Essence of corporate social responsibility in select Indian commercial banks

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Abstract

Corporate social responsibility (CSR) is generally understood as a moral obligation that is supposed to be shown by organizations towards the society in lieu of profits generated through customers who are a part of the same society. Corporate responsibility is a fundamental element of business ethics and should be practiced by all entities, irrespective of its size. Corporate responsibility, in simple parlance means that each individual within a company is practicing personal and professional responsibility in a way that will benefit him and others. A company's involvement in corporate social responsibility attracts consumers and helps with sales. It is a concept whereby financial institutions not only consider their profitability and growth and also the interests of society and the environment by taking responsibility for the impact of their activities on stakeholders, employees, shareholders, customers, suppliers and civil society represented by NGOs. In developing country like India, banking sector plays a very important role in upgrading the economy of the country not only by lending money or increasing the liquidity in the country but also by imposing a new practice called corporate social responsibility. The Reserve Bank of India (RBI) has asked the banks to pay special attention towards integration of social and environmental concerns in their business operations. Stressing the need for CSR, the RBI pointed out that these initiatives by the banks are vital for sustainable development. This paper attempts to highlight the conceptual of CSR, the key thrust areas of CSR in respect to banking sector in India and CSR activities undertaken by select commercial Indian banks.

Keywords: Corporate Social Responsibility, Banking Sector, Reserve Bank of India and Commercial Banks

Introduction

A Glimpse of Corporate Social Responsibility

Sudha (2008) [30] has highlighted the views of social responsibility by few scholars: Koontz and O’Donnell opined that, “Social responsibility is the personal obligation of everyone, as he acts in his own interest, to assure that the rights and legitimate interests of all others are not infringed.” Nicholas Siropolis defined it as, “The circle of care and concern that a business has for the well-being of society.” Milton Friedman referred that, “There is one and only one social responsibility of business i.e. to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game which is to say it engages in open and free competition without deception and fraud.” Peter F. Drucker stated that, “Business should develop concern for society and pursue welfare activities which should form an important area of operation. It is a demand that quality of life becomes the business of business. The new demand for business is to make social values and beliefs, create freedom for individual and altogether produce good society.”

Goyder (1951) [14] identified four principal objectives of a responsible business;

- The extension, development and improvement of the company’s business and the building up of its financial independence.
- The payment of fair and regular dividends to the shareholders.
- The payment of fair wages under the best possible conditions to the workers.
- The reduction in the prices to be charged to the consumers.
He further recognised some secondary objectives, the vital ones are:

- To enhance labour welfare.
- To enhance customer service and goodwill.
- To assist in developing and promoting the amenities in the locality.
- To assist in developing the industry of which the firm is a member.
- To contribute to the national goals.

Pande (1994) [25] affirmed that in the early 1960’s-70’s there was a great debate regarding “corporate social responsibility” globally. Prof. Theodore Levitt of Harvard Business School stated that “corporate social responsibility makes good sense if it makes good economic sense – and not infrequently it does. But if something does not make economic sense, sentiment or idealism ought not to let it in the door.” Friedman (1970) [12] avowed that an organisation should not undertake social expenditures beyond those authorized by the law because indulging into social activities afar its requirement will reduce its profits which are not enviable for a business. According to Friedman there is only one social responsibility of a corporate i.e. reaping more profits, so that it stays within the rules of law. According to Carroll (1979) [4] there are four categories of obligations of corporate performance, viz; economic (satisfying the economic needs of the society and generating surplus), legal (obeying the rules and regulations framed), ethical (complying certain norms which the society expects from the business) and discretionary (voluntary contribution of the business for social causes). However, later Carroll (1991) [3] presented the different categories of responsibilities as a pyramid of corporate social responsibility. The base is the economic responsibilities succeeded by legal, ethical and philanthropic responsibilities.

“CSR encompasses the economic, legal, ethical and discretionary (philanthropic) expectations that society has of organizations at a given point in time” Carroll (1999) [5].

Bhalla and Ramu (2006) [2] avowed that CSR at times are taken in synonyms with corporate philanthropy or compliance with law. However, these two concepts are not similar whereby social responsibility focuses on organizational functional behaviour and its impact to the society. Mathias (1994) [23] advocated that corporate ethical and social responsibility is an intense practical issue which requires the interest of the top management. It will undoubtedly bring heavy burden to the management but it will also reap its own reward. He further holds the view that ethics and social responsibility is vital for existence because of intense competitive pressure. Sundaram et al. (1994) [31] opined that corporate social responsibility is not only restricted to the organisation and it too calls for responsibility of the employees towards the organisation and society at large. Thus the firm’s social responsibility covers reforming the employees both individually and collectively. Donohue (1994) [9] affirmed that if the government of India would restrict itself to building the required social and physical infrastructure, it is maintained that the natural forces of self-interest in the marketplace would be released and India would experience greater economic growth, and this would be a social responsible course of action. Mathias (1994) [23] stated that social responsibility has lately drawn the attention of the general public who has become more articulate to the matters regarding the ecology, fair play etc. The social responsibility of a business is a practical application of its ethics to issues that concerns the community. Lal (1994) [21] affirmed that the role of a public sector involves a humanistic approach where the creation of employment, society responsibility, and welfare is given more importance than earning more profit. Gupta (1994) [15] opined that every manager in an organisation must be administrated by the self-regulatory mechanism i.e. ethics and social responsibility. As per the new notion the organisations have realised that they will have a tough stand in the era of international competition if they are not identified as fair to the society at large. Swaminathan (1994) [32] advocated that an organisation has a great social responsibility not only towards the eco-system but also for the various stakeholders. Most importantly the consumers who are considered as the king must not be deceived with bogus advertising, they should be provided with the highest quality compatible with the price that is charged for the product. Safety is an ethical requirement and every organisation should compulsorily make a risk assessment at all the levels of manufacturing and transportation. Imparting education to the buyers is an essential part of ethics of safety in manufacturing. Again for the consumers apart from giving them congenial working condition and safety at work, there must not be any gender biasness, sexual harassments, job security with no ‘hire and fire policy’. Viswesvaran et al. (1998) [34] referred that CSR increases the reputation and trust of an organisation for a person seeking for a job who did not have any interaction with the organisation earlier. Hurst (2004) [19] opined that news media should play an active role in educating the consumers on socially and environmentally responsible business practices and the role they can play to build a sustainable future. Cherunilam (2010) [7] referred that just like an individual, corporate are also an indispensable part of the society and that their behaviour shall be guided by certain social norms. Gautam and Singh (2010) [13] opined that in India, CSR is known from ancient time as social duty or charity, which through different ages is changing its nature in a broader aspect, now generally known as CSR. It is a concept that reduces costs and risks, increases the brand value and reputation, effectiveness and the efficiency of employees, improves transparency, and clarity in the working environment of the business. Pillai (2012) opines that CSR is one such area of corporate behavior and governance that needs to be addressed and effectively implemented in the organizations. It is an effective tool that synergizes the efforts of organisation towards sustainable growth and development of social objective at large.

**Provisions under the New Companies Act, 2013**

Section 135 deals with CSR and section 135 (1) provides that every company having Net worth of Rs. 500 crores or more, or

- Turnover of Rs. 1000 crore or more, or
- Net profit of Rs. 5 crore or more,

During the financial year shall constitute a CSR committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director. The CSR committee shall formulate and recommends to the Board, a CSR Policy which shall include the activities to be undertaken by the company as specified in the schedule VII, recommend the amount of expenditure to be incurred in those activities, as well as monitor the CSR Policy of the company from time to time.
The Corporate Affairs Ministry has rejected a proposal by the Finance Ministry to exempt banks from 2 percent mandatory CSR norms owing to their capital constraints. Therefore, the banks are required to adhere to the CSR norms. (Source: Business Standard, 12th September, 2014)

Phases of CSR Practices in India

<table>
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<tr>
<th>Phase</th>
<th>Key Thrust</th>
<th>Key Strategies</th>
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<tr>
<td>Phase I</td>
<td>CSR motivated by charity and philanthropy.</td>
<td>The oldest form of CSR was motivated by charity and philanthropy with direct influence from culture, religion, family tradition, and industrialization process.</td>
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<td>(Till 1914)</td>
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<td>Dominated by the country’s struggle for independence and influenced fundamentally by Gandhi’s theory of trusteeship for consolidation and amplification of social development. Gandhi’s reform programs which included activities that sought in particular abolition of untouchability, women’s empowerment and rural development.</td>
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<td>Phase II</td>
<td>CSR for India’s social development</td>
<td>The paradigm of mixed economy with the emergence of legislation on labor and Environmental standards, affected the third phase of Indian CSR. This phase is characterized by a shift from corporate self-regulation to strict legal and public regulation of business activities.</td>
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<td>(1914-1960)</td>
<td></td>
<td>Indian companies and stakeholders began abandoning traditional philanthropic engagement and, to some extent, integrated CSR into a coherent and sustainable business strategy, partly adopting the multi-stakeholder approach.</td>
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<td>Phase III</td>
<td>CSR under the paradigm of the mixed economy.</td>
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<td>(1960-1980)</td>
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<td>Phase IV</td>
<td>CSR at the Interface between philanthropic and business approaches.</td>
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<td>(1980 onwards)</td>
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Source: Singh et al. (2013)

Objectives of the Study

The main objectives of the study

i. To study the conception of Corporate Social Responsibility;

ii. To analyse the key thrust areas of Corporate Social Responsibility in respect of banking sector; and

iii. To examine the Corporate Social Responsibility activities undertaken by the select commercial banks of India.

Significance of the Study

Indian Banking Industry is viewed as a catalyst in the economic development of the country and the expectation from this fraternity has always been on an increasing trend (Dutta, 2013) [10]. While the coverage has been expanding day by day, the quality and ethical values of the bank has been shaken up because of the tremendous pressure of the competition as well as meeting the high demands and expectations of the customers. Thus, lately CSR practices have become an essential part of banking business. The 2008 financial crisis drew attention to the necessity of CSR in banking sector, increasing the need for trust, as well as accountability and transparency that lead to it.

Research Methodology of the Study

The research design is an analytical one wherein the crucial aspect of CSR has been critically reviewed by the researcher in order to find out the practices of CSR amongst the Indian commercial banks. Convenience sampling technique has been applied to select two public sector banks (State Bank of India and Central Bank of India) and two private sector banks (Axis Bank and HDFC Bank) respectively to study their CRS activities in the city of Guwahati. A structured interview regarding the key facets of CSR was conducted amongst few bank employees from the respective banks in order to get better insight into the research problem.

Corporate Social Responsibility of Banking Sector

A circular issued by the Reserve Bank of India in 2007, on Corporate Social Responsibility (CSR), Sustainable Development (SD) and Non-Financial Reporting (NFR) – Role of Banks, pressing the growing awareness about CSR, SD and NFR in the global scenario. The Reserve Bank of India (2011) on stressing the need for CSR, suggested the banks to pay special attention towards integration of social and environmental concerns in their business operations to achieve sustainable development. RBI also pointed out to start non-financial reporting (NFR) by the banks which will cover the work done by the banks towards the social, economic and environmental betterment of society. Sharma (2011) [27] opines that Indian Banking Sector is found to be adopting an integrated approach of combining CSR with customer satisfaction voluntarily. Lately emphasis has been laid down to make the banking sector socially responsible. Senthikumar et al. (2011) [26] viewed that embracing of CSR by the banks worldwide refers that we may be reaching a situation where parity has once again returned to the banking sector. That is, the banking population may be perceived by the general public to be socially responsible in all sense. Sharma (2011) [27] observed from his study that the public sector banks have emphasised primarily on rural development, women empowerment, poverty eradication, community welfare, vocational training, education and employment. The CSR activities undertaken by the private banks include enhancement of education and employment, community development, child welfare, environment protection, health care and rural development. Sharma and Mani (2013) [28] had identified none variables to access the corporate social responsibility of the banks, viz; rural branch expansion, priority lending sector, environment protection, community welfare, women’s welfare, farmer’s welfare, new initiative related to CSR, financial literacy and education. Sharma (2011) [27] stated that though the public and private sector banks have realized the importance and necessity of CSR but their strategy and concerned areas are diverse. The core CSR activities undertaken by the public sector banks consist of rural development and removal of gender inequalities, whereas the CSR activities of the private sector banks are focused on education and employment, performance i.e., reporting of CSR activities. It was further found that some banks made fake gestures in respect of their efforts for socio-environmental concerns. In fact there is a great need for enacting some stringent regulatory provisions to ensure the adherence to social responsibility principles. Mukherjee (2012) [24] had intended to focus on financial inclusion as a matter of social responsibility for the commercial banks in India. He critically examined the whether promotion of financial inclusion is an economic or legal or ethical or discretionary obligation of the banks. Barrosa (2012) [11] has emphasized the significance of “Works
in collaboration”, mainly with non-governmental organizations or non-governmental development organizations, in designing and implementing corporate social responsibility programs. Sharma and Mani (2013) [28] opines that the public sector banks have overall highest contribution in CSR activities. Private sector banks and foreign banks are still lagging in this area. There are some banks which have failed to meet the regulatory requirement of Priority sector lending and rural branch expansion.

**CSR Ratings of Commercial Banks in India**

The CSR rating in India is lately done by Karmayog and it be seen that none of the bank could secure the highest level i.e. Level 5.

<table>
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<tr>
<th>LEVEL (0-5)</th>
<th>No. of Banks</th>
<th>Name of Banks</th>
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<tbody>
<tr>
<td>Level 0</td>
<td>3</td>
<td>City Union Bank, Karur Vysya Bank, Vijay Bank</td>
</tr>
<tr>
<td>Level 1</td>
<td>6</td>
<td>Central Bank of India, IndusInd Bank, Karnataka Bank, Kotak Mahindra Bank, South Indian Bank and UCO Bank</td>
</tr>
<tr>
<td>Level 4</td>
<td>1</td>
<td>Yes Bank</td>
</tr>
<tr>
<td>Level 5</td>
<td>Nil</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Compiled from Karmayog’s Report 2009-10 and Sharma (2011)

Sharma (2011) [27] further referred that since there is no uniform standard in reporting and thereby, comparison cannot be made between the banks whether in public or private sector. Absence of mandatory provisions for reporting is yet another factor which causes negligence. The bank also fails to update their website relating to their CSR activities and the bank employees too find it hard to provide accurate information. Gautam and Singh (2010) [13] opine that the need of the hour is to build a structured and a planned CSR approach as many companies are making token gestures towards CSR.

**Key Areas for CSR Activities in Commercial Banks**

Schedule VII of the Companies Act, 2013 sets out the activities which may be included in CSR and the banks in India are already working on it. Priority sector lending has been given an utmost importance by both the public and private sector domain, apart from meeting the demands from the industrial houses. Priority sector lending includes agriculture, small enterprise, retail trade, micro credit, education loan, housing loans and finance to weaker section. The CSR activities primarily comprise the following:

**CSR Activities Of Select Indian Commercial Banks**

State Bank of India (SBI)

Sharma (2011) [27] highlighted that (SBI), the oldest bank has also adopted green banking initiatives in its lending operations. Recognizing the warning of global warming, bank has decided to initiate urgent measures to combat the climate change through envisaging two pronged approach viz. i) to reduce the bank’s own carbon footprint and ii) to sensitize the Bank’s clients to adopt low carbon emission practices. As a signal of bank’s sincerity and urge in its efforts bank has installed windmills for the bank’s captive use with a view to substitute the polluting power with green power. Corporate Social Responsibility has always been a part of the State Bank of India covering various social, environmental and welfare activities. Focus areas for their CSR activities are:

**Source:** Dhirand and Mittal (2014)

**Chart 1:** Core thrust areas for reported CSR activities in public sector banks

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Central Bank of India
Central Bank of India has been bestowed with prestigious ‘Greentech’ CSR Award for its active role in CSR activities towards the upliftment of the poor and providing help to needy and weaker sections of the society. The bank has also received the Asian CSR Leadership Award 2012 and has secured the 6th position.

HDFC Bank
HDFC Bank has undertaken several involvements and projects through the year to create a positive impact on the society while doing business. These projects take shape in many ways from corporate philanthropy to employee driven projects. Few CSR activities undertaken by the bank are:

3. Suggestions And Conclusion
Corporate Social Responsibility considers society, nature and ethics in making strategy that can improve the competitive position of a company. CSR reflects bank’s commitment to their customers, shareholders, employees and to the communities as a whole. Bank’s commitment impels them to perform with the highest standards of governance and ethics; provide products and services that meet the rising

Source: Compiled by the researcher from the field survey, October 2015
expectations of their customers; attract and retain quality employees; provide support in our communities; and lessen the environmental impact of their business practices. For a bank to have a successful CSR policies continuous support of the environmental impact of their business practices. For a employees; provide support in our communities; and lessen expectations of their customers; attract and retain quality

Thus, CSR has been gaining its momentum as it been put under the legislative umbrella under the new Companies Act, 2013, as well as governed by the Reserve Bank of India it is observed that both the types of banks are trying to meet their corporate social responsibilities.

References
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