reducing the CSR liability as well as tax avoidance through the structure of interholdings.

Through this detailed case study, this research addresses the following questions:

1. How effective is the existing law on CSR, drafted for the individual independent firms in the case of business houses?
2. Do business houses through their inter-holding (common ownership and control) take advantage of the legislation to reduce the CSR expenditure?
3. Do related party transactions help in tunneling the wealth of the firm to directly affect CSR expenditure?
4. Does the ‘family managing system’ (such as common directors in related firms) help the business house in managing the transfer of assets and profits thereby reducing CSR liability?
5. If the business house is taken as a single independent entity, would the actual CSR paid by the dominant shareholder or the single controlling authority be much less than the required CSR spend?
Given that the expenditure on CSR can be claimed as a deduction from the profits of the company, can CSR practices as a means of tax avoidance itself be seen as corporate social irresponsibility?

5. METHOD

5.1. Data source for the case study

The major sources of information are:
1. Annual Reports of Reliance Industries Limited for the financial years 2012-13, 2013-14 and 2014-15. (The reason for selecting these years is to find out the difference in CSR expenditure before and after the enforcement of the legislation.)
3. Annual Financial Statements of the companies whose shares are held by Reliance Industries Limited.
4. Information has also been accessed from the websites of Securities and Exchange Board of India, National Stock Exchange, Bombay Stock Exchange and the Ministry of Corporate Affairs. Other sources include:
   2. Standing Committee Reports on Companies Bill 2011 and 2012.

5.2. Method of analysis

The method used for the case study follows from Mazumdar (2006). Using the information provided in Annual Financial Statements of companies affiliated to Reliance Industries Limited, the nature of interholdings, related party transactions and interlocking directorships have been studied for 88 RIL group companies. The CSR spending and profits have been traced through this maze of interlocks to arrive at the overall CSR spending of the group spread across these companies as a percentage of total profits of the group. The details of CSR spending have been accessed from the annual reports of Reliance Industries Limited for the year 2013-14 and 2014-15. The Annual Financial Statements of the companies whose shares are held by Reliance are taken from the website of Reliance Industries Limited. 88 Indian Companies were identified as the subsidiaries and associates of Reliance Industries Limited. As majority of companies do not have their own websites, the information as provided in the website of Reliance Industries Limited was used for the study. A request for information under the Right to Information Act was also filed to the Ministry of Corporate Affairs to get the documents relating to the company which is mentioned as a public document but still not accessible in the websites. A detailed analysis of the documents was made to find out the shares held by Reliance Industries Limited in other companies. The related parties were also identified. A sample of five out of the 88 companies are analysed in detail to illustrate the inter-holding structure. The table in the later part of the paper illustrates how companies, based on the classifications specified in the Companies Act 2013 are escaping CSR liability and avoiding tax because of being regarded as single independent entities while in reality, they are part of an interlocked family owned business group. If the profits spread over all these companies were added to the profits of Reliance Industries Limited, then we find that the actual amount spent by Reliance Industries Limited as a group for CSR related activities is much less than the mandatory 2% rule.

6. THE CASE STUDY OF RELIANCE INDUSTRIES LIMITED

The need for a CSR legislation, the desirability of penal provision, competitive efficiency of an enterprise on compromising the long-term social and human resource base, ethical obligation of corporate managers, constitutive aspects of the burden of social responsibility to the corporates, violation of the rights of shareholders, rationale for 2% minimum spend are the major debates in CSR. But the major departure point for this research is to explore whether the CSR legislation takes into account the institutional structure and practices of business houses in India - an aspect which is missing in the literature so far. This paper explores the efficacy of the CSR law with respect to ‘business houses’. It is a well-accepted argument that family firms are unique and the internal governance and CSR of family firms are different from nonfamily firms (Whetten & Mackey 2005). But both the literature on CSR and the legislation assumes every firm (company) to be a single entity in itself. However, since the 1960s with the Hazari Report, it was well-established that the structure of business houses in India is based on family run business groups where many firms are looped and interlocked (Mazumdar 2006; Das Gupta 2010, 2013). Thus assets and profits are organized across firms. Similar to the inter-locked holding structure, each company has related party transactions with many other companies in the form of subsidiaries, associates, through key managerial personnel, beneficiaries and the like. Also, a handful of directors sit across the interlocked companies.

Even in the matter of ‘Disclosure Norms’ in corporate governance laws, the unit of analysis taken is a firm as a single independent unit. The norms and the governance aspects dealt under the legislation are not structured to meet the practical scenario in the business houses where the assets and profits are organized across the firms. The corporate giants spend a lump sum amount for CSR activities which may be a percentage of the profit of their main company. Whereas the actual profit of the firm may be spread across different companies which do not fall under the criteria for CSR liability by the law thereby over-representing the CSR expenditure of the business houses.

Thus, the present law relating to CSR reporting does not address the structure of firms within business houses. Altogether, this lacuna in CSR legislation is being used by the business houses as a strategy to maintain their image as responsible corporate citizens but using the lacuna to contribute a much lower proportion of their profits across firms as contributions towards CSR. This is our central argument in this paper.

This paper demonstrates these issues of the inefficacy of the existing law on CSR for business houses, the use of CSR as a tool for tax avoidance and how the business houses through their inter-locked holdings are taking advantage of the legislation to over-report CSR expenditure. These are illustrated.
with the help of a case study on Reliance Industries Limited.

There are two reasons for selecting Reliance Industries Limited as the case study. Reliance Industries Limited is listed as the biggest contributor of CSR in India and is the largest private sector company in India. The Parliament (Lok Sabha 26 Feb 2016) was informed by the Government that Reliance Industries Limited is the top company in terms of CSR expenditure spending rupees 760 (760.58) crore (approx. 113038214.35 USD) in the financial year 2014-15 for which the Companies Act, 2013 has been in effect. Reliance Industries Limited is also marked as the top CSR company by the India CSR-Outlook Survey 2015 (NGOBOX 2015). RIL is also ranked in 158th position in the 2015 Global Fortune 500 list (RIL 2015). Reliance Industries Limited is thus one of India’s top companies lauded for its CSR and corporate sustainability. In the sections which follow, we investigate the interlocks in holding structures, profits and CSR contributions of 89 companies in the Reliance group based on analysis of annual financial statements and reports of these companies. The year of analysis is limited to the financial years 2013-14 and 2014-15. As per the Annual Reports of Reliance Industries Limited the CSR expenditure had increased from Rs. 351 crore (approx. 52205806.89 USD) in 2012-13 to Rs. 717.72 crore (approx. 105857313.052 USD) in 2013-14 and in 2014-15 the expenditure reached Rs. 760 crores (approx. 113038214.35 USD) which is 3.35 % of the profit after tax. This research demonstrates how the company which is the largest contributor to CSR in India is actually taking the benefit of reducing the CSR liability as well as tax avoidance through inter-locked holdings. The study also highlights the compliance of mandatory corporate governance mechanisms by Reliance Industries Limited.

6.1. Reliance industries limited

The story of Reliance Industries and the Ambani brothers have informed many discussions in the history of Indian business sector. The Reliance group, India’s largest business empire was built by Dhirubhai Ambani. After the partition, the enterprise of Mukesh Ambani assumed the name ‘Reliance Industries Limited’ (RIL). Mukesh Ambani is the Chairman of RIL, the largest private sector company in India with a consolidated turnover of rupees 3,88,494 crores (approx. 57782457956.5 USD) and a net profit of rupees 23,566 crores (approx. 350577051.9 USD) as on March 31, 2015 (RIL 2015).

Reliance Industries Limited is the first private company from India to be listed in Fortunes Global 500 list 2014 and is the 11th consecutive year in which it is featured. RIL is ranking 114th in terms of revenues and 155th in terms of profits. Reliance is also listed as India’s greenest and most environmentally friendly company. Currently, RIL has 148 major products across energy and service sectors. It is the second largest producer of polyester fiber, fifth largest producer of Purified Terephthalic acid, sixth largest producer of paraxylene and polypropylene and eighth largest producer of Mono Ethylene Glycol globally (RIL 2015). RIL contributes to 14% of India’s exports, 4.8% of India’s indirect tax revenues and 4% of the total market capitalization in India (RIL 2013). RIL claims to spend 3.35% of their profit after tax for corporate social responsibility (RIL 2015). For the above reasons, this research focuses on Reliance Industries Limited (RIL) as a case study.

6.2 CSR of reliance industries limited

“For RIL, business priorities co-exist with social commitments to drive the holistic development of people and communities” (RIL 2015). As per the RIL report on its CSR activities, the core areas of action include rural transformation, health care, education, environment, protection of national heritage and disaster response. The company has been involved in various social responsibility initiatives all of which were brought under the Reliance Foundation in 2010. The following table shows CSR expenditure of RIL and areas of expenditure.

<table>
<thead>
<tr>
<th>Financial year</th>
<th>CSR expenditure (Rs./USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>Rs. 3510000000 / 52205806.89 USD</td>
</tr>
<tr>
<td>2013-14</td>
<td>Rs. 7172000000 / 105857313.052 USD</td>
</tr>
<tr>
<td>2014-15</td>
<td>Rs. 7600000000 / 113038214.35 USD</td>
</tr>
</tbody>
</table>

Table 1. CSR Expenditure of RIL.

<table>
<thead>
<tr>
<th>Area of expenditure</th>
<th>2013-14 (Rs./USD)</th>
<th>2014-15 (Rs./USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural Transformation</td>
<td>1650000000/24341191.274</td>
<td>1263300000/18789628.44</td>
</tr>
<tr>
<td>Healthcare</td>
<td>4166900000/61976175.70</td>
<td>6082500000/90467755.10</td>
</tr>
<tr>
<td>Education</td>
<td>8076000000/12011797.62</td>
<td>2180000000/3242141.93</td>
</tr>
<tr>
<td>Environment</td>
<td>5200000000/77341.93</td>
<td>4200000000/62468.48</td>
</tr>
</tbody>
</table>

Table 2. Area of expenditure of RIL.

In the Director’s report, it is stated that the company had actually exceeded the minimum CSR requirement. Instead of the prescribed 2% of profit, the company is spending 2.85% of the average net profits on CSR. The average profit of the company for the preceding three financial years is rupees 26648 crores (approx. 3963476758 USD). The CSR expenditure required as per this would be 532.96 crores (approx. 7926953.16 USD). Reliance claims to spend 760.58 crores (approx. 113124480.35 USD) on CSR activities. Out of the 760.58 crores (approx. 113124480.35 USD), 719.83 crores (approx. 107063549.78 USD) are spent through Reliance Foundation. A lump sum contribution of 553.89 crores (approx. 82382548.08 USD) was given to a single entity, the Sir H N Reliance Foundation Hospital, and Research Centre. Reliance Foundation is a section 8 company under the Companies Act whose aim to aid in India’s pressing development challenges. Even though the Director’s report states that some of the CSR activities are carried out through some charitable institutions and non-governmental organizations, the names and details of those are not stated in the Director’s Report.
6.3. Nature of interholding in reliance industries limited

Most of the business entities today do not exist as a single unit. They have subsidiaries, associates and joint ventures which has become an integral part of the corporate structure. Each of these units exists as a separate legal entity whose shares are partly or wholly owned by the parent companies. There are two main reasons for creating subsidiaries. It can be a means to expand the business and ease the function of management. Secondly, this can be used as a means to limit the liability of a company. To completely evaluate the performance of a firm, the performance of the subsidiaries should also be considered. Similarly, the profit a subsidiary is included in the assets of the parent company, the poor performance of the subsidiary is also affecting the performance of the parent company.

Yet another reason for the creation of subsidiaries is tax avoidance. The creation of subsidiaries in tax haven countries is not unusual. In business, companies create subsidiaries which are registered in the name of the controlling beneficial owner. The situation is entirely different in the case of business houses. Here there is the ‘ultimate commonality of ownership’ (Murphy 1998:241) where the entire set of companies work for the benefit and increasing returns of the entire group or at least the parent company. The interholding in Reliance Industries Limited, where the ultimate beneficiary is RIL itself, is a clear depiction of this ‘ultimate commonality of ownership’. Even though the law requires each company to be a separate legal entity, managed by its own board of directors, in the case of business houses the parent company exercises significant control over their appointment thereby influencing the management of the subsidiary company. Similarly, stock and supplies are transferred from one company to another in financial performance of one company improves the financial performance of another. The loss of one company influences the other. The business is generated from common assets. Losses and profits can also be spread across group companies to underplay profits and hence taxes and other pay-outs. Thus the ‘separate legal entity’ of the parent company is a misrepresentation. When the subsidiaries help in reducing the liability, the other side of the same coin helps the parent company to manage the assets and profits of the firms.

Out of the 89 companies analysed in the study, a sample of 3 companies (Web 18 Software Services Limited (Figure 1), Strategic Manpower Solutions Limited (Figure 2) and Surela Trading and Investments Private Limited (Figure 3) are elaborated upon.

Network 18 Media and Investments Limited is a major subsidiary of RIL. The company has 23 Indian subsidiaries out of which only five are on profit. The rest 18 companies are on loss. Reliance Strategic Investments Limited, whose holding company is RIL, has three subsidiaries, Reliance Global Commercial Limited, reliance Universal Commercial Limited and Reliance Petro Investments Limited. All the three subsidiaries are loss-making. Similarly, Reliance Commercial Land and Infrastructure Limited which is a profit making company has 10 Indian subsidiaries out of which the only one i.e., Corporate IT Park is profit making. Nine subsidiaries are loss-making companies. Independent media Trust exercises control on almost all the companies. It is important to note that Reliance Industries Limited is the sole beneficiary of Independent Media Trust. This interlocked holding structure is used by the large industries to manage profit. The small companies whose shares are held by RIL help to spread profits and assets across firms and manage profits.

6.4. Nature of related party transactions in reliance industries limited

Transactions between the company and related party pertain to sale, purchase or supply of any goods or materials, selling or otherwise disposing of or buying property of any kind, leasing of property of any kind, availing or rendering of any services, appointment of an agent for sale or purchase of goods, materials, services, appointment to any office or place of profit in the company, subsidiary company or associate company and underwriting the subscription of any securities or derivatives thereof of the company are the transactions which are deemed to be related party transactions (Section 188 Companies Act 2013). If a company enters into any transactions which are in the ordinary course of business and in such a way that there is no conflict of interest, then this provision will not be applicable (Proviso to Section 188 Companies Act 2013). Irrespective of the value of the transaction as well as the value of the company, the transaction has to be approved by the Board of Directors at a duly convened meeting. The name and nature of the transaction, the relationship of the related party, duration of contract, material terms of contract, any amount of advance paid, and all other factors which are relevant to the contract has to be disclosed. Any director who is having an interest in the transaction has to disclose the same. The details of the transaction have to be disclosed in the Board’s Report. The looped nature of related party transactions of few companies of RIL is mapped out in in the appendix (Refer Figure 6, Figure 7, Figure 8).

The Companies Act, 2013 has widened the scope of Related Party Transactions (RPT) by including more transactions within the purview of RPT and the need for approval of the Board. But if the board is none but the owners of the company then this legislation is becoming unfruitful.

Similar to the interholding structure, each company is having related party transactions with many other companies in the form of subsidiaries, associates, through key managerial personnel, beneficiaries and the like. Even the foreign entities are related parties of the company whose shares are held by Reliance. Therefore, through the related party transactions, it is clear that with the help of subsidiaries, key managerial personnel, associates etc they are controlled by Reliance Industries Limited which should be analysed as a single unit. The business house continues to exercise ultimate control and will be the controlling shareholder. This is done directly as well as indirectly. The direct control is through the exercise of voting rights on shares which are registered in the name of the controlling shareholder. The indirect control is through the exercise of the voting rights by the entities whose shares are held by the controlling shareholder i.e., the business house.

Thus, the related party transactions help the companies to manage assets and liabilities. The larger the number of related party transactions, the larger is the scope for reducing the assets and increasing the liability thereby reducing the tax liability. It creates information asymmetry and easily moves the wealth
of the firm. The listed firms transfer the profits to unrelated related entities which distorts ‘financial statements leading to greater information asymmetry and a general erosion of confidence in the firm’ (Yeh, Shu and Su 2012:756). The information asymmetry occurs due to the separation between ownership and control. The Securities Exchange Commission (SEC) has advocated for strict disclosure norms relating to RPT by the audit committee or by the independent directors.

The Companies Act 2013, though it stipulates disclosure norms in case of related party transactions fails to analyse this as a single unit in the matter of CSR. Related Party Transactions are the nominal part of a business, but unless regulated strictly this will lead to tunneling which leads to expropriation of the shareholders’ wealth. Thus, legislation without loopholes combined with an effective fair management is very much required to control this. In the case of Reliance Industries Limited, the fair management is very much doubtful. The RPT’s should be approved by the director or the board. But what happens if the directors are the interested parties itself through the use of inter-holdings?

6.5. Exercising control through directors

The complete list of directors of each company was not available. However, a handful of directors (a sample of 5 is selected from 150 directors) sit across the interlocked companies. So far, there is no evidence that they are violating the ceiling prescribed by law. As per section 165 of the Companies Act 2013 no person shall hold office as a director including any alternate directorship, in more than 20 companies at the same time. Provided that the maximum number of public companies in which a person can be appointed as director shall not exceed 10.

These illustrations underline the fact that the holding companies, as well as the subsidiaries, are being managed by same persons. They cannot, therefore, be concluded as separate legal entities. The holding companies are not only being used to spread assets and profits across inter-lockings but are being managed by the same hands.

This structure adds to the point that a handful of directors are managing the affairs of the company whose shares are indirectly held by Reliance Industries Limited. Therefore, we can conclude that the law is not the ultimate solution but an internal governance structure to effectively give effect to the legislation is equally important. Moreover, the law should never be a ‘one size fits all’ solution. The law holds good when each individual company is analysed as a separate legal entity. But this is very much ineffective in the case of business houses.

6.6. CSR compliance

The analysis of CSR compliance is demonstrated in Table 4. The table shows the number of companies reporting loss, total reported loss of loss-making companies, number of profit-making companies, total reported profit of profit-making companies, total CSR spending and the percentage of profit spend for CSR activities for the year 2013-14 and 2014-15. Out of the list of subsidiaries and associates of Reliance Industries Limited for the year 2013-14 and 2014-15, only the Indian subsidiaries and associates are analysed.

Table 3. List of directors holding directorship in different reliance companies

<table>
<thead>
<tr>
<th>Sudhir Kumar Jain</th>
<th>Sanjiv Kulshreshtha</th>
<th>Ramesh Kumar Damani</th>
<th>Gaurav Jain</th>
<th>Dhiren V Dalal</th>
</tr>
</thead>
</table>

Table 4. Table showing the actual CSR spend for the year 2013-14 and 2014-15

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of RIL companies reporting loss</th>
<th>Total reported loss of loss-making companies (Rs./USD)</th>
<th>No. of RIL companies reporting profit</th>
<th>Total reported profit of profit-making companies (Rs./USD)</th>
<th>Total CSR spending (Rs./USD)</th>
<th>Actual CSR as percentage of profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>64</td>
<td>4,537,027,444/6777816,45</td>
<td>24</td>
<td>6176,550,095/1606,68123,93</td>
<td>2,210,522,651</td>
<td>0.733029</td>
</tr>
<tr>
<td>2014-15</td>
<td>64</td>
<td>5,012,132,491/8347260,23</td>
<td>24</td>
<td>7,499,702,443/1115,46443,72</td>
<td>1,887,390,352</td>
<td>0.345789</td>
</tr>
</tbody>
</table>
In the year 2013-14, 64 companies whose shares are held by RIL reported loss. The total reported loss is being Rs. 4,557,027,444 (approx. 67778716.45 USD). In the same year, 24 companies whose shares are held by Reliance reported profits. The total reported profit was Rs 67,675,509,85 (approx. 100656812.93 USD). The total reported profit of combining the returns of the 88 companies studied is Rs 2210522651 (approx. 32878096.48 USD). As per the Annual Financial Statements of 88 Reliance group companies, no amount is spent for CSR (Table 4). Only RIL shows a CSR spending of Rs. 711.72 crores (approx. 10585731.052 USD) in 2013-14.

The Companies Act including CSR provisions was effective from the year 2014-15. The high-level committee appointed by the Ministry of Corporate Affairs for recommendations to the provision of CSR recommended that an initial period of two years should be given to companies to comply with Section 135. No strict penalty has to be imposed on the companies who violate this provision.

In the year 2014-15, the number of loss-making and profit making companies remained the same. The loss of 64 loss-making companies was reported at Rs 5612192491 (approx. 83472660.23 USD). The profit of 24 profit making companies was reported as Rs 7499702443 (approx. 111546443.72 USD). The total reported profit is rupees Rs 1887509052 (approx. 28073783.49 USD). The total amount spent on CSR was Rs 13836000 (approx. 205789.04 USD). Without questioning the reports of profit on paper (as per the financial statements) the reported CSR is 0.73% of profits. However, the mandatory spent on CSR should be 2% of the profit. RIL claims that they have spent 3.35% of the profit for CSR activities. Another study conducted by the Companies Act, 2013 also supports this conclusion that RIL is not spending the required 2% CSR. The result of the study of Shin et al. (2015) states that the average profit after tax of RIL is rupees 21138 crores (approx. 3143949703.94 USD). The actual CSR expenditure is rupees 288 crores (approx. 42835533.86 USD) whereas the required CSR expenditure would be rupees 423 crores (approx. 62914690.35 USD). As per their study RIL is spending 1.36 percentage of their average net profit for CSR. The study calculated CSR on 'profit after tax' whereas the Ministry of Corporate Affairs through General Circular No. 01/2016 dated 12th January 2016 asserted that CSR should be calculated on 'profit before tax'. If the CSR is calculated on profit before tax, then the percentage of CSR expenditure would further go down. Thus we can infer that if the profits of all the companies whose shares are owned by RIL and de facto controlled by RIL, percentage of profit actually spent on CSR is much lower than the mandatory requirement prescribed under the Companies Act, 2013.

The Ministry of Corporate Affairs in their FAQ dated 16th January affirmed that whether it be a holding company or a subsidiary company, the company has to fulfill the criteria given under section 135(1) of the Companies Act, 2013. If the subsidiary company is not falling under the criteria prescribed under the Act for mandatory CSR, then it need not comply with it regardless of the fact that the holding company fulfills the criteria. The Companies Act, 2013 for CSR purposes account a subsidiary company as a separate legal entity. A subsidiary company can very well avoid the CSR liability if it is not falling under the mandatory CSR policy. The holding company has to comply with the mandatory CSR only when it falls under the criteria. But the profits and assets of the holding company are linked to the profits of the subsidiaries due to the nature of interlocks. Thus the consideration of subsidiaries and holding company as distinct entities is a loophole in the law as the profits and assets are linked across the companies.

### 6.7. Violation of disclosure norms

Acquiring the controlling power through inter corporate investment is not new in business. The inter corporate investments and loans were not always for investment and advance of the business. The existence and working of multiple entities (especially a disproportionate number of loss-making entities) has often raised doubts. Majority of the subsidiaries under RIL exist on paper. But proper websites which was the most accessible way to get information about them was not available though it is mandatory to have a website for each company. These companies help the main single controlling entity to purchase their own shares indirectly and transfer the profits and losses to them. The Hazari Report of 1986 and the Dutt report of 1972 recommended the need for establishing 'business group' or the 'business house' as the representative unit of capital in the Indian industrial sector. This was recommended taking into account the larger number of individual legal entities which work as a single unit under the control and management of a single decision making authority (Das Gupta 2010). This is referred to as the 'chains of control' where the central controlling authority exercises control indirectly through inter corporate investments. Section 185 of the Companies Act deals with loans to directors and Section 186 of the Companies Act deals with investments and loans by companies. Even though the section specifies some governance measures, the measures seem to be inadequate as the controlling authority remains the same directly or indirectly through the directors and related parties.

Even in the matter of 'Disclosure Norms' the unit of analysis taken is a firm as a single unit. The norms and the governance aspects dealt under the legislation are not structured to meet the practical scenario in the business houses where the assets and profits are organized across the firms. Well-drafted disclosure norms cannot solve the governance issue when the structure of business houses remains unaddressed.

Disclosure of violation showed no severe penalty especially in the case of CSR. Section 134(o) of the Act requires that the Board of Directors of the company should disclose the CSR policies developed and implemented by the company. In case of contravention of the provision, it shall be punishable with a fine, not less than fifty thousand rupees that may extend up to twenty-five lakh rupees. The officer in default is also punishable with imprisonment for a term, which may extend up to three years or with a fine of not less than fifty thousand rupees, which may extend up to five lakh rupees.

Another substantial provision is the penalty under Section 444G came into effect from 12th September 2013 of the Act. This section provides a punishment in cases where there is no penalty prescribed under any other section. According to this section, if a company fails to comply with the provisions of the Act, then the company, as well as the officers on default, will have to pay a fine which
may extend to rupees ten thousand and rupees thousand for each day of contravention. The High-Level Committee appointed by the Ministry of Corporate Affairs in their report dated 22 September 2015 asserted that the punishment provided in the Act regarding CSR is adequate.

7. CONCLUSION

The case study of RIL reveals the inefficacy of the CSR provisions of the Companies Act 2013 in the case of business groups. The law recognizes neither the link between family and firm, nor the structure of the business group as a corporate entity. After the repeal of the Monopoly and Restrictive Trade Practices Act (the only legislation in India which was based on recognizing the business group as the unit of organization of Indian business) as part of the liberalization policies adopted in 1991, there is no other law except the Companies Act 2013, the Indian Partnership Act 1932 and the Limited Liability Partnership Act 2008 which deals with the question of regulation of business and corporate governance. While the last two aforementioned Acts are beyond the scope of this thesis, our survey of CSR practices and the structure of corporate governance of the RIL group shows the inefficacy of the Act in ensuring CSR compliance.

Even when the Companies Act 2013 has numerous corporate governance provisions, it still fails to identify the structure of business groups exercising organizational and management control over the ‘relational firms’. The corporate entity theory protects the single controlling authority even when the separate legal entities are owned and managed by the same hands. The business houses who are claiming to be responsible corporate citizens are managing the assets and profits which will directly influence the CSR expenditure of the firm.

The law which is structured to regulate the business and conduct of the corporate considers each company incorporated under the Companies Act as a separate legal entity. While adhering to the letters of law, this law will have to be applied in a similar manner both for the single entities as well as the corporate group. The ‘relational firms’ (Orts 1998:313) through their complex interholding structure acts as a single economic unit. When the group as a whole is pursuing common goals and common interests, where the authority remains in a single controlling entity, the firms need to be considered as one and the law applied accordingly. If applied to the individual firms as separate and discrete units, as our case study of RIL shows, the law becomes ineffective. This question of the efficacy of the law is central to not only the question of CSR but has larger ramifications for all aspects of regulation of corporate governance structures in India.

It can be argued that it is too early to analyse the effectiveness of the CSR provision in this short span of two years. However, our study focuses on the lacunae in the law itself as the explanation of its inefficacy, which does not have self-correction over time. The major lacunae are the non-recognition of the family-owned business group as the institutional unit of organization of business in India. Instead, the law conceives the institutional unit of Indian business as single independent firms. Our study shows that the explanation of the low CSR spend lies in this lacuna.

Given the time constraint, many other aspects of corporate governance practices of business groups like the actual transfer of assets, bad debts, loans and advances with the related parties, which supports in establishing the relation between RIL and other companies could not be analysed in detail. The proportion of emolument provided to the key persons in the management and the employees of the company could not be studied in detail. More information which is not easily available in the public domain like the internal and external CSR activities of RIL could not be studied in this dissertation, The CSR done through the Reliance Foundation also remained difficult to access in the course of this research. Studies of other major business groups would be necessary to test the propositions that we have arrived at in this dissertation. These questions need to be pursued in continuation to this study.

However, within a limited scope, I have arrived at a conclusion, which has implications not just on CSR legislation but also on all law and regulations pertaining to corporate governance in India. I end this paper with the conclusion that recognition of the family-owned business group, as the basic institutional unit of Indian business is a necessary condition for the efficacy of corporate governance legislation in India.

REFERENCES


Figure 1. Interholding structure of companies under the study
Figure 2. Interholding structure of companies under the study
Figure 3. Interholding structure of companies under the study
Figure 4. Related parties in the companies under study

1. INDEPENDENT MEDIA TRUST
2. ADVENTURE MARKETING PRIVATE LIMITED
3. WATERMARK INFRATECH PRIVATE LIMITED
4. COLORFUL MEDIA PRIVATE LIMITED
5. RB HOLDINGS PRIVATE LIMITED
6. RB MEDIA HOLDINGS PRIVATE LIMITED
7. RB MEDIASOFT PRIVATE LIMITED
8. RRB MEDIASOFT PRIVATE LIMITED
9. NETWORK18 MEDIA AND INVESTMENTS LIMITED

1. RELIANCE INDUSTRIES LIMITED
2. RELIANCE INDUSTRIAL INVESTMENTS AND HOLDINGS LIMITED

1. E-18 LIMITED, CYPRUS
2. E-EIGHTEEN.COM LIMITED
3. TV18 BROADCAST LIMITED
4. STARGAZE ENTERTAINMENT PRIVATE LIMITED
5. IMG RELIANCE LIMITED
6. RELIANCE CORPORATE IT PARK
7. RELIANCE CORPORATE IT PARK

1. VIACOM 18 MEDIA PRIVATE LIMITED

1. MR. ASHISH HEMRAJANI
2. MR. RAJESH BALPANDE
3. MR. PARIKSHIT DAR

BIGTREE ENTERTAINMENT PVT LTD

JOINT VENTURE OR ENTERPRISES EXERCISING CONTROL

KEY MANAGERIAL PERSONNEL

FELLOW SUBSIDIARIES

ENTERPRISES EXERCISING CONTROL

BENEFICIARY/PROTECTOR OF INDEPENDENT
Figure 5. Related parties in the companies under study

HOLDING

RELIANCE INDUSTRIES LIMITED

1. RELIANCE GAS CORPORATION LIMITED
2. RELIANCE SECURITY SOLUTIONS LIMITED
3. RELIANCE CORPORATE SERVICES LIMITED
4. RELIANCE INDUSTRIES INVESTMENT AND HOLDING LIMITED
5. MARK PROJECT SERVICES PRIVATE LIMITED
6. GENNEXT INNOVATION VENTURES LIMITED
7. RELIANCE GLOBAL BUSINESS B.V.
8. RECORN (MALAYSIA) SDN BHD
9. RELIANCE DO BRASIL INDUSTRIA E COMERCIO DE PRODUTOS TÊXTEIS, QUÍMICOS, PETROQUIMÍCOS E DERIVADOS LTDA
10. WAVE LAND DEVELOPERS LIMITED
11. RIL USA INC.
12. RELIANCE UNIVERSAL ENTERPRISES LIMITED
13. RELIANCE ENERGY AND PROJECT DEVELOPMENT LIMITED
14. RELIANCE AROMATICS AND PETROCHEMICALS LIMITED
15. RELIANCE CHEMICALS LIMITED
16. RELIANCE POLYOLEFINs LIMITED
17. RELIANCE RETAIL FINANCE LIMITED
18. RELIANCE RETAIL INSURANCE BROKING LIMITED
19. RELIANCE WORLD TRADE PRIVATE LIMITED
20. RELIANCE INNOVATIVE BUILDING SOLUTIONS PRIVATE LIMITED (FROM 30.03.2015)
21. OFFICE DEPOT RELIANCE SUPPLY SOLUTIONS PRIVATE LIMITED (FROM 27.03.2015)
22. RELIANCE AEROSPACE TECHNOLOGIES LIMITED
23. RELIANCE SIBUR ELASTOMERs PRIVATE LIMITED
24. KANHATECH SOLUTIONS LIMITED
25. INDIAWIN SPORTS PRIVATE LIMITED
26. RELIANCE COMMERCIAL LAND & INFRASTRUCTURE LIMITED
27. RELIANCE CORPORATE IT PARK LIMITED
28. RELIANCE EMINENT TRADING & COMMERCIAL PRIVATE LIMITED
29. RELIANCE PROLIFIC TRADERS PRIVATE LIMITED
30. RELIANCE PROGRESSIVE TRADERS PRIVATE LIMITED
31. RELIANCE UNIVERSAL TRADERS PRIVATE LIMITED
32. RELIANCE PROLIFIC COMMERCIAL PRIVATE LIMITED
33. RELIANCE COMTRADE PRIVATE LIMITED
34. RELIANCE AMBIT TRADE PRIVATE LIMITED
35. RELIANCE VANTAGE RETAIL LIMITED
36. SURELA INVESTMENT AND TRADING PRIVATE LIMITED
37. STRATEGIC MANPOWER SOLUTIONS LIMITED
38. RELIANCE CORPORATE CENTRE LIMITED
39. RELIANCE CONVENTION AND EXHIBITION CENTRE LIMITED
40. RELIANCE PEOPLE SERVE LIMITED
41. RELIANCE INFRASTRUCTURE MANAGEMENT SERVICES LIMITED
42. RELIANCE PAYMENT SOLUTIONS LIMITED
43. RELIANCE JIO DIGITAL SERVICES PRIVATE LIMITED (UPTO 22.09.2014)
44. RELIANCE JIO MEDIA PRIVATE LIMITED (FROM 02.01.2015)
45. RELIANCE JIO ELECTRONICS PRIVATE LIMITED (UPTO 08.01.2015)
46. RELIANCE EXPLORATION & PRODUCTION DMCC
47. CENTRAL PARK ENTERPRISES DMCC
48. GULF AFRICA PETROLEUM CORPORATION
49. GAPCO UGANDA LIMITED
50. GAPCO KENYA LIMITED
51. TRANSENERGY (KENYA) LIMITED
52. GAPCO RWANDA LIMITED (UP TO 05.08.2014)
53. GAPCO TANZANIA LIMITED
54. GAPOIL (ZANZIBAR) LIMITED
55. RELIANCE ETHANE HOLDING PTE LIMITED (FROM 04.09.2014 TO 01.03.2015)
56. ETHANE PEARL LLC (FROM 10.09.2014 TO 01.03.2015)
57. ETHANE TOPAZ LLC (FROM 10.09.2014 TO 01.03.2015)
58. RELIANCE JIO INFOCOMM LIMITED
59. RELIANCE RETAIL VENTURES LIMITED
60. RELIANCE RETAIL LIMITED
61. RELIANCE ETHANE HOLDING PTE LIMITED (FROM 02.03.2015)

SUBSIDIARY COMPANIES

RELIANCE INDUSTRIAL INVESTMENTS AND HOLDINGS LIMITED

FELLOW SUBSIDIARY COMPANY

1. RELIANCE STRATEGIC INVESTMENTS LIMITED
2. RELIANCE VENTURES LIMITED
3. MODEL ECONOMIC TOWNSHIP LIMITED (FORMERLY RELIANCE HARYANA SEZ LIMITED)
4. RELIANCE PETROINVESTMENTS LIMITED
5. RELIANCE POLYMERS (INDIA) LIMITED (UPTO 22.09.2013)
6. RELIANCE JIO INFOCOMM LIMITED
7. RELIANCE RETAIL VENTURES LIMITED
8. RELIANCE RETAIL LIMITED
9. RELIANCE ETHANE HOLDING PTE LIMITED (FROM 02.03.2015)

FULLY CONTROLLED TRUSTS

1. INDEPENDENT MEDIA TRUST - TRUST FULLY CONTROLLED BY THE HOLDING COMPANY
2. PETROLEUM TRUST - BENEFICIARY TRUST
3. GENNEXT VENTURE FUND

LIQUIDATED

1. GENNEXT VENTURES INVESTMENT ADVISERS LLP
2. KAIZEN CAPITAL LLP (LIQUIDATED W.E.F. 12.08.2014)

JOINT VENTURES OR ASSOCIATE COMPANIES

1. I.D.E. SHAW INDIA SECURITIES PRIVATE LIMITED
2. RELIANCE COMMERCIAL TRADING PRIVATE LIMITED
3. IMG RELIANCE LIMITED
4. RELIANCE PETROVESTMENTS LIMITED
5. RELIANCE JIO INFRATEL PRIVATE LIMITED
6. RELIANCE JIO DIGITAL SERVICES PRIVATE LIMITED (UPTO 21.09.2014)
7. RELIANCE JIO MEDIA PRIVATE LIMITED (UPTO 01.01.2015)
8. OFFICE DEPOT RELIANCE SUPPLY SOLUTIONS PRIVATE LIMITED (UPTO 26.03.2015)

MANAGERIAL PERSONNEL

1. SHRI DIPAN DALAL