

AN ASSESSMENT OF CORPORATE SOCIAL RESPONSIBILITY PRACTICES BY INDIAN BANKS

SAKSHI SHARMA

Research Scholar, Faculty of Management Studies, University of Delhi, New Delhi, India

ABSTRACT

Banks are carriers of public trust and confidence and can bring about the development of a nation by not only providing financial services to the underprivileged but also by contributing towards socio-economic welfare through flagship programs which can bring about sustained development. In this context we identify the major areas of Corporate Social Responsibility by banks and analyze their reports to determine the annual percentage of profit after tax spent on CSR activities. Most of the banks in the study have dedicated schemes towards community welfare social upliftment and spend a considerable amount of profits on CSR activities.

KEYWORDS: Corporate Social Responsibility, Axis Bank and ICICI, Indian Banking Industry

INTRODUCTION

Business scandals involving high profile organizations such as Satyam, Enron have completely shaken public trust and confidence and have raised concern over business ethics and corporate governance. This has made Corporate Social Responsibility all the more important which includes not only acting ethically but serving the society and bring about sustained development through flagship programs on women ,rural developments, environmental protection and others social services for the betterment of the society at large.

The International Organization for Standardization known as ISO describes Corporate Social Responsibility as a “balanced approach for organizations to address economic social and environmental issues in a way that it aims to benefit people society and community”. ‘Corporate Social Responsibility’ or ‘Sustainability’. It is a means of developing a business that creates economic value while contributing to a healthy and sustainable environment and strong social communities. It should be a company’s endeavor to integrate sustainability into its strategy.

In a developing country like India where there exists severe gaps in social provisions and social distribution programs Corporate Social responsibility gains even more importance. This is a time when banks are seen as critical components of the society. They are responsible not only to its shareholders from the point of revenue but also to its society which is its stakeholder. There have been a number of initiatives by government as well as the central bank RBI to promote banks to indulge in these social upliftment programs for the well-being of the nation. The guidelines provide an effective roadmap to take up these social initiatives. As per SEBI it has become mandatory for top 100 entities listed on NSE to publish their Business Responsibility Report along with Annual Reports from September 2012.

REVIEW OF LITERATURE

Abbott et al (1979) formulated a corporate social involvement disclosure scale, based on the analysis of annual reports of the Fortune 500 companies. There are six sectors under analysis which are environment, products, equal

opportunities, personnel, community involvement, and other disclosures. Ullman (1985) and Waddock and Graves (1997) used the Kinder Lydenberg Domini (KLD) rating system, where each company in the S& P 500 is rated on eight points namely; employee relation, product, community relation, environment, treatment of women and minorities, nuclear power and military contracts. There are studies which have found out the relation between CSR and financial performance of the banks. Heinz (1976), Bowman and Haire (1975), Waddock and Graves (1997), Cochran and Wood (1984), Mcguire et al. (1988) and Aupperle (1985) have reported a positive relationship between the corporate social responsibility and the financial performance of the companies.

In a study conducted by Chahoud et al., (2007) it was revealed that corporate social responsibility in India, is still characteristically based on philanthropic and community development activities and gradually Indian companies have begun to adopt some aspects such as the integration of CSR into their business processes. Ventura et al (2007) did an analysis to understand the dynamics of institutionalizing corporate social responsibility in the field of Banking Organizations in Brazil and found that from being a marginal isolated action, CSR in the past years has now become a structured action in banks environmental marketing and customer satisfaction as their core CSR activities. Narwal (2007) investigated to highlight the CSR initiatives taken by the Indian Banking Industry. The results point out that banks are objective about CSR activities. They are concentrating mainly on education, balanced growth, health and environment protection

To specify the role of banks in corporate social responsibility the RBI circulated a notice on December 20, 2007 for all the scheduled commercial banks, with title Corporate Social Responsibility, Sustainable Development and Non-Financial Reporting – Role of Banks.

Ahmed et al. (2012) suggested that the CSR can increase long term profitability as well as enhance the reputation and goodwill of banks. Wise et al (2009) in their study on corporate governance and corporate social responsibility in commercial bank of Bangladesh found that social responsibility disclosures focus on initiatives undertaken to for two critical sectors within Bangladesh's economy: agriculture and the SME sector. While studying the current state of CSR in India, Cheung et al. (2009) commented that India's Economic reform and its emerging market and global presence has not resulted into major changes in its CSR approach. Ahmed (2009) also contributed in the same line through an empirical study, under the supervision of ASSOCHAM Research Bureau, on 300 Indian companies which are active in 26 various theme areas for their CSR initiatives. Karmayog (2009), an NGO, showed that community development programs was the top priority area on the corporate sector's list with a share of 21.93 per cent out of the total 26 activities.

As per SEBI it has become mandatory for top 100 entities listed on NSE to publish their Business Responsibility Report along with Annual Reports from September 2012. The Reserve Bank of India (RBI) (2011) stressed the need for CSR, also suggested that the banks should to pay special attention towards integration of social and environmental concerns in their business operations. RBI also pointed out to do a non-financial reporting (NFR) which will cover the work done by the banks towards the social, economic and environmental betterment of society.

Corporate Social Responsibility

India has long back philanthropic culture. Philanthropy by Indian companies can be traced to the historic times when companies funded education of children and pursued social welfare activities. Gandhi described large business as

‘trusts’ of the ‘wealth of the people’ and thus stressed on the bigger picture of social purpose that industrial wealth should serve in independent India.

Definition of Corporate Social Responsibility CSR is not a difficult concept and can be explained as corporate which implies organized business, social which is everything dealing with people, the society at large; Responsibility which is accountability between the two. From the above, CSR could be defined as the process of business operations carried out to benefit the society at large. It means open and business practices that are based on ethical values and respect for employees, communities and the environment. It is designed to deliver sustainable value to the society as well as to the shareholders,

Areas of CSR Implementation by Banks

Priority Sector Lending

In 1968-67 RBI introduced the concept of Priority Sector Lending in its Credit Policy as there were various imbalances in Industrial and Agricultural funds. Prior to this period it was noticed that banks made advances only to medium and large scale enterprises whereas the small scale and agricultural business were languishing for funds to utilize in its business. Till today it is mandatory for banks to lend to small farmers and small scale enterprises though the banks often complain that a major chunk of advances made in this sector go bad. There are several categories of Priority sector lending which include loans to farmers, education Loans, Micro Credit and Small Scale enterprises.

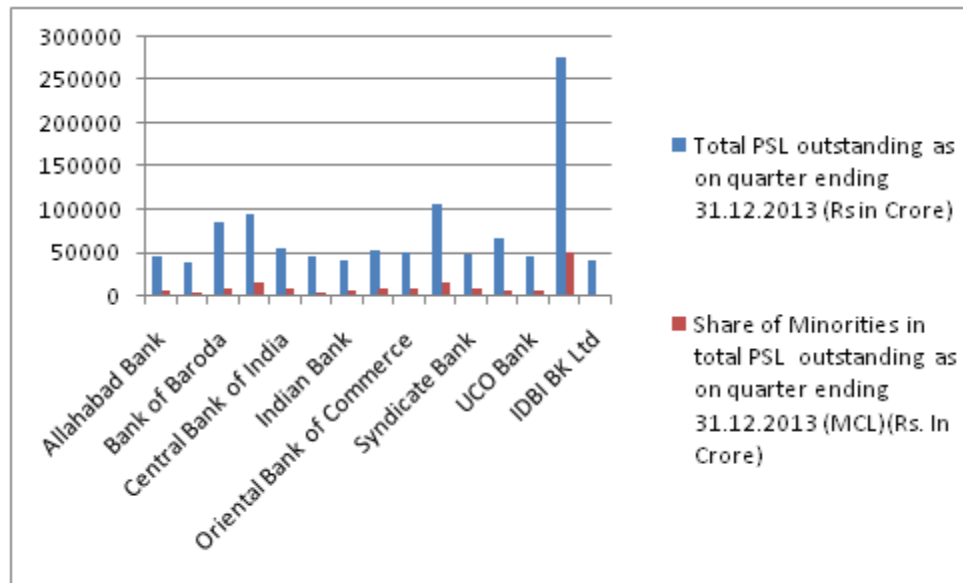


Figure 1

The figure shows a total of priority sector advances of public sector banks and the share of minorities in these advances.

Rural Branch Expansion

The banks have now shifted their focus towards financial inclusion for which banks have to have their reach in all rural and semi urban areas. As a considerable amount of our population still resides in villages it is essential to provide them basic financial services without which the development of our country is impossible. Hence rural branch expansion becomes a major thrust area in this regard

No. of branches of Scheduled Commercial Banks opened during five years

Table 1

Year	Rural	Semi-Urban	Urban	Metropolitan	Total
2008-09	706	1290	1046	953	3995
2009-10	1021	1729	1417	1139	5306
2010-11	1422	2258	919	981	5580
2011-12	2453	2686	1186	982	7307
2012-13	1598	1422	546	451	4017

Source: Report on Financial Inclusion By the Government of India

The table shows that the number of branches opened in Rural areas is considerably rising from 2008. This can be attributed to the policy of Financial Inclusion as well uplifting of Agriculture and farmers by providing them Micro Credit facilities.

Environmental Protection

The banks often engage with stakeholders for creating awareness about the serious environmental issues and their impact on the society. Also efforts are made by businesses for creating necessity of greening the bank processes, products, and services. Many technology based solutions such as online banking, green channels etc have increased paperless banking and reduced the need to come to the branches. Banks such as ICICI have carbon footprints calculator too on their websites. Apart from this banks have been encouraging the financing of projects which involve sustainable development, biodiversity, pollution prevention, waste minimization. The major initiatives by banks in this field are as follows:

- No credit facility to businesses involved in
- Ozone depletion, human rights violation, controversial weapons
- Awareness about reduced plastic bag and paper use in offices
- Financing projects that save energy such as solar projects.
- Promotion and encouragement of rain water harvesting
- Wild animal protection.
- Drives on tree plantation and reduction of pollution.
- Projects related to reduction of carbon emission

Community Welfare

Banks continuously involve themselves in Community development and engage in activities which have a social impact. It entails empowering people at the bottom of pyramid not just financially but also helping them to obtain sustainable livelihood. Several community projects are undertaken which have a positive impact on the society. Banks partner with specialized NGO's to promote social upliftment programs, provision of ambulances and various other developmental programs for health and safety of the deprived citizens. Major initiatives in this sector are:

- Organizing blood donation camps
- Free health checkups

- Donations to orphanages
- Helping the disabled by donating wheelchairs etc
- Organizing camps for health awareness especially in the rural and semi urban areas.

Women Welfare

The principle of gender equality is enshrined in the Indian Constitution in its Preamble, Fundamental Rights, Fundamental Duties and Directive Principles.

Making women economically independent has always been in the top priority list of banks. Therefore besides focusing on gender equality by incorporating women as a part of their governance teams, banks also provide finances to women to set up their own small scale industries and help them become financially independent. They are also involved in schemes for saving the girl child and adopting female child for free education. Major initiatives are as follows:

- Awareness campaigns for saving girl child
- Easy credit to women to help them set up their own business.
- Adoption of underprivileged girls and funding their education costs.
- Empowering women and promoting equality by power sharing and active participation in decision making.

Farmers Upliftment

India's economy is largely agriculture based though the farmers in India are still in meager condition. Banks have been one of the biggest pioneers of farmers welfare. They have not only encouraged easy financing but have also been involved in various activities for the benefit of farmers. These include educating the farmers by establishment of Special training centers, Debt waiver Schemes and Special credit to farmers

Education

It has been pointed out in Literature Fields (1980) and Tilak (1978) that education inversely related to poverty. More is the number of educated people in a population more will be the development and less will be the poverty. Major initiatives by banks in this regard are as follows:

- Donations to schools in the form of fans, water filters etc,
- Assistance in Mid- day meal programs for children
- Adoption of schools
- Spreading awareness on importance of education

Comparison of CSR Expenditure of Select Commercial Banks in India

State Bank of India

The bank has a strong CSR policy and very sincerely directs its efforts towards social economic upliftment of the society. SBI has a target to spend 1% of its Profit after Tax towards CSR activities. An assessment of 2013 shows that the bank has spent over 1 % of its profit after tax on CSR activities

Table 2

	2012	2013
1% of CSR	82	117
Spent on CSR	71	123

Source: Annual Report SBI

Therefore it is clearly seen that the banks has spent a larger amount on CSR in the fiscal year 2012-13.

Major initiatives are:

- Safe and clean drinking water facility by providing water filters
- Programme of providing fans to schools
- National donations to Prime Minister's and Chief Minister's Relief Funds for natural and other calamities,
- Help in delivering quality healthcare and transportation of patients and doctors by donating ambulances
- Several initiatives in installing solar lamps in many places largely in the rural areas not having dependable electricity supply

ICICI Bank

This is one of India's fastest emerging bank in terms of increasing profits and customer base. Nevertheless, it has constantly utilized its profits every year to engage in CSR practices. During the year ended on March 31, 2013 the Bank has spent an amount equivalent to approximately 1.4% of its profit after tax. Major areas of CSR expenditure are as follows:

- Elementary education
- Primary health
- Joy giving mobilized Rs 5.23 mn
- Magic Bus Foundation
- Rs 15 Cr. for Uttarakhand relief program

HDFC Bank

The bank has spent 0.58% of Profit after Tax as on 31st March 2013. The major areas are the following

- The bank has partnered with over 15 NGOs to implement projects impacting the twin causes of education and livelihood training reaching out to over 67,000 children and 1,600 youth.
- Bank has implemented programs such as 'Galli schools' in Delhi which bring elementary education to the doorsteps of children in slum communities to conducting reading programs for children.
- As part of their business responsibility the bank has imparted financial literacy to around 63,000 children in 600 schools.
- Sustainable livelihood programs

Punjab National Bank

The bank has been engaging in CSR activities to the tune of Rs 324.43 lakhs.

This amount was spent on a total of 1624 activities. The percentage of Profit after Tax spent on CSR is 0.07%

The major areas include

- Medical camps
- Heath camps
- Farmers training
- Tree plantation
- Blood donation camps

AXIS Bank

This fast emerging private sector bank has a policy of spending 1% of its PAT annually on CSR activities. Out of the total of Rs 5179.43Cr recorded for Profits After Tax the bank has spent Rs.81.79cr on CSR activities which is 1.5 % of PAT.

The Bank carries out its Corporate Social Responsibility (CSR) initiatives under the aegis of the Axis Bank Foundation (ABF), which was set up in 2006 as a Public Trust. Major areas include

- Programs on Education in Balwadis
- Vocational Training
- Agricultural and Extension Services Artisanal crafts training
- Supplementary Education
- Providing sustainable livelihoods to alleviate poverty and bring about positive changes in the socio-economic conditions of a community and of the country

Bank of Baroda

The bank has contributed a total of Rs 699.74 lakh in the fiscal year 2012-13 towards CSR activities which estimate to 0.15% of Profit After Tax. The major areas include giving donations for

- The spread of education – including for the girl child and womenfolk in remote villages.
- Assisting families of soldiers died in warfare
- To reputed colleges/public schools and other similar institutions.

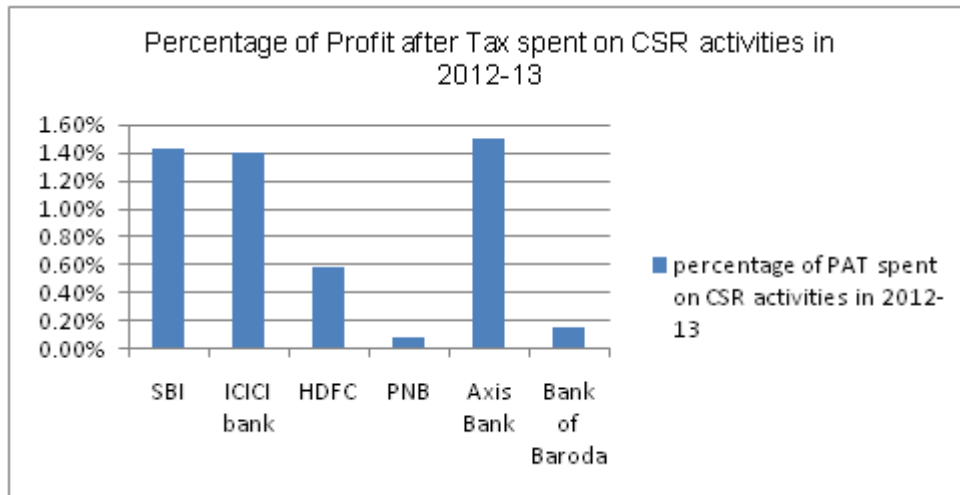


Figure 2: Comparative Chart Showing Percentage of PAT Spent on CSR Activities by Selected Banks in India

The above figure shows the comparative analysis of percentage of PAT spent on CSR activities. Axis Bank has the highest percentage of 1.5 % as it has directed its efforts towards national donations and training of youth and women .Two Public Sector Banks Show a minimal expenditure of 0.15% and .07% on CSR activities besides being one of the very oldest banks.

CONCLUSIONS

Banks have a major role to play in social and economic well-being of a country by bringing about the intermediation of financial services. In this context the banks have to become more dedicated towards bringing about the change. The Study indicates that Indian Banks have shown a strong commitment towards Corporate Social Responsibility have been effectively diverting a percentage of its profits for various CSR initiatives. Few of well-established Public Sector Banks such as Bank of Baroda and Punjab National Bank show a relatively lesser inclination towards such practices where asemerging banks such as Axis bank and ICICI have well defined CSR frameworks. But the banks have recognized their responsibility towards rural upliftment, women and education which will largely contribute towards the development of the Country .

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