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Defence Industrial Base and Corporate Professional Responsibility

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INTRODUCTION

Global competitiveness of any nation has always been a challenge. Speaking of defence technologies and equipment, the competition gets tremendously accentuated due to the common competing space between the developed and developing countries. The need to remain competitive in the emerging global market is contingent upon three critical requirements. These are the quality of the product, the cost-effectiveness, and timeliness. For India, which is emerging as a major producer of defence technologies and equipment, there is a dire need for a major drive for capacity building through a consortium approach. This calls for the

Key Points

1. Two different objective-oriented tasks performed by two different organisations can be amalgamated to obtain an end goal that satisfies national security. The issue brief is a review relating to India, which is emerging as a major producer of defence technologies and equipment.
2. This brief evaluates the dire need for a major drive for capacity building through a consortium approach.
3. The corporate sector plays an essential role in the economic development of a country whose potential is leveraged through assistance in various social welfare schemes through Corporate Social Responsibility (CSR).
4. The potential of the technological advancements in the corporate sector that can be harnessed to meet national security requirements is known as Corporate Professional Responsibility (CPR).
5. The establishment of bases/corridors to tap into talent and resources of corporate sectors and government enterprises/industries to further defence manufacturing is called the Defence Industrial Base.

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availability of unhindered budgets to meet the multifaceted challenges of developing infrastructure, capacities, capabilities, skills, and a continuous development-operation cycle for timely delivery and regular upgradation.

The corporate sector plays a vital role in the economic development of a country, to the extent that the economy of the nation depends largely on the achievement of the corporate sector. The 'Make in India' initiative of the government, coupled with opening-up of the defence industrial corridors, has provided a new dimension and paved the way for both indigenisation and self-reliance. In the last two decades, the private sector in defence has expanded immensely with even the Defence Public Sector Undertakings (DPSUs) outsourcing more than 30 percent and Ordnance Factories (OFs) outsourcing approximately 60 percent of their production inventories. Defence industries are doing direct investment in large and hi-tech projects through the provisions of Defence Procurement Procedures (DPP) to include strategic partnerships and to make projects and innovative developments in defence technology.

World over, the defence system has been an enabler for innovations and a driving force for new technologies. The Indian Defence Forces have been closely associated with the growth of the Indian Defence Industry by way of incubating and developing technologies and equipment, with dual military and civil usage. However, with the fast-paced flow in technology development, coupled with the need to fast track product development to beat obsolescence, support by the Industry is no longer a choice, it is a compulsion. While R&D has its own time cycles from the inception of an idea to the delivery of the technology demonstrator, it is also at a huge cost. Consortium approach to developing technologies and technology demonstrators is the best way forward. The moot question is "How can we fund the development of technology demonstrators for defence in an optimum manner?" There is a case for considering Corporate Professional Responsibility (CPR) as a sequel to Corporate Social Responsibility (CSR).

Corporate Social Responsibility

The CSR is a concept wherein it is the responsibility of the corporate sector to contribute towards social, economic and environmental development, which creates a positive impact on society, at large. The concept revolves around the fact that the corporations need to focus beyond earning profits and participate in social development. As part of CSR, the companies are required to annually spend at least two percent of their total net profit for social, economic, and environmental causes such as public health, education, sanitation, livelihoods, water conservation, and natural resource management. In the same run, the Industry also owes CPR towards the national

security and technology development thereby promoting two-way cooperation for self-reliance in defence technologies.

The Challenge

"Fighting Indian Wars with Indian Equipment", is the mission enunciated by the Chief of the Army Staff (COAS). This calls for a cogent technology strategy for "womb-to-tomb" management of defence technologies and equipment. The conventional threats with inimical northern andwestern borders, the ever-increasing air space threats and the blue water Navy vision, the cyber and space dimensions call for a long-term perspective of not only indigenous technology infusion but also a sustainable financial strategy. CSR has been a near success story in funding a large number of social upliftment programmes, as a nation-building venture. National security against both internal and external threats calls for enhancing the social securities of the populace. The challenge, therefore, lies in meeting the national security objectives through induction and propagation of indigenous defence technologies and equipment through CPR programmes as a subset or concurrent with CSR. The opportunity for Corporate Defence Industry by 2023 is expected to be US$95.1 billion. The aim of this article is to progress and implement an idea of CPRfor defence technology and equipment development with an indigenous flavour.

CONCEPT

Growth of Industry in India

There has been an ever-increasing pace of industrialisation coupled with a continuous drive for infrastructure development and creation of a conducive climate for industrial collaboration. This is likely to result in rapid growth and expansion of the corporate business organisations in India. The corporate sector in India today is not only making significant contributions to the country's economic development but isalso playing a pioneering role in business diplomacy by extending their outreach abroad. India is at the cusp of becoming one of the largest growth engines in the world. Even though there is an overall growth of Indian industries, at the core of this growth is the development made by the Indian Information and Communications Technology (ICT) Industry which grew with annual growth rates of nearly 30 percent in the last decade. Apart from the multinationals like IBM and HP, the Information Technology (IT) Industry also has seen the growth of successful Indian companies like TCS, Infosys, Wipro, HCL, to name a few, not only in India but also internationally. In the recent past, IT companies like TCS and Infosys have emerged to be one of the fastest growing IT service brands in the world with annual growth rates of upto 14 percent. Infosys has grown incrementally from being a US$ 250 worth company in 1981 to whooping US$ 11.12 billion

in 2018. The young entrepreneurs and start-ups have added to the exponential growth of the IT Industry.

INDUSTRY-DEFENCE FORCES SYNERGY

Defence Industrial Bases/Corridors have been a huge enabler in all nations producing defence equipment due to the huge potential in their development for self-reliance, both for internal and external security threats, proliferation through exports and dual civil-military usage. It is a well-known fact that all best practices of management being embraced by the corporate world emanated from the Defence. Internet and its world wide web visage have been developed by DARPA in the United Nations of America, based on a need to network Defence Forces with operating bases beyond the frontiers of the United Nations of America, popularly called as Out of Area Contingency.

The conventional and hybrid security threat faced by security forces in India make it a ready test bed for defence technologies and the Defence Industry the world over evinces huge interest in collaborating strategic partnerships with India. The Indian Defence Forces, therefore, need to support the Industry by helping them understand specific user requirements which until now were not clearly available in the open domain. There is also a need to cater to military facilities and trained manpower for trials and testing of technologies under field conditions. Today's Defence Industry, being in nascent stages of development, needs hand holding and support from the Defence Forces to be able to establish itself not only in India but across the world. The cost of seeding, incubating, prototyping and producing defence technologies, in general, and defence equipment in particular, is multifaceted technology and a huge cost centre. It is for this reason of system engineering complexities that a consortium comprising big industrial houses, the Ministry of Micro, Small & Medium Enterprises (MSME), Small- and Medium-sized Enterprises (SMEs) and start-ups have to form a defence industrial base for effectiveness and productivity. Add to this the life cycle upgrades, maintenance, and sustenance which will need skills and spares. This relationship of the Indian Defence Forces with the Industry calls for an arrangement on the lines of or a subset of CSRpromulgated by the Ministry of Corporate Affairs, as CPR. The moot question, of course is, "Should Nation building and security apparatus form part of CSR?" To my mind, the answer is "yes".

CORPORATE SOCIAL RESPONSIBILITY

The concept of 'CSR revolves around the "Give and Take" kind of relationship of the Industry with its environment and society.As mentioned by the United Nations Industrial

Development Organisation (UNIDO), CSR is generally understood as being the way through which a company achieves a balance of social, economic and environmental imperatives, while at the same time addressing the expectations of shareholders and stakeholders. It is a corporate initiative to assess and take responsibility for the company's effects on the environment and impact on social welfare. CSR is not a new concept in India. However, the Ministry of Corporate Affairs, Government of India has made it mandatory (with effect from 1 April 2014) by notifying Section 135 of the Companies Act 2013 along with Companies (Corporate Social Responsibility Policy) Rules 2014 and other notifications related thereto. As part of CSR, the companies are required to annually spend at least two percent of their total net profit for a social, economic and environmental cause such as public health, education, sanitation, livelihoods, water conservation, gender equality, vocational skill development, and natural resource management. There is a case to include defence technology development, as a stated policy for CSR.

CORPORATE PROFESSIONAL RESPONSIBILITY

The Idea

The Indian Defence Forces have been partnering the growth of the Indian Defence Industry by means of providing support and technical assistance for understanding the user requirements and conduct of trials. On the lines of CSR concept, it is proposed to introduce the concept of CPR for the Indian Defence Industry. The Defence Procurement Procedure allows, under the Make category (Make-II) provisions to include Strategic Partnership and suomoto proposals by the Industry/individuals, to leverage the Industry participation in design development, trials, and production of defence equipment. As part of CSR, Defence Industries would be mandated to spend atleast one percent of their CSRkitty for undertaking R&Dprojects, development of Proof of Concepts (PoC), skill development within the Defence Forces or any other associated activity aimed at technological advancement (dual-use technologies included) and capability development of Defence Forces.

Contours of Corporate Professional Responsibility

Contours recommended for the implementation of CPR are given next However, these are only suggested options, which may be appropriately re-visited.

(a) Applicability. The provisions of the CPR shall be applicable to companies involved in or seeking to invest in defence production having a net worth of INR 500 crore or more; or turnover of INR 1,000 crore or more; or

net profit of INR 5 crore or more during any financial year.

(b) **Minimum Expenditure on Corporate Professional Responsibility.** All applicable companies shall spend, in every financial year, at least one percent on CPR, of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its CPR (as a subset of CSR which is two percent).

(c) **Corporate Professional Responsibility Activities.** In order to achieve the desired growth in the Defence sector, the synergy of Industry and Defence Forces is inevitable. CPR will further strengthen this Industry-Defence association as both the stakeholders will be the benefactors of the overall growth of the sector. The following road map would need to be prepared and accomplished as part of CPR activity:

(i) Identifying thelong, medium, to the short term for defence technologies.

(ii) Development of PoCs and minimum viable projects for identified high technology projects.

(iii) Development of Pilot Projects for identified projects by the Defence Forces including suomoto proposals.

(iv) Invest injoint research anddevelopment projects identified by the Defence Forces.

(v) Provide consultancy support to Defence Forces on technology issues.

(vi) Project-oriented Memorandum of Understanding (MoU) and strategic partnership for technology.

(vii) Special technical assistance like Customised Secure Application Software Development and ICT support.

(viii) Skill development within Defence Forces in hi-tech fields.

(ix) Establishment and running of the Centre of Excellence in contemporary technology fields.

(d) **Implementation.**

(i) The investment in CPR should be technology/project based.

(ii) Technologies / project activities identified under CPR will be implemented by specialized designated agencies, companies industry, academia, and start-ups.

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(iii) Specialized Agencies may work singly or in tandem with other agencies based on MoUs.

(iv) For every project, time framed periodic milestones should be finalised at the outset and have a joint project management structure comprising defence subject matter experts (champion) of industry representatives.

CONCLUSION

India has a great opportunity to change the status quo and become a key player in the global Defence Industry. The implementation of the announced policy changes coupled with a mind-set shift toward the private sector from only DPSUs will go a long way in setting the tone for the growth trajectory. To make this happen, it is important that there is a close collaboration between the Defence Force and the Industry.

As discussed earlier, industries are expecting massive support from the Defence Forces to assist them in establishing in the field of indigenous defence production. As part of CPR, Industry could support Defence Forces in capabilities development, ingesting new technologies, and promote defence technologies self-reliance within Defence Forces. In times to come, CPR will prove to be the cornerstone of Industry-Defence synergy and is the "Way Forward" for sustained inclusive growth of Industry and Defences Forces of India.

The contents of this Issue Brief are based on the analysis of material accessed from open sources and are the personal views of the author. It may not be quoted as representing the views or policy of the Government of India or Integrated headquarters of MoD (Army).

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