

Presented at: *Nat. Seminar on Innovative Management Practices for Sustainable Development & Global Competitiveness (Impetus'15). School of Management, Pondicherry University. 8-9th Oct 2015 (Bonfring publication)*

Exploring the Responsiveness towards Corporate Social Responsibility: A study of Select Banks in India*

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**Abstract & full Paper for presentation at the ICSSR sponsored Two Day National Seminar on Innovative Management Practices for Sustainable Development & Global Competitiveness. Impetus'15 organised by Dept. Of Management Studies, School of Management, Pondicherry University. 8th & 9th October 2015.*

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After the enactment under the New Companies Act 2013 passed in the parliament which has been enforced from 1st April 2014, Corporate Social Responsibility (CSR) has become obligatory for a certain class of companies in India. Nevertheless, forcing the Indian banking sector too, to take their social responsibility more serious. In this context the present paper examines the CSR spending pattern of Indian Banking Sector. The study also focus on the various CSR initiatives taken by these banks. The study is based on secondary data collected from their annual reports, which is analysed with the help of average and percentage, presented in graphs and tables. The findings can assist to reveal the preparedness, project were these banks stand and further frame their future CSR policies properly by considering schedule VII as the guiding force.

Keywords: *New Company Act 2013, Net profit, CSR spending, banking sector.*

INTRODUCTION

The banking sector has always been considered as the most important strength of any given economy. This sector has always had an impact on the entire economic performance of a country. The Indian banking sector too has marked its presence felt even in the most remote area in the country. Nevertheless, the Indian banking sector has also contributed towards the social upliftment of the country. After the enactment, under the new companies act 2013 passed in the

parliament, Corporate Social Responsibility (CSR) has become obligatory for a certain class of companies in India. This again has forced the banking sector to take their social responsibility more serious. In this context, the present paper examines the CSR spending pattern of the select banks in India. The paper explores how much they have spent and need to spend further with the mandatory CSR, which has been enforced from 1st April 2014 in India. The study also focus on the various CSR initiative taken by the banks.

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 increase 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. 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. Sharma (2011) analyse on CSR practices and CSR reporting in India with special reference to banking sector, 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. 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. Ahmed et al. (2012) suggested that CSR can increase both long term profitability and sustainability of the banks as well as enhance the reputation of the banks. Margolis et al. (2007) performed various analyses and found an overall positive effect between CSR and financial performance. 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. Das et al. (2012) the development of Corporate Social Responsibility is very slow in India, though, it started a long time ago. There is a visible trend in the financial sector in promoting environment friendly, socially responsible lending and investment practices. 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. Moharana (2013) stated that nowadays, many nationalized banks in India have created their individual brand image in the field of Corporate Social Responsibility by taking various social initiatives in the era of social welfare and community development. Gupta, and Agarwal (2014) seems that banks feel more responsible for social issues and financial inclusion as their dominant part to fulfil their social responsibility while environmental issues remain unaddressed. Khavanekar (2015) found that banks have recognised and incorporated CSR. They are play a proactive role in nation building. Sharma (2013) observed that the public sector banks have an overall highest contribution in CSR activities, whereas, private sector banks and foreign banks are still lagging in this area.

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
 - ✓ eradicating extreme hunger and poverty and malnutrition, promoting preventive healthcare and sanitation and making available safe drinking water;
 - ✓ promotion of education; including special education and employment enhancing vocation skills especially among children, woman, elderly and the differently abled and livelihood enhancement projects;
 - ✓ 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;
 - ✓ 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;
 - ✓ 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;
 - ✓ measures for the benefit of armed forces veterans, war widows and their dependents;
 - ✓ training to promote rural sports, nationally recognized sports, and Paralympic sports and Olympic sports;
 - ✓ 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;
- ✓ contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;
 - ✓ rural development projects;
 - ✓ Slum development.

AIM AND OBJECTIVES OF THE STUDY

Keeping in view with the literature review and mandatory CSR to a certain class of companies in India, the paper aims to explore the spending pattern of Indian Banking sector contributing towards CSR activities.

The main objectives of this paper includes:

1. To examine the present CSR spending pattern of the Indian banking sector.
2. To make a comparison between the CSR spending of Public sector & Private sector banks in India.
3. To study the CSR initiatives taken by these banks.
4. To know their preparedness towards the New Companies Act – Section 135.
5. To make a comparison on the pre and post mandatory CSR initiatives.

RELEVANCE

This study will help the banks to project where they and their peers stand. And frame their future CSR policies appropriately by considering schedule VII as the guiding force.

METHODOLOGY

The study is based on secondary data collected from their annual reports, which is analysed with the help of average and percentage, presented in graphs and tables. The study covers ten banks in India, four from the public sector and six from the private sector. 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 (F.Y) 2010-11, 2011-12, 2012 -13, 2013- 14 and 2014-15 were considered for the study (Appendix I). The calculations are based on two percent of their preceding three years Average Net Profit. The calculations are used to assess the

difference between actual and specified CSR spending. Further budgeted CSR requirement for F.Y.2015-16 are calculated.

EMPIRICAL FINDINGS

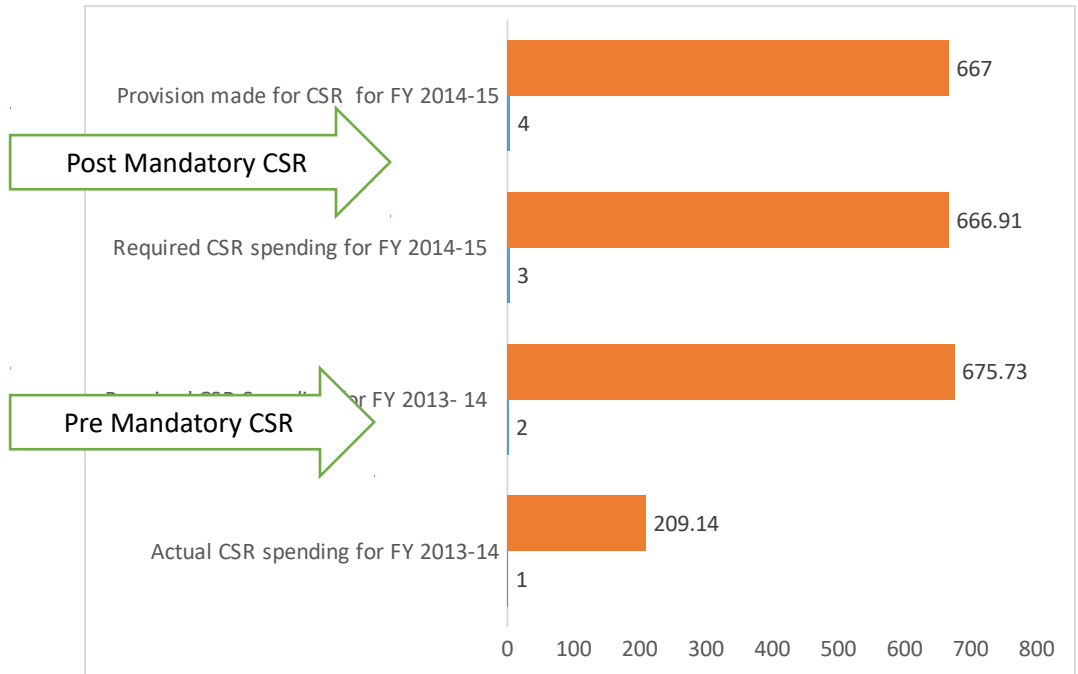
As seen in Table 1 the CSR spending analysis of the ten banks reveal that these banks are not serious about their CSR activities in the pre- mandatory CSR spending. The required CSR for F.Y 2013 -14 was Rs.1221.63 crore and the banks actual contributed only Rs.534.19 crore. However there has been a significant jump in the post mandatory CSR spending. The required CSR for F.Y. 2014 - 15 was Rs.1359.11 crore, the banks have set aside Rs.1360 crore for F.Y. 2014 – 15 as CSR budget, satisfying the mandatory CSR norms. Keeping in view with the F.Y.2014- 15 were the banks have achieve the required mandatory CSR provision, it is assumed the trend will continue and the banks will adhere to the same and make the necessary 2% CSR provision and spend accordingly in the following F.Y 2015 -16 too . However the figures shown in the same table 1 only indicates that these banks have allocated the required amount for CSR activities, however the amount spent so far has not been given in detail.

Table: 1		Pre - Mandatory CSR		Post Mandatory CSR		
Serial No.	Banks	Actual CSR spending for FY 2013-14 (in Cr)	Required CSR Spending for FY 2013- 14 (in Cr)	Required CSR spending for FY 2014-15 (in Cr)	Provision made for CSR for FY 2014-15 (in Cr)	Required CSR Spending for FY 2015-16 (in Cr)
PUBLIC SECTOR BANKS						
1	Bank of Baroda	15.3	110	109	109	104.99
2	Canara Bank	41.97	75.73	72.11	72	68.21
3	Punjab National Bank	2.94	134.1	121.7	122	101.12
4	State Bank of India	148.93	355.9	364.1	364	369.59
PRIVATE SECTOR BANKS						
5	Axis Bank	62.1	126.5	154.6	155	186.73
6	HDFC	70.36	153.9	200.2	200	252.33
7	ICICI	164	179.7	227.8	228	274.55
8	IndusInd Bank	12.69	24.3	32.6	33	42.75
9	Kotak Mahindra Bank Ltd.	3.6	31.7	39	39	47.17
10	Yes Bank	12.3	29.8	38	38	47.74
TOTAL		534.19	1221.63	1359.11	1360	1495.18

The table 2 reveals that four public sector banks have spent 30.95% to the total of the 2% CSR for FY 2013-2014, whereas the situation is better with the private sector banks. The six private sector banks analysed in this study have spent 58.46% to the total of the 2% CSR for FY 2013-2014. Private sector banks have been spending a lot more on CSR, than their peers. However, both the public sector and private sector banks are lagging behind on the CSR front during the pre-mandatory CSR initiatives. With the mandatory CSR spending from F.Y.2014 – 15, the post mandatory CSR shows that both the public and private sector banks are at par in setting aside the 2% requirement for CSR activities.

Table: 2		
Public Sector Bank		(in Cr.)
Actual CSR spending for FY 2013-14	Pre- Mandatory	209.14
Required CSR Spending for FY 2013- 14	CSR	675.73
Required CSR spending for FY 2014-15	Post Mandatory	666.91
Provision made for CSR for FY 2014-15	CSR	667
Required CSR Spending for FY 2015-16		643.91
Private Sector Bank		(in Cr.)
Actual CSR spending for FY 2013-14	Pre- Mandatory	325.05
Required CSR Spending for FY 2013- 14	CSR	545.9
Required CSR spending for FY 2014-15	Post Mandatory	692.2
Provision made for CSR for FY 2014-15	CSR	693
Required CSR Spending for FY 2015-16		851.27

The graph 1 gives a clear picture of the pre and post trend of corporate social responsibility initiatives undertaken by the public sector banks.



The graph 2 gives a clear picture of the pre and post trend of corporate social responsibility initiatives undertaken by the private sector banks.

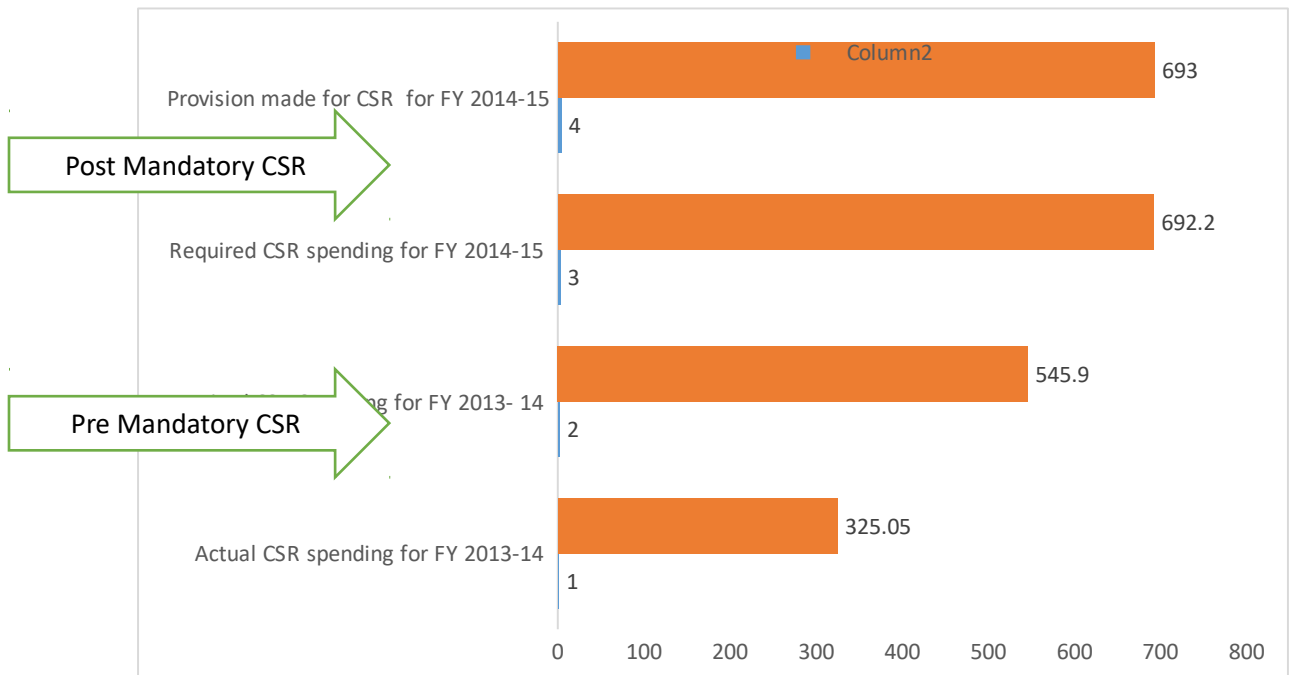


Table 3 exhibits that out of the ten banks taken for the study only one bank from the public sector and five banks from the private sector have constituted their CSR committee and framed their CSR policy as per the new companies Act. Nine banks have their own foundation to implement their CSR activities. The banks are involved in different CSR initiatives like Education, skill development, sustainable livelihood etc. The Non-governmental organizations (NGO's) and employees too have supported in implementing their CSR activities.

Table: 3					
Serial No.	Banks	CSR policy as per the Companies Act 2013	CSR Committee	CSR Implementation	Thematic Area
PUBLIC SECTOR BANKS					
1	Bank of Baroda	Not Available	Not Available	Not Available	Education, Healthcare, Women welfare & Social welfare activities.
2	Canara Bank	Yes	Yes	Own Foundation, NGO	Education, Healthcare, Charities/Culture/ Sports, Social welfare and relief, Energy conservation, Women welfare, Skill Development & Chief Minister Relief fund.
3	Punjab National Bank	Not Available	Not Available	Own Foundation	Health, Rural Development & Women Empowerment
4	State Bank of India	Not Available	Not Available	Own Foundation	Education, Environment, Assistance to poor, Assistance during natural calamities & Healthcare
PRIVATE SECTOR BANKS					
5	Axis Bank	Yes	Yes	Own Foundation	Education, Public health, Medical Relief, Skill Development & Sustainable Livelihood
6	HDFC	Yes	Yes	Own Foundation, NGO	Education, Environment, Community welfare, Training for sustainable livelihood, & Financial Inclusion/ literacy
7	ICICI	Yes	Yes	Own Foundation, Employees	Education Elementary, Health, Skill Development & Sustainable Livelihood
8	IndusInd Bank	Yes	Yes	Own Foundation, NGO	Education & Literacy
9	Kotak Mahindra Bank Ltd.	Yes	Yes	Own Foundation	Education, Enhancing vocational skills and livelihood projects, Promoting preventive healthcare and sanitation, Environmental Sustainability, Reducing inequalities faced by socially and economically backward groups & Contribution to Prime Minister's National Relief Fund
10	Yes Bank	Not Available	Not Available	Own Foundation	Community Development & Women Empowerment

It is clear from table 4 that these banks have concentrated on only few areas to spend their CSR budget. Education and Health have been given the top priority. Measures for the benefit of Armed forces, contributions to technology incubators and slum development are totally ignored.

Table: 4 CSR activities reported by banks	
CSR Activities as per Schedule VII	Number of Banks
Eradicating extreme hunger and poverty and malnutrition, promoting preventive healthcare and sanitation and making available safe drinking water;	07
promotion of education; including special education and employment enhancing vocation skills especially among children, woman, elderly and the differently abled and livelihood enhancement projects;	08
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;	05
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;	04
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;	01
measures for the benefit of armed forces veterans, war widows and their dependents;	Nil
training to promote rural sports, nationally recognized sports, and Paralympic sports and Olympic sports;	01
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;	02
contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;	Nil
rural development projects;	01
Slum development.	Nil

SUGGESTIONS

- The banks lagging behind will have to immediately constitute a committee for CSR and frame their CSR policies.
- The banks will have to streamline their CSR policy in line with Schedule VII.
- The Banks should not restrict themselves to only in few areas like education and health, as there are so many areas that can be undertaken for CSR projects.
- The banks ought to be more transparent in their CSR reporting, by providing statistics and not mere text and pictured description. The reporting format for CSR prescribed will have to be followed and made available on the website for stakeholders.
- Banks should look forward to partner with others trustees and NGO's to effectively implement their CSR activities.

CONCLUSION

No doubt the banking sector has been contributing towards the economic development of the country. It's also good to see that these banks are spending themselves towards CSR activities rather than merely donating to Prime minister Relief fund, this way the society will benefit. The study shows a wide gap between the pre and post mandatory CSR initiative. It's almost the beginning of the second financial year 2015 -2016 for implementing mandatory CSR. The likely CSR spending for the F.Y. 2015-16 is Rs.1495.18 crore for the selected sample. The analysis shows that only six banks have constituted their CSR committee and framed their CSR policy as per the new companies Act. Some of the banks have neither drafted their CSR policies nor formulated a committee. The question here is, are they prepared for the mandatory CSR spending. The banks have adhere to the norms by making required CSR budget for F.Y. 2014- 15 on the Mandatory CSR spending , but spending is not clear. The reporting has been diluted by excessive descriptive text and avoiding figures. We will have to wait and see, is it out of compulsion that these banks have made the required provision or are they going to actually spend for CSR activities is a big question. The regulator body will have to take a serious note as to how successfully they would like to make the mandatory CSR spending more effective. To conclude, banks have a large network of operation, we can find banks even in the most remote areas of the country. This can be an added advantage to these banks to make CSR more meaningful and also take care of their CSR contribution to the society.

LIMITATION OF THE STUDY

The sample size has been restricted to only ten banks. The finding of the present study are specific to the sample selected and used. But, this study provides an insight for further research.

SCOPE FOR FURTHER STUDY

There is tremendous scope to expand the sample size, the geographical coverage of the CSR initiatives taken by banks which can add a new dimension to the study.

Appendix I						
Banks and their Net Profits (in Cr.) FY-2011, 2012, 2013, 2014 and 2015						
Serial No.	Banks	2014-2015 FY15	2013-2014 FY 14	2012-2013 FY 13	2011-2012 FY 12	2010-2011 FY 11
1	Axis Bank	11056	9348	7552	6287	5135
2	Bank of Baroda	5420	5497	4831	6025	5650
3	Canara Bank	3497	3063	3672	4082	3606
4	HDFC	15328	12772	9750	7513	5819
5	ICICI	15819	13968	11396	8803	6760
6	IndusInd Bank	2709	2128	1576	1192	879
7	Kotak Mahindra Bank Ltd.	2832	2272	1972	1600	1187
8	Punjab National Bank	3957	4690	6521	7037	6563
9	State Bank of India	19313	16174	19951	18483	14954
10	Yes Bank	2910	2326	1925	1450	1092

ACKNOWLEDGMENT

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

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