

A Review of Corporate Social Responsibility in India with Reference to Banking Sector

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Abstract

Corporate Social Responsibility (CSR) has gained enormous significance in the recent times. It may be defined as the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and social at large to improve their quality of life India has witnessed a noticeable paradigm shift from being a corporate patron to socially responsible in the past few decades. As ours is a developing economy, CSR plays an essential role in today's organisations. CSR had emerged in the late 1960s as an attempt to link corporates to society. As CSR's importance has gradually increased, Indian business houses have realised that the final goal is not just profit-making; however, trust-building and establishing a viable societal relationship is also of prime importance. The mandate of the companies Act, 2013 has made CSR as an integral part of an organization.

Key words: *Banking Sector, Companies Act 2013, Corporate Governance, Corporate Social Responsibility, Financial Performance.*

Introduction

The concept of Corporate Social Responsibility (CSR) in India is not new, the term may be. The process though acclaimed recently, has been followed since ancient times. Ancient Philosophers like Kautilya from India promoted the significance of ethical principles while doing business. The concept of helping the poor and disadvantaged was even cited in ancient literature. The idea was also supported by several religions where it has been intervened with religious laws. "Zakaat", followed by Muslims, is donation from one's earnings which is specifically given to the poor and disadvantaged. Similarly Hindus follow the principle of "Dhramada" and Sikhs the "Daashaant".

The focal point of CSR changes with the changing requirements of business and varying social needs. Corporate Social Responsibility recognizes that business firms have not one but many different kinds of responsibility, including economic and legal responsibility.

In 1960, CSR surfaced as an attempt to link business with society. The underlying belief in this era was to apply the resources in a socially responsible manner i.e., the promotion of social welfare along with the economic development. The main argument was to employ economy's means of production in such a way that production and distribution could enhance total socio-economic welfare. In 1970s CSR was identified as the conformance to industry principles. The basic idea was to widen the margin of CSR implications from pure economical boundaries. In this regards, corporate houses ensured the potential use of business resources with no compromise to business ethics.

Corporate Social Responsibility activities in India has grown exponentially in the last decade and the changes is now more evident after the new Companies Act, 2013. The rules made effective from 1st April 2014, embrace both private and public firms, and spell out a range of activities for companies to undertake in order to meet their obligations. Nevertheless, there remains a protracted debate about the legitimacy and value of corporate social responsibility, if at all. The differences depend on such factors as the specific Company's size, the particular industry involved, the firm's business culture, and stakeholder demands. The Ministry of Corporate Affairs has notified Section 135 and Schedule VII of the Companies Act 2013 as well as the provisions of the Companies (Corporate Social Responsibility Policy) Rules, 2014 to come into effect from April 1, 2014. With effect from April 1, 2014, every company, private limited or public limited, which either has a net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs 5 crore, needs to spend at least 2% of its average net profit for the immediately preceding three financial years on corporate social responsibility activities.

The CSR activities should not be undertaken in the normal course of business and must be with respect to any of the activities mentioned in Schedule VII of the 2013 Act. Contribution to any political party is not considered to be a CSR activity and only activities in India would be considered for computing CSR expenditure. The report of the Board of Directors attached to the financial statements of the Company would also need to include an annual report on the CSR activities of the company in the format prescribed in the CSR Rules setting out inter alia a brief outline of the CSR policy, the composition of the CSR Committee, the average net profit for the last three financial years and the prescribed CSR

expenditure. This concept is not newly generated in the Indian context; it is as old as the emergence of civilization where it was not practiced as CSR but as Philanthropy.

Review of Literature on CSR

Since 1950s, theoretical and empirical research has fully tackled the issues of Corporate Social Responsibility (CSR) and in the era of globalization. CSR is becoming increasingly important. Consequently recognizing the importance of CSR, most banks have implemented social and environmental problems that benefit themselves and society (**Hoang and Tran, 2014**). Nowadays, CSR is perceived as the most demanding topics in research area.

CSR recognizes an organisational obligation of operating in a socially responsible manner. **Dusuki and Dar (2005)** found out many reasons behind the growing importance of CSR actions like regularity pressures by different regulating bodies, increased media power, increasing market pressure on social and ethical issues etc. But, **Sharma (2011)** stated that the CSR actions of developing countries are not so vigorous especially in banking industry as there is lack of existence of systematic provisions related to the reporting of CSR.

According to **Tsang (1998)**, CSR has been a major area for research for many years. **Bronn and Vrioni (2001)** stated that CSR as a notion developed principally in 1960 with the idea that different organizations have responsibilities beyond their legal commitment. **Turker (2009)** argued that initially CSR was just a compulsion on firms for social benefits.

According to **Abagial McWilliams et al, (2003)**, even though the exact definition of CSR is not given anywhere but still CSR has many advantages for the banking sector. **Attila Turi et al. (2014)** stated that in the present economic conditions, CSR is the most appropriate solution for integrating the moral and ethical principles in the banking industry. **Richard Welford et al. (2007)** argued that CSR differs from region to region, business to business, company to company and beyond time. According to **Burianová and Paulík (2014)**, the act of executing CSR and moral standards in the banking industry prompts for social duty and ethics which has become an appropriate marketing apparatus to communicate with the stakeholders.

Chaudhury et al., (2011) in their research stated that the concept of CSR is spreading increasingly through public scandals and misconduct and has become a source of great importance in the banking sector. **Qi Lai (2006)** mentioned that the rapid globalization and social development are the reasons behind the popularity of CSR, and this creates awareness

in all the companies to maintain their CSR by improving their social and environmental performance.

Trotta et al.(2012) in their research found CSR as an important driver of reputation of any institution and also creates economic value over time. **Holder-Webb et al. (2009)** argued that CSR can be considered as a source to have a competitive advantage and an increase in the company's credibility with stakeholders and also to build a long-term reputation. According to **Gautarn and Singh (2010)**, the literature available on CSR indicates that the CSR does not affect the company's goodwill and reputation, but also has an adverse effect on the financial performance.

The term "responsibility" in Corporate Social Responsibility emphasises that businesses have some moral duties towards society. As per **Dhingra and Mittal (2014)**, socially responsible businesses mean "activities corporate perform above the statutory requirements towards the benefit of the society." They viewed that CSR is self-regulation integrated into a business model, and industrialisation and commercialisation have undoubtedly opened vivid opportunities. It has also rooted the use of non-renewable energy sources that will have severe repercussions on generations to come. The increasing concern for justifiable development, environmental sustenance, encircling pollution control, and supervision of natural resources has paved the way for colossal recognition of corporate social responsibility (**Singh, 2015**).

In the financial sector, numerous global initiatives are undertaken to ensure the proper adoption of CSR practices like the "United Nations Environment Programme Finance Initiative" and "Global Reporting Initiative". Such initiatives in everyday business operations have turned up developed nations to behave as socially responsible nations (**Nidhi, 2016**). With CSR as a mandatory requirement for corporate in India, we have seen researchers paying attention to this field and investigating the CSR practices from different sectors.

Recently, CSR has gained much attention in the corporate world. As explained by **Hertz (2012)**, earlier it was a form of capitalism that put much more emphasis on what we owned, on whether we had a Gucci handbag for example, than on things like the quality of our environment, the quality of the air we breathe, the kind of healthcare we have, what makes us content and happy. She called it Gucci capitalism and predicted that the gradual demise of Gucci capitalism will be followed by a new era of responsible capitalism called Co-opt capitalism. The idea of Co-opt capitalism is that the community matters over individual and co-operation matters over competition. In short during this phase the concept

of CSR was showered with some divergent thoughts covering economic, legal, ethical, philanthropic and social aspects of business houses.

Table 1: Evolution of CSR Initiatives

| Phase 1 | Phase 2 | Phase 3 | Phase 4 |
|----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| 1850-1914 | 1910-1960 | 1950-1990 | Since 1980/1990 |
| Pure philanthropy and charity during industrialization, Corporation is responsible to owners and managers only | CSR as Social Development during the independence struggle, Corporation is for owners, managers and employees | CSR under the “mixed economy paradigm”, Corporation is responsible to owners, managers and other target environment. | CSR in a globalized world in a confused state, Corporation is responsible to owners, managers, other target environment and public at large. |

CSR in Indian Banking Sector

Corporate social responsibility is the business practices involving initiatives that benefit the society. It includes all efforts and tactics undertaken for achieving social welfare and economic development. It is also called Sustainable Responsible Business, Corporate Social Performance etc. It is a corporate self-regulation integrated into a business model. It is represented by contributions made by business organizations for sustainable development in the form of social investment. It is concerned with treating all stakeholders of a firm in an ethical or socially responsible manner. It is a continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large. Environmental efforts, philanthropic activities, ethical labour practices and volunteering are part of the CSR activities.

Bank is a social institution. It has direct connection to the society. For smooth and successful functioning banks have to cater to the requirements of all stakeholders who are members of society. Banks are playing crucial roles in every economy. They are acting as catalytic agent for providing various services to the society. CSR in Indian banking sector is aimed towards addressing the financial inclusion, providing financial services to the unbanked or untapped areas of the country, the socio-economic development of the country by focusing on the activities like poverty eradication, health and medical care, rural area

development, self-employment training and financial literacy training, infrastructure development, education and environmental protection etc.

In recent years an attempt has been initiated to ensure socially responsible behaviour of banking sector in a more organized manner. The CSR in Indian Banking Sector is aimed towards addressing the financial inclusion, providing financial services to the unbanked or untapped areas of the country, the socio-economic development of the country by focusing on the activities like, poverty eradication, health and medical care, rural area development, self employment training and financial literacy trainings, infrastructure development, education, and environmental Protection etc. RBI also insisted upon taking measures for sustainable development of economy through realizing the dire necessity of CSR. Reserve Bank of India (2007) stated that CSR entails the integration of social and environmental concerns by companies in their business operations and also in interactions with their stakeholders. The major thrust areas for CSR practice in Indian banks are common in public sector and private 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 CSR in Indian Banking Sector is more aligned towards financial inclusion, providing financial services to the unbanked or under banked areas of the country, the socio-economic development of the country by focusing on the long standing issues like poverty, health and medical care, rural development, self employment and financial literacy, infrastructure development, education, and environmental protection etc. Having said this it can be understood that CSR is now an integral part of functioning of an organization. The performance of an organization should not be confined to financial parameters wherein it has to be measured beyond the financial aspects. In view of the importance of banking sector in India, this study is focused on the corporate social responsibility activities carried out by Indian commercial banks.

It has been observed from various sources that most of the Indian banks, public sector banks in particular, do not mention recent CSR activities on their annual reports or on the websites to the required extent. Banks have to concentrate on taking adequate steps for updating the recent activities in CSR as the said initiative has been given greater importance across the corporate world, including the banking sector. Highlighting the role of banks in CSR. RBI circulated a notice on December 20, 2007 addressing all the scheduled commercial banks in India.

Recently financial institutions adopted an integrated approach combining customer satisfaction and CSR in a broader way. RBI also emphasizes on the need of integrating business operation of banks with social and environmental aspects. The major focus areas of CSR can be considerably pertaining to health, livelihood, infrastructure, education, social and cultural aspects.

Banks play a major role in the financial improvement of any country. The study undertaken by **Dutt and Grewal (2018)** concluded that SBI is playing an outstanding role to bring out the relationship between the organization and the society. SBI is trying its best to benefit the society in every manner it can. The bank's major focus area under CSR is healthcare and sanitation, skill development, livelihood creation sector, education sector, sports, environment protection and other sector as well. But, the main area of focus is skill development and livelihood creation sector in which bank is investing almost more than the 50% of the decided CSR budget. But, it should also support some other sectors. It can also be concluded that the media coverage of the events is done at a higher scale but actual implementation of the activities is somehow lacking. SBI is building customer loyalty, reputation, employee motivation, brand value and employee retention by CSR activities.

Sairamakrishna and Sudalaiyandi (2021) analysed CSR activities undertaken by public and private sector banks. They concluded that Corporate Social Responsibility activities are a rising phenomenon of banking sector in Tirunelveli district. The CSR has been an extensively discussed issue in the financial area, being as one of the essential area of the economy. Financial institutions are paying and getting implausible concentration to CSR.

Chaudhary and Yadav (2021) have observed that the Indian banking sector has shown interest in mixing sustainability into its operating models, but its CSR practices continue to go miles. Only a few Indian banks report their actions on triple bottom line principles. There is a lack of uniformity in ratings for CSR practices and financial ratings, creating an issue in comparing business houses and defining the CSR rating. These days banks use CSR practices as a marketing tool to attract a customer base and attract investors. Few banks have clearly defined and shared their CSR philosophy on their websites. Due to the government's mandatory pressure, some banks implement CSR activities on an ad-hoc basis, unrelated to their business models and operations. Most banks have not publicly disclosed their CSR investments and proportionate spend on CSR actually to the. More voluntary steps are vital to financial institutions to guarantee the socio-environmental viability of projects are financed. The major challenge for banks is the need for reliable indicators of progress in their CSR activities. Proper dissemination of CSR activities at the

base level and attempts to be undertaken to offer a clear and transparent system for its proper implementation.

CSR and Financial Performance

The approach to CSR has changed from Agency theory to Stakeholder theory, where a business is responsible to the society from where it takes its inputs. The concept of CSR has a normative altruistic basis and the strongest indication comes from the terminology itself used to describe the concept (Corporate Social Responsibility) but current trends from both academia and industry strongly indicate a shift in paradigm from normative altruistic bias of CSR to positivist strategic orientation to CSR.

There are several studies which shows positive relation between CSR and corporate financial performance of the firms. Most of these studies have taken spending on CSR activities as independent variable. Net profit measured as profit after taxes and growths in sales have been taken as proxy for financial performance. Yet, there are studies, which show neutral relation between CSR and corporate financial performance. Some selected studies have been presented in following paragraphs.

In a study, **Daviss (1999)** has concluded that companies will grow their profits only by embracing their new role as the engine of positive social and environmental change. **Waddock and Graves (1998)** in their study have shown that Corporate Social Performance (CSP) is positively associated with prior financial performance. **Clement (2002)** is of the view that CSR has bottom line relevance and the way it is communicated and reported is important. CSR helps an organization in building loyalty with customers, counteracting allegations of corporate greed, avoiding expensive class action suits. **Falck and Heblich (2007)** opined that shareholders react favorably towards the stock prices of companies' strategically practicing CSR. **Wilks (2002)** has linked the idea of corporate social responsibility with the idea of the triple bottom line, whereby business success should be judged on not just financial terms but also on social and environmental grounds. Balabanis, **Phillips and Lyall (1998)** concluded that CSR disclosure positively affected firm's CSR performance and its concurrent financial performance. Thus, socially responsible corporate performance can be associated with a series of bottom-line benefits. Companies have developed methods to measure the benefits of their advertisement campaigns, similar methods can and should be able to be applied in the case of corporate reputation.

There are plenty of study which indicate neutral relations, for example, **McWilliams and Siegel (2000)** conclude that CSR has a neutral impact on financial performance. In another study **Quazi and O'Brien (2000)** did not find any significant effect of CSR on the profitability. They conclude that corporate social responsibility is two-dimensional and universal in nature. **Husted and Allen (2007)** conclude that although CEOs and government leaders insist in public that CSR projects create value for the firm, privately they admit that they do not know if CSR pays off.

Another study by **Sukhpreet Kaur (2018)** has concluded that there is a significant positive relationship between the CSR and the net worth of companies. The study concludes that the CSR is found to be a true reflector of net worth of the Indian Service Sector.

Review of literatures indicates that the studies done so far on the impact of financial performance of firms due to CSR is not conclusive hence there is a need to investigate it in Indian scenario. Also, most of the studies have considered the analysis of single industry of particular sector, so there is a scope for intra firms' analysis among the industries of sectors.

Challenges Faced by Financial Institutions

Financial institutions face specific challenges in the way of their CSR activity plans viz.

- ✓ **Lack of community participation:** There is a lack of interest in participation and contribution from the local public in different CSR activities. The trouble more gears up when there is a lack of communication between banks and local people at the grassroots level.
- ✓ **Local resource building:** There is a need for local resource building of government or NGO's as there is a severe shortage of trained professionals who could contribute to different CSR schemes.
- ✓ **Transparency:** CSR activities often get stuck due to a lack of transparency in the support system. There is a massive lack of transparency on the ground of local implementing authorities as they lack efforts to disclose information on their schemes, audits, and utilisation of funds. This often leads to a gap in building trust among the community and institution as a whole.
- ✓ **Lack of clear CSR roadmap:** No clear cut statutory guidelines are there for CSR activities. The contribution towards CSR should be dependent on the size of the business and turnover.

Summing up

The CSR in banks is rooted in its Corporate Governance philosophy, which in turn is woven around Bank's commitment to ethical practices in the conduct of its business, while striving in the constant quest to grow with profits and enhance shareholders value and align interests of the shareholders, stakeholders and society through adoption of best international practices and standards. CSR expenditure should not be perceived as an extra cost or burden wherein it has to be viewed not only as making good business sense but also contributing to the long-term prosperity of a Bank and its survival sustenance. Being an aspirant for good cause and being a successful business on the other are flip sides of the same coin for banking corporate.

The primary objective of business is to earn maximum profits for shareholders or owners in ethical way, it is also expected to operate in a way that fulfills social obligation. Companies have CSR practices to commit themselves in a way to benefit the community at large (**Olivia, 2011**). The issue of corporate governance has come up mainly in the wake up of economic reforms characterized by liberalization and deregulation.

A very limited research work has been done to investigate the CSR practices in developing and emerging nations. In fact the academic publication on this fiery issue is primarily western centric. **Belal (2001)** noted that most of the CSR studies conducted so far were in the context of developed countries such as Western Europe, the USA and Australia and we still know too little about practices in smaller and emerging countries.

According to the researchers throughout the world, CSR has been a major area and focus of research for many years. The study of CSR attracts researchers from India because this topic is very much diverse and socially oriented. CSR is a voluntary activity by the business aimed at the welfare of the society (**Barnett 2005**). The exact definition of CSR is not given anywhere but is greatly beneficial for the banking sector in India public sector banks as well as private sector banks (**Mc Williams 2003**). The banks are taking lot of CSR initiatives to build their image and also win hearts of customers and employees. It is suggested that in the present economic situation, CSR is the most suitable solution for joining the ethical and moral principles in the Indian banking sector (**Attila Turi et.2014**). Thus, no wonder that today the bank's CSR activities affected the lives of lakhs of the banking community of the country.

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