

CORPORATE SOCIAL RESPONSIBILITY: A STUDY OF SELECT PUBLIC SECTOR BANKS IN INDIA

PROF. DR. B. RAMESH

Faculty of Commerce, Goa University, Goa,
Former Dean & HOD, Goa University, Goa,
Former President - Indian Commerce
Association & Indian Accounting Association

MS. SAVIA MENDES

Research Scholar Goa University, M.Com,
M.Phil, Assoc. Prof., Dep. of Com., M.E.S.
College of Arts & Commerce,
Zuarinagar, Goa- India

ABSTRACT

The banking Sector is considered to be the life line of any Economy. The entire economy of the country adversely depends on the performance of this sector, who have been contributing through various welfare initiatives, donations and in-kind support to charities for decades to the society. Again, Social responsibility is not a new term for the Indian banking sector. After the enactment, Corporate Social Responsibility (CSR) has become obligatory for a certain class of companies in India, This paper discusses the spending pattern of Indian Banking Sector contributing towards CSR activities; so as to know how much they have spent and need to spend further with the mandatory CSR, which has been enforced from 1st April 2014 in India, helping the bank management to project where they stand when compared to their peers, thereby facilitating the CSR stakeholders to understand how Indian banks have made their CSR spending, and also aid banks to their future CSR project implementation. The study is based on secondary data taken from the annual reports of banks, presented in graphs and tables, collected from 12 public sector banks in India. The CSR spending analysis of the 12 banks selected from the public sector reveals that these banks are not yet prepared for 2% of their three-year average net profit spending on CSR projects.

Keywords: New Company Act 2013, Net Profit, CSR Spending, Public Sector Banks

INTRODUCTION:

The banking Sector is considered to be the life line of any Economy. The entire economy of the country adversely depends on the performance of this sector. Further, with the development in information technology and increasing dispersion of mobile in rural and remote areas, Indian banks have reached to the unreached in last few years. The Indian banks have been contributing through various welfare initiatives, donations and in-kind support to charities for decades to the society. Again, Social responsibility is not a new term for the Indian banking sector. After the enactment, Corporate Social Responsibility (CSR) has become mandatory for a certain class of companies in India, forcing the banks to take their welfare activities more seriously and organize their activities at CSR front. This paper explores the spending pattern of Indian Banking Sector contributing towards CSR activities; so as to know how much they have spent and need to spend further with the mandatory CSR, which has been enforced from 1st April 2014 in India.

LITERATURE REVIEW:

Literature has been reviewed to study the influence of CSR activities on the banking sector. Md. Al Mamun et al. (2013) found that CSR expenditure does not necessarily have a profit increasing or performance enhancing ability. An increase in CSR expenditure in Bangladeshi banking industry can be considered as a real commitment of these firms as corporate citizens to the society.^[1]

Mona Kamal (2013) results imply a negative and statistically significant relationship between CSR-dimensions and banks' profitability. The negative signs of the coefficient attached to CSR dimensions were consistent with the competitive disadvantages argument by the neoclassical economists in explaining the CSR-FP link. The empirical outcomes showed a unidirectional causality from finance to the private sector to both financial performance and banking density.^[2]

Sharma (2011) made an attempt to analyse CSR practices and CSR reporting in India with special reference to banking sector and concluded that banking sector in India is showing interest in mixing sustainability into their business models but its CSR reporting practices are far away from satisfaction.^[3]

Dheeraj Tiwari (2014) highlighted a proposal made by the government of India to float a company to manage CSR funds of all central public sector enterprises to ensure efficient implementation of financial initiatives and free companies from additional responsibilities under section 25. The unspent amount of the budget allocated for CSR and sustainability activities for a year will be spent within two financial years failing it would be transferred to a sustainability fund. Since the guidelines were issues in 2013, we will have to wait till 2016 for sustainable fund to take off.^[4]

Ahmed et al. (2012) suggested that the CSR can increase both long term profitability and sustainability of the banks as well as enhance the reputation of the banks.^[5]

Margolis et al. (2007) performed various analyses and found an overall positive effect between CSR and financial performance.^[6]

Suman et al. (2011) study reveals increasing awareness about Corporate Social Responsibility, Sustainable Development and Non-Financial Reporting worldwide. The contribution of financial institutions including banks to sustainable development is paramount, considering the crucial role they play in financing the economic and developmental activities of the world.^[7]

Sanjay Kanti Das (2012) the development of Corporate Social Responsibility is very slow in India though it was started a long time ago. There is a visible trend in the financial sector in promoting environment friendly, socially responsible lending and investment practices.^[8]

Narwal (2007) made a study to highlight the CSR initiatives taken by the Indian Banking Industry. The findings suggest that banks have an objective view-point about CSR activities. They are concentrating mainly on education, balanced growth (different strata of society), health, environmental marketing and customer satisfaction as their core CSR activities.^[9]

HIGHLIGHTS OF NEW COMPANY ACT 2013(SECTION 135): CORPORATE SOCIAL RESPONSIBILITY:

- All companies with a turnover of Rs.1,000 crore and more – or a net worth of Rs.500 crore and more or net profit of Rs.5 crore and more – will have to spend at least two percent of their three-year average net profit every year on CSR activities; and/or report the reason for spending or non-expenditure Section 135(1).
- The institutional coverage is Indian Companies and foreign companies operational in India.
- The activities undertaken by conducting CSR can be undertaken through a registered society or trust/ NGO or a Section 8 Company or company self under the Companies Act. However, the implementing partner should have three years track record.
- Nature of expenditure incurred on specified activities that are carried out in India will qualify as CSR expenditure. Expenditure incurred in undertaking normal course of business will not form a part of the CSR expenditure. Any expenditure incurred in providing such training up to a ceiling of five percent in one financial year is permitted under the CSR budget.
- Companies need to spend CSR money in project mode with pre-defined indicators, budget, duration etc. It is mandatory for companies to disclose their CSR Policy, programs/projects undertaken and amount spent in their report and the CSR Rules provide for a separate

format. The report containing details of such activities and CSR policies have to be made available on the company's website for informational purposes.

- The activities which may be included by companies in their CSR policies according to Schedule VII;
 1. eradicating extreme hunger and poverty and malnutrition, promoting preventive healthcare and sanitation and making available safe drinking water;
 2. promotion of education; including special education and employment enhancing vocation skills especially among children, woman, elderly and the differently abled and livelihood enhancement projects;
 3. promoting gender equality and empowering women; setting up homes and hostels for women and orphans, setting up old age homes, day care centres, and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;
 4. ensuring environmental sustainability ecological balance, protection of flora and fauna, animal welfare, agro forestry, conservation of natural resources and maintaining of quality of soil, air and water;
 5. protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up of public libraries; promotion and development of traditional arts and handicrafts;
 6. measures for the benefit of armed forces veterans, war widows and their dependents;
 7. training to promote rural sports, nationally recognized sports, and Paralympic sports and Olympic sports;
 8. contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;
 9. contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;
 10. rural development projects;
 11. Slum development.

OBJECTIVE OF THE STUDY:

Keeping in view with the literature review and mandatory CSR on selected companies in India. The objective of this paper is to explore the present spending pattern of Indian Banking sector contributing towards CSR activities. This will help the bank management to project where they

stand when compared to their peers, to help CSR stakeholder to understand how Indian banks have made their CSR spending and aid banks to their future CSR project implementation.

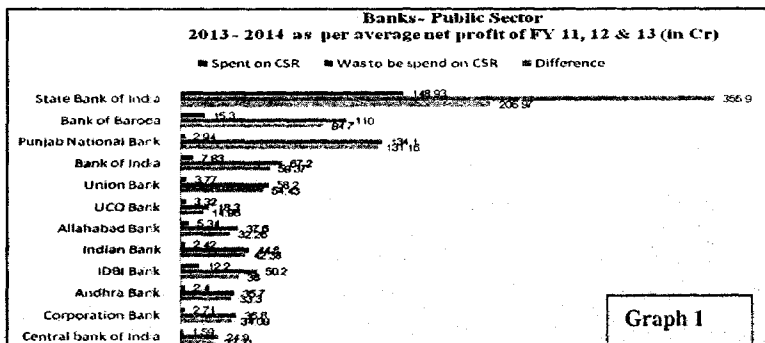
METHODOLOGY:

The study is based on secondary data taken from the annual reports of banks, presented in graphs and tables collected 12 public sector banks in India. The banks have been selected on their ranking based on Economic Times and availability of CSR information. The annual reports with net Profit from Financial year 2010-2011, 2011-2012, 2012-2013 and 2013- 2014 were considered (Appendix D). The calculations are based on two percent of their three-year average net profit to assess the difference between actual and stipulated spending.

ANALYSIS & DISCUSSION:

As seen in the graph 1, the CSR spending analysis of the 12 banks selected from the public sector reveals that these banks are not yet prepared for 2% of their three-year average net profit spending on CSR projects. It can perceive that the top performing banks from the public sector are not performing effectively in the CSR front. The State Bank of India has a deficit of Rs 206.97 crore, Bank of Baroda of Rs 94.7 Crore on CSR front. Punjab National Bank, which ranks third has contributed just Rs 2.94 crore and has a deficit of Rs. 131.16 crore on CSR. The same is the case with the rest of the banks in the public sector. They are lagging behind on CSR front.

The major thrust areas for CSR practice in Indian banks are common in public sector banks. These areas include children welfare, community welfare, education, environment, healthcare, poverty eradication, rural development, vocational training, women’s empowerment, protection to girl child and employment. The most surprising fact that the analysis brings out is that some of the best performing PSUs have spent less than 2% of the average net profit of previous three years with SBI being the highest contributor with Rs. 148.93 crore. It is really a big challenge to these banks with the New Companies Act 2013. In many cases, the reporting requirements have been diluted by excessive descriptive text and avoiding statistics. There are some banks which are not even meeting the regulatory requirement.



Graph 1

The table 1 explores the overall CSR spending of the 12 banks. These banks have spent INR 208.75 Crore on CSR activities in FY 2013-14 and they need to spend almost four times of this amount viz. INR 919.1 Crore, in FY 2014-15 to comply with the mandatory CSR clause of the new Act. From the above discussion it is clear that banks are not fully involved in the CSR activities. These banks will have to work four on CSR activities for financial year 2014-2015.

Table 1

No.	Banks	Actual CSR Spending in 2013-14 (in Cr)	2% of net profit of FY11, FY12 and FY13(in Cr)	CSR Spending Prerequisite for FY 2014-15(in Cr)
PUBLIC SECTOR BANKS				
	State Bank of India	148.93	355.9	364
	Bank of Baroda	15.3	110.0	109.0
	Punjab National Bank	2.94	134.1	
	Bank of India	7.83	67.2	67.5
	Union Bank	3.77	58.2	
	UCO Bank	3.32	18.3	23.5
	Allahabad Bank	5.34	37.6	35
	Indian Bank	2.42	44.8	37.1
	IDBI Bank	12.2	50.2	46
	Andhra Bank	2.4	35.7	28.9
	Corporation Bank	2.71	36.8	
	Central bank of India	1.59	24.9	7.2

The table 2 exhibits that the 12 public sector banks have spent just 21.43% in total of the 2% CSR for FY 2012-2013.

Table 2

PUBLIC SECTOR BANKS		(in Cr)
2% of Average Net Profit of FY 11, 12 and 13		973.7
Actual CSR Spending in FY 2014		208.75
CSR Spending Prerequisite in FY 2015		919.1

SUGGESTIONS:

- With the Companies Act 2013, the banks will have to work four on the CSR budgets for FY 2014-2015 than what they have spent in last year.
- The banks should pre-defined objectives, performance indicators and an enhanced monitoring and evaluation plan towards CSR.
- Banks should look forward towards NGO partnering to undertake CSR activities.
- Banks will have to provide appropriate training to staff on CSR activities.
- The banks can form trust.

REFERENCES:

- ^[1]Md. Al Mamun, Kazi Sohag and Ayesha Akhter (2013), A Dynamic Panel Analysis of the Financial Determinants of CSR in Bangladeshi Banking, *Asian Economic and Financial Review*, 3(5):560-578 560.
- ^[2]Mona Kamal (2013), The Role of Corporate Social Responsibility (CSR) in the Egyptian Banking Sector, <http://ssrn.com/abstract=2227621>
- ^[3]Sharma Nishi. (2011), CSR practices and CSR reporting in Indian banking sector, *International Journal of Advanced Economic and Business Management*, Vol.1 (2), pp.58-66.
- ^[4]Dheeraj Tiwari, (2014), Government plans to form New Company to manage CSR funds of PSO's, *Economic Times* (19th Feb. 2014), Page 11.
- ^[5]Ahmed, Homayara Latifa, Alam. Md. Jahangir and Jafar, Saeed Alamgir Zaman Sawlat Hilmi (2008), A Conceptual Review on Corporate Governance and its effect on Firm's Performance: Bangladesh Perspective, *AIUB Bus Econ Working Paper Series*, Vol.2008- 10, pp.1-24.
- ^[6]Margolis, J. D., and Walsh, J. P. (2007), Misery loves companies: Rethinking social initiatives by business, *Administrative Science Quarterly*, Vol.48, pp.268–305.
- ^[7]Suman Kalyan Chaudhury, Sanjay Kanti Das and Prasanta Kumar Sahoo (2011), Practices of Corporate Social Responsibility (CSR) in Banking Sector in India: An Assessment, *Research Journal of Economics, Business And ICT*, Volume-4, Page 76.
- ^[8]Sanjay Kanti Das (2012), CSR Practices and CSR Reporting in Indian Financial Sector, *International Journal of Business and Management Tomorrow*, Vol. 2 No. 9
- ^[9]Narwal Mahabir. (2007), CSR initiatives of Indian banking industry, *Social Responsibility Journal*, Vol.3 (4), pp. 49-60

- These banks will have to streamline their CSR policy and projects because most of their CSR spending has been in donation or sponsorship.
- The banks should be more transparent in reporting CSR activities, by providing statistics and not mere text and pictured description.

CONCLUSION:

The CSR spending analysis of the selected 12 banks shows their unpreparedness for 2% of their three-year average net profit spending on CSR projects yet for the FY 2014-2015. The analysis further shows, though the Indian banks are making efforts in the CSR areas, still there is a requirement of more emphasis on CSR. It can be inferred from the study that the top performers in terms of profitability and growth are not toping in the CSR activities. The banking institution which caters to all sectors for business and financial products and services have a lot of the scope to partner their activities for CSR projects as they are not just limited to a particular geography or sector.

Appendix I 2014		BANKS AND THEIR NET PROFITS – FY 2011, 2012, 2013 AND			
No	Bank	Net Profit (in Cr)			
		2013-14 (FY14)	2012-13 (FY13)	2011-12 (FY12)	2010-11 (FY11)
PUBLIC SECTOR BANKS					
1.	State Bank of India	16174	19951	18483	14954
2.	Bank of Baroda	5497	4831	6025	5650
3.	Punjab National Bank	4690	6521	7037	6563
4.	Bank of India	3545	3007	3577	3495
5.	Union Bank of India	2068	3064	2712	2955
6.	UCO Bank	1724	646	1150	944
7.	Allahabad Bank	1636	1552	2162	1930
8.	Indian Bank	1475	1826	2267	2634
9.	IDBI Bank	1741	2621	2629	2280
10.	Andhra Bank	733	1771	1824	1767
11.	Corporation Bank	241	1685	1905	1933
12.	Central Bank of India	-994	1319	758	1659

ACKNOWLEDGMENT

- www.mca.gov.in,
- www.ngobig.org,
- *Economic Times (ET 500 ranking)*,
- www.CSRidentity.com, and
- *Websites of the all the banks taken as sample for this study.*