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Evaluation of Corporate Social Responsibility (CSR) Score and Corporate Governance Score - A Study Based on Indian Banking Sector

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Abstract

Keeping in mind a new change in corporate world, it is compelled to trace proper practices of CSR and CG, necessitating a paradigm shift in the special significance of running of a company. CSR is such term which enriches so many parts of the society, like, education, development of infrastructure, development of hygienic drinking water, development of employees earning capacity through some skillful learning strategies, development of flood relief works and ultimately development of entire society as a whole. In developing stage of corporate world, it is necessary to develop CG to make a transparency in the mind of shareholders. In this situation, this article shows a few constituents of application part of CSR with the help of CSR score, adaptation strategies of CSR, well disclosures norms on behalf of shareholders through CG score by different Banks in India and suggests some major recommendations regarding the applied part of CG - CSR.

Keywords: Corporate Social Responsibility (CSR), Corporate Governance (CG), Banking Sector

1. Introduction

We know that social responsibility means responsibility towards society and create a wide range of value in socio economical and socio human environment. A proper implication of CSR will give a proper satisfactory society and due to this most of the firms can convert their profit maximization concept into wealth maximization. At present scenario in India, giant corporate already started their contribution towards society. They developed different social programme, like established children parks, eco-parks, clean drinking water projects, funding for greenery environments, providing valuable services towards minority shareholders of the company, most and popular contribution provided by every corporate to their valuable human resources i.e. their esteemed employees as well as shareholders. Due to this, the article also highlighted CG score, especially shareholders information and different social responsibility committees. CG means such principles through which a company can maintain its transparency before its society like, shareholders and also enrich a well economic development through a proper expansion of production process after receiving a giant portion of investment. This investment is possible only on provide data in transparent manner. This article highlights CSR and CG scores simultaneously on the basis of recent circulars, acts, reports etc.

Traditional concept of CSR

In past CSR means nothing but providing a token as donation towards their society, i.e. CSR policy based only on monetary term. But, from that time human being are not satisfied only on financial supports, they also need to gain an entire social and economic development of the country especially communities. So it is necessary to develop a new strategy in adaptation of CSR policy.

Modern concept of CSR

The Sanskrit saying "*Atithi Devo Bhava*", means one person who comes to you is like God for being served. That means CSR is always to be serving the public and create a sustainable developed society. For example, "*Go Green*" for protecting greenery and providing fuel for

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present & future society, development of digital India through Information and Communication Technologies (ICT).

General concept of CG

Corporate governance (CG) is such a term through which a company’s key personnel (especially Board of Directors) always try to make a well norms of disclosures about different matters like, different Directors committees, other disclosures according to listing agreement under clause 49 (revised) of Companies Act 2013. The CG compelled to BOD to take responsibilities before entire society and make a clean corporate environment.

2. Literature Review

A value based article always generates on the basis of good numbers of literatures. An author can get some ideas from a review of good numbers of books, journals, periodicals, articles etc. This article is also based on those numbers of good literatures regarding CG and CSR. The following literature will produce a large quantity of knowledge:

In High Level Committee (HLC) report, the committee explained major parameters of CSR contribution by different companies. They also mentioned CSR rule 2014, National Voluntary Guidelines about social and economic responsibilities in the platform of Ministry of Corporate Affairs (MCA).(Affairs, 2005)^[1]

This article also study revised clause 49 according to listing agreement of companies act 2012 and help to generate ideas of formulation of CG score.(SEBI, 2012)^[4]

The authors in their article *CSR 10 India Index 2012*, explained that CSR score can be generated from variance score and score of contributions. They have taken ten listed Indian companies as sample and found variance between 2 % average net profit contributed to CSR and actual amount spent. After comparison the authors provided rank to those companies.(Shukla, 2013)^[5]

In revised Companies Act 2013, it is explained that if any company can reach its turnover Rs. 1000 crore or more or net worth Rs. 500 crore or more or if its net profits is 5 crore, then that company must form CSR committee with at least three directors one of them must be independent director. According to section 135 of this act, it is explained that the companies are contributed 2% of its average net profits on the basis of last three years net profits towards CSR activities. (PWC, 2013)^[3]

In amendment clause 49 published SEBI in 2014, explained disclosure of general shareholders information like, date of AGM, book closing date, system of share transfer, dematerialization of shares, distribution of shareholding

patterns and many more effective disclosure towards shareholders’ interests.(India SEBI, 2014)^[2]

So from the above literature we generate the ideas of this type of empirical research. Because we found that few authors are explained social contributions through CG and CSR simultaneously.

3. Objective: To establish a CSR and CG score and provide rank according to score cards.

4. Types of research: This article is written based on empirical nature of research i.e. it used different knowledge which is gathered from different qualitative as well as quantitative data.

5. Sample selection: This paper selected top 10 banks according to their market capitalization as base, as on 31.10.2015.

Table 1: Sample banks

Sl. No.	Banks Name	Market capitalization
1	HDFC Bank(HDFC-B)	276,535.74
2	SBI	184,133.07
3	ICICI Bank(ICICI-B)	160,875.04
4	Kotak Mahindra(KM)	126,089.34
5	Axis Bank(AXB)	112,946.30
6	IndusInd Bank (IB)	53,961.53
7	Bank of Baroda(BB)	36,935.68
8	Yes Bank(YB)	31,812.39
9	PNB	25,212.59
10	Canara Bank(CB)	15,043.57

6. Data Source: The data for this paper are collected totally from secondary sources i.e. from companies Annual Reports for the financial year 2014-2015, because the CSR rule is applicable from April 2014.

7. Data Analysis Techniques

CSR parameters are selected on the basis of Section135 of Companies Act 2013 and Companies (Corporate Social Responsibility Policy) Rules, 2014 and Report of High Level Committee (HLC), Ministry of Corporate Affairs, Govt. of India, September 2015. Then score is provided according to the weightage of CSR policy after keeping in mind of HLC’s report. Whereas CG parameters are selected on the basis of clause 49 (revised) under Companies Act 2013. Score will be provided on the basis of ‘yes’ and ‘no’ criteria. If the parameters exist then provide 1 maximum 2 according to weightage of those parameters otherwise 0.

CSR Score is shown below

Table 2: CSR score

SL.No.	Sub.sl.no.	CSR parameters	Score(each year)
1		2 % contribution on average net profit.(ANP)	2
2		Formation of CSR Committee (CC)	
3	i	3 Directors (DI)	2
	ii	1 Independent Director (ID)	2
4		CSR policy Disclosure(CSRP)	2
5		Promoting health care in rural areas(PH)	1
6		Promoting education in rural areas(PE)	1
7		Promoting employment vocational training(PEV)	1
8		Promoting gender equality policy(PGE)	1
9		Promoting homes, hostels, old age homes for women and aged persons.(PHH)	1
10		Go Green policy for protecting environment(GG)	1
11		Conservation of natural resources(CNR)	1

12		Contribution to Clean Ganga Fund(CCGF)	1
13		Setting up public library (SUP)	1
14		Slum area development(SAD)	1
15		Disclosure of CSR report in Annual Report(DCSR)	1
Total			19

Source: Compilation of data from CSR guideline in HLC report and Companies act 2013.

CG score provides below

Table 3: CG score

SL.No.	CG parameters(General Shareholders Information)	Score(each year)
1	AGM : Date, time and venue(AGM)	1
2	Financial year(FY)	1
3	Date of Book closure(DBC)	1
4	Dividend Payment Date(DPD)	1
5	Listing on Stock Exchanges(LSE)	1
6	Stock Code(SC)	1
7	Market Price Data : High., Low during each month in last financial year(MPD)	1
8	Performance in comparison to broad-based indices such as BSE Sensex, CRISIL index etc.(BBI)	1
9	Registrar and Transfer Agents(RTA)	1
10	Share Transfer System(STS)	1
11	Distribution of shareholding(DS)	1
12	Dematerialization of shares and liquidity(DMSL)	1
13	Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity(OGDR)	1
14	Plant Locations(PL)	1
15	Address for correspondence(AFC)	1
Total		15

Source: Compilation of data from revised clause 49 according to Companies Act 2013 and SEBI circular 2014.

8. Analysis and Results

Using table 2, the following table is constructed

Table 4: CSR score of sample banks

SL.No./bank nam	Sub.sl.no	CSG parameters	HDFC-B	SBI	ICICI-B	KM	AXB	IB	BB	YB	PNB	CB
1		2 % contribution on average net profit.(ANP)	0	0	0	0	0	2	0	0	0	0
2		Formation of CSR Committee (CC)										
3	i	3 Directors (DI)	2	2	2	2	2	2	0	2	0	0
	ii	1 Independent Director (ID)	2	2	2	2	2	2	0	2	0	0
4		CSR policy Disclosure(CSRP)	2	2	2	2	2	2	0	2	0	2
5		Promoting health care in rural areas(PH)	1	1	1	1	1	1	1	1	1	1
6		Promoting education in rural areas(PE)	1	1	1	1	1	1	1	1	1	1
7		Promoting employment vocational training(PEV)	1	1	1	1	1	1	1	1	1	1
8		Promoting gender equality policy(PGE)	1	1	0	1	0	1	1	0	0	0
9		Promoting homes, hostels...(PHH)	0	0	0	0	0	0	0	0	0	0
10		Go Green policy for protecting environment(GG)	1	1	1	1	1	1	1	1	1	1
11		Conservation of natural resources(CNR)	1	0	1	1	1	1	1	1	0	1
12		Contribution to Clean Ganga Fund(CCGF)	0	1	0	0	0	0	0	1	0	0
13		Setting up public library (SUP)	0	0	0	0	0	0	0	0	0	1
14		Slum area development(SAD)	0	0	0	0	0	1	0	0	0	0
15		Disclosure of CSR report in Annual Report(DCSR)	0	0	1	1	1	1	0	0	0	0
Total Score			12	12	12	13	12	16	6	12	4	8
% Achieved			63.1579	63.2	63.1579	68.42	63.16	84.2	31.6	63.2	21.1	42.1

From the above table we can see that the IndusInd Bank (IB) is achieved highest score among all other sample banks. It has scored 16 out of 19 i.e. 84.2%. This bank only maintained 2 % contribution criteria towards CSR according to section 135 under Companies act 2013. Other banks have contribution towards CSR but not fulfilled this 2 % criterion.

Then the second highest achieved by Kotak Mahindra(KM) bank i.e. its total score is 13 out of 19 (68.42%). Then we can rank as third to four banks simultaneously, these are HDFC bank, ICICI bank, State bank of India, Axis bank and Yes bank, because they have scored 12 out of 19 i.e. 63.16% respectively. Lowest rank of this study is provided to the

Punjab National Bank (PNB) because it has got score 4 out of 19 i.e. 21.1%. Other two banks {Canara bank (CB) and Bank of Baroda (BB)} have scored 8 and 6 out of 19

respectively. The performances of these two banks are also poor in compare to other banks except PNB.

Using Table 3 the study generate the following CG score

Table 5: CG score of sample banks

Sl.No./bank name	CG parameters(General Shareholders Information)	HDFC-B	SBI	ICICI-B	KM	AXB	IB	BB	YB	PNB	CB
1	AGM : Date, time and venue(AGM)	1	1	1	1	1	1	1	1	1	1
2	Financial year(FY)	1	1	1	1	1	1	1	1	1	1
3	Date of Book closure(DBC)	1	1	1	1	1	1	1	1	1	1
4	Dividend Payment Date(DPD)	1	1	1	1	1	1	1	1	1	1
5	Listing on Stock Exchanges(LSE)	1	1	1	1	1	1	1	1	1	1
6	Stock Code(SC)	1	1	1	1	1	1	1	1	1	1
7	Market Price Data(MPD)	1	1	1	1	1	1	1	1	1	1
8	Performance in comparison (BBI)	1	0	1	1	1	1	1	1	1	1
9	Registrar and Transfer Agents(RTA)	1	1	1	1	1	1	1	1	1	1
10	Share Transfer System(STS)	1	1	1	1	1	1	1	1	1	1
11	Distribution of shareholding(DS)	1	1	1	1	1	1	1	1	1	1
12	Dematerialization (DMSL)	1	1	1	1	0	1	1	1	1	1
13	Outstanding GDRs/ADRs(OGDR)	1	1	1	1	1	0	0	1	1	1
14	Plant Locations(PL)	1	1	1	0	0	0	0	1	0	0
15	Address for correspondence(AFC)	1	1	1	1	1	1	1	1	1	1
Total Score		15	14	15	14	13	13	13	15	14	14
% Achieved		100	93.33333	100	93.33333	86.66667	86.66667	86.66667	100	93.33333	93.33333

The above table represents CG score of different parameters regarding General Shareholders Information, because our main topic is related to social responsibility. Shareholders are a major part of this society, so the study has prepared CG score on this basis. From table 5 we can observe that each and every bank has maintained a good transparency in CG disclosures norms according to revised clause 49 of listing agreement of Companies Act 2013 and SEBI circular released in 2014. HDFC bank, ICICI bank and Yes bank have achieved highest score i.e. 15 out of 15 (100%) followed by SBI, KM, PNB, CB, AXB, IB and BB respectively. We can also conclude that all sample banks are very much aware about shareholders matter.

9. Recommendations

- All the banks must follow up newly provided rules, regulations regarding CG and CSR simultaneously.
- Most of the banks are contributed a portion of profit towards social activities but it is not sufficient according to Companies Act 2013 u/s 135.
- Few of the banks cannot constitute CSR committee according to rules, so it is necessary to constitute CSR committee immediately.
- After observing Annual Reports of different banks, it is realized that the banks are provided more disclosures in CG matter rather than CSR. So it will be highly appreciated if they will published CSR reports in their Annual Reports,
- The banks must increase their contribution to build up many old-age homes for old age poor people.
- The banks must increase their contributions towards slum area developments.
- Go-green initiatives followed by every bank but the customers, shareholders and other parties of the society do not take it seriously, so banks can arrange seminars, proceedings regarding increase of awareness of go-green policy etc.

10. Conclusion

From the above study it may conclude that the banking sector already took initiatives to development of the society. The major public and private banks followed up CG, CSR rules, regulations according to acts, circulars etc. provided by Govt. of India. In this study we also observed that Indian banking sector fulfilled efficiently CG disclosure norms about general shareholders information, but CSR parts are not properly disclosed. So it is necessary to increase awareness to Indian banking sector regarding CSR policy and proper practice of that policy. Ultimately we may conclude that if our banking sector followed proper CG and CSR practice then our society will be benefited more and we can build a clean society.

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