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RESEARCH ARTICLE

AN ANALYSIS OF CSR SPENDING IN BANKING SECTOR IN INDIA

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ABSTRACT

The banking sector is considered the backbone of an economy and the performance of the sector is a measure for the performance of the whole economy. Apart from the basic banking services now a day's banks are also involved in the social services and these services are termed as Corporate Social responsibilities. All the Public and Private Banks have their own priority sectors for spending the CSR amount such as healthcare, disaster relief, financial literacy , education and vocational skills and many more are there. A new act has been made for the Corporate Social Responsibility under section 135 of the company's act 2013. In this paper 19 banks are selected for the study. This paper mainly focuses on the key provisions of this act and giving emphasize on the actual spending on CSR by Banking Sector in financial year 2013-2014.The study also tries to cover the gap between public sector banks and private sector banks with respect to CSR spending.

INTRODUCTION

"Corporate Social Responsibility is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources." CSR spending in India is not new, however ever since the inclusion of mandatory CSR in the Companies Bill 2010, which since been passed by the Parliament (by Lok Sabha on 18th Dec 2012 and by Rajya Sabha on 8th August 2013), the issue has raised a lot of expectations among different sectors. A senior government functionary at one of the seminars revealed that 80% debate in the Parliament focused on CSR clause in the Companies Bill, indicating the wide interest in this area. The civil society sector which is struggling with diminishing sources of funds, has justifiably felt rather excited on prospects of an additional stream of funding. On the flip side, there have been arguments, that making CSR mandatory is a form of taxation, which would further erode efficiency of the corporate sector. Some even state that any expenditure made compulsory would ultimately end-up in wasteful expenditures camouflaged as CSR. Due to lack of system of proper accountability, it could give rise to favoritism or even corruption. However the fact is that even without being mandatory, CSR has been going on for a number of years.

Objectives

The research paper is mainly focuses on the fallowing objectives:

- To study the CSR spending in Banking Sector.
- To focus on the gap between Public sector and Private sector banks.

MATERIALS AND METHODS

Research methodology is the blue print of any research. The descriptive research design has been used in this research paper. The 19 banks are selected for the study and the data has been collected from various secondary sources basically from the various published reports which are based on CSR by NGOBOX, India CSR report based on analysis of CSR programs of 100 top companies, annual reports of banks, business responsibility reports of banks and journals.

Literature review

21st century should be known as the century of social issues considerations and answers. Hence, improving CSR, potential advantages will be created, including optimization of communications and relations with consumers and other stakeholders; positive evaluation of product and brand and finally, selection and recommendation of goods exchanges. Because, on one hand, selecting and deciding on a brand at the market is a mental process and on the other hand, CSR and Sustainable development are two aligned and parallel concepts in the corporation. Carroll in his study titled "social responsibility pyramid of firms", has been divided the social responsibility into four components, including economic needs, observance of general rules and regulations, observance of business ethics and Philanthropy responsibilities along with this Carroll in 1979 also discussed that "The social

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responsibility of business encompasses the economic, legal, ethical and discretionary expectations that a society has of organizations at a given point in time. ”The Commission defines corporate social responsibility as “the responsibility of enterprises for their impacts on society”. To fully meet their social responsibility, enterprises “should have in place a process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders “According to Bert Scholtens, “finance relates to the sustainability of economic development and to CSR. The three financing modes open the potential to direct the economic activities in a way that takes account of social, ethical, and environmental issues”. According to Jacob M. Rose, in his study findings indicate that directors employ prospective rationality cognition, and they sometimes make decisions that emphasize legal defensibility at the expense of personal ethics and social responsibility. The results suggest that additional ethics education will have little influence on the decisions of many business leaders because their decisions are driven by corporate law, rather than personal ethics. Paul C. Godfrey and Nile W. Hatch they studied on the two aspects one; Examination of the marginal utility of various CSRs by firms. Second, researchers must focus their tools on individual firm-stakeholder. Md. Habib-Uz-Zaman Khan suggests that “the effects of corporate governance (CG) elements on CSR disclosures in reporting information of Bangladeshi listed commercial banks are high.

(In INR Crores)

Sr. No	Bank	Actual CSR spending (2013-14) as % of Average Net Profit of FY11, 12 and 13	Actual CSR Spending in 2013-14 (in Crores)	2% of net profit of FY11, FY12 and FY13	CSR Spending Requirement for FY 2014-15
1	State Bank of India	0.84%	148.93	355.9	364.1
2	HDFC Bank	0.91%	70.36	153.9	200.2
3	ICICI Bank	1.82%	164	179.7	227.8
4	Axis Bank	0.98%	62.1	126.5	154.6
5	Kotak Mahindra Bank	0.23%	3.6	31.7	39.0
6	Bank of Baroda	0.28%	15.3	110.0	109.0
7	Punjab National Bank	0.04%	2.94	134.1	121.7
8	IndusInd Bank	1.04%	12.69	24.3	32.6
9	Yes Bank	0.83%	12.3	29.8	38.0
10	Bank of India	0.23%	7.83	67.2	67.5
11	IDBI Bank	0.49%	12.2	50.2	46.6
12	Union Bank	0.13%	3.77	58.2	52.3
13	ING Vysya Bank	0.30%	2.05	13.6	16.9
14	Allahabad Bank	0.28%	5.34	37.6	35.7
15	Andhra Bank	0.13%	2.4	35.7	28.9
16	Central bank of India	0.13%	1.59	24.9	7.2
17	Corporation Bank	0.15%	2.71	36.8	25.5
18	Indian Bank	0.11%	2.42	44.8	37.1
19	UCO Bank	0.36%	3.32	18.3	23.5
TOTAL			533.85	1533.4	1628.1

Source: Report by NGOBOX July 2014

Non-executive directors and existence of foreign nationalities have been found the significant impact on the CSR reporting.” Sanjay Kanti Das (2012), in his study presented that development of Corporate Social Responsibility (CSR) is very slowly in India though it was started a long time ago. In his view CSR has been assuming greater importance in the corporate world, including the banking sector. There is a visible trend in the financial sector of promoting environment friendly and socially responsible lending and investment practices. The Govt. of India is pursuing the matter relating to CSR and also drafted guidelines for CSR practices time to time. Suman Kalyan Chaudhury, Sanjay Kanti Das, Prasanta Kumar Sahoo (2011), said in their study that, At present, the world over, there is an increasing awareness about Corporate Social Responsibility (CSR), Sustainable Development (SD) and Non- Financial Reporting (NFR). 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. The investment of in CSR initiatives is viewed as a source of competitive advantage and a tool of enhancing financial performance (Smith, 2003; Varadarajan and Menon, 1988). However, it is not clear whether firms can actually use CSR to achieve a sustainable competitive advantage and financial performance enhancement. Since the 1960s, views diverge about whether financial outcomes provide evidence for an association between CSR and competitive advantage (Cochran and Wood 1984).

CSR as Per Company’s Act 2013

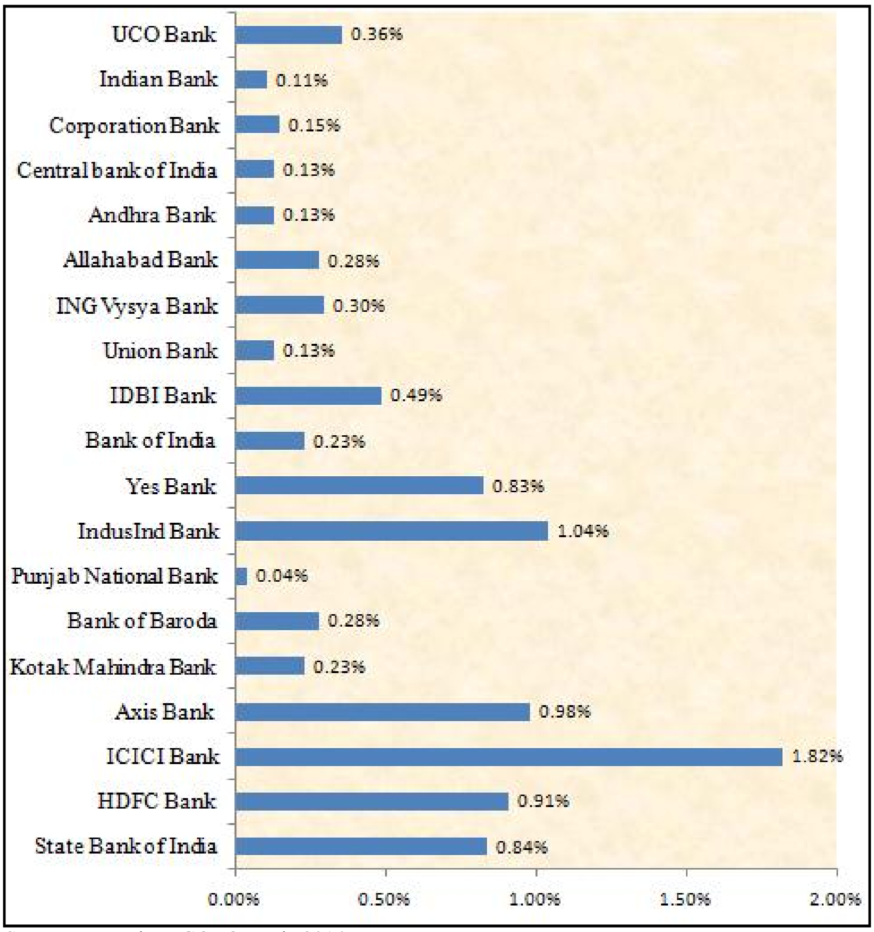
The Section 135 of the Companies Act 2013 defines CSR and scope of applicability of mandatory CSR clause. Some of the key provisions of the Act are:

- Applicable to all companies incorporated in India and having either of the following in any financial year – Section 135(1)

  Net Worth of INR 500 Crores or more; or
  Turnover of INR 1000 Crores or more; or
  Net Profit of INR 5 Crores or more

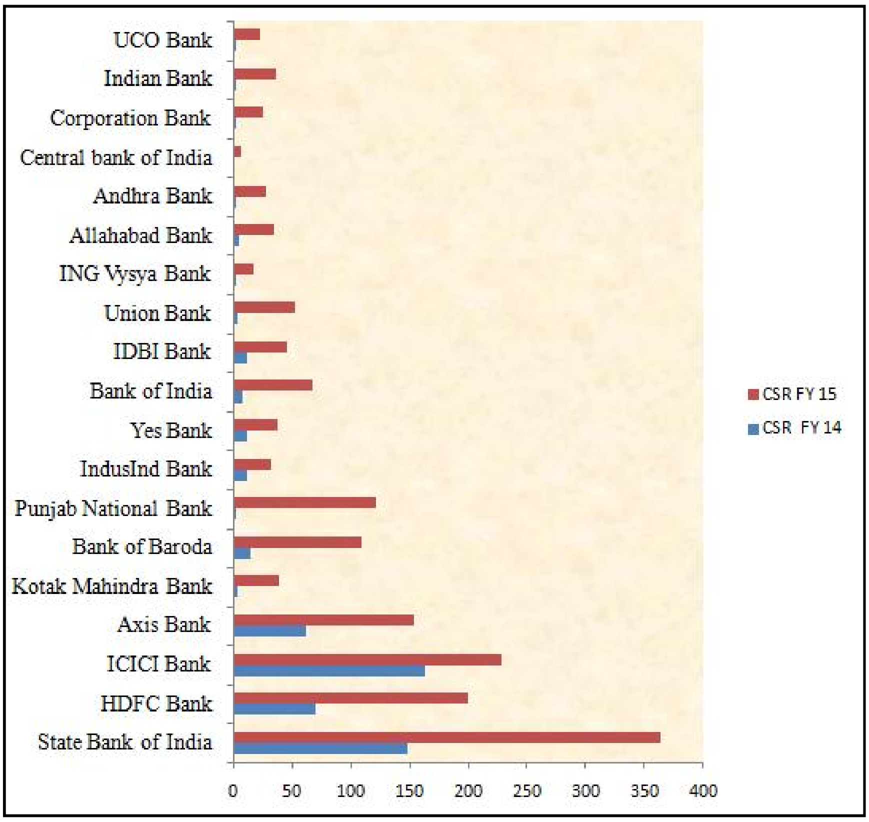
- CSR is applicable from FY 2014-15. For the purpose of First CSR reporting the Net Profit shall mean average of the annual net profit of the preceding three financial years
- Companies need to spend 2% of the average net profits made by the company during every block of three years
- Companies need to spend CSR money in project mode with pre-defined indicators, budget, duration etc.

Actual CSR spending (2013-14) as % of the Average Net Profit of FY11, 12 and13



Source: Report by NGOBOX July 2014

Actual CSR spending in FY 14 and mandatory requirement in FY 15



SOURCE: Report by NGOBOX July 2014

CSR spending in banking sector

The Banking sector is considered as one of the most regulated and compliance-friendly sectors in today's business world. The performance of banks directly reflects the mood and performance of an economy. With the advancement in information technology and increasing penetration of mobile in rural and remote areas, Indian banks have reached to the unreached in last few years. Indian banks have been giving back to the society through various welfare initiatives, donations and in-kind support to charities for decades. Social responsibility is not a new word for these banks. However, the new Act has pushed these banks to take their welfare activities more seriously and getting organized at CSR front. To understand where Indian banks stand how much they need to go further to comply with the mandatory CSR, we have undertaken this study of 'CSR spending in banking sector in India'.

The 19 banks selected for this analysis (see the table above) have spend INR 533.85 Crores on CSR activities in FY 2013-14. This comes to 0.70% of the average net profit of FY 2011, 2012 and 2013. These banks need to spend INR1628.1 Crores on CSR projects in FY 2014-15. This means that these banks need to almost spend thrice of their CSR spending in the last year. The most surprising fact that the analysis brings out is that some of the best performing PSUs have spent less that 0.20% of the average net profit of previous three years. The ICICI Bank emerges the best performing bank with spending of close to 1.82% of the average net profit of previous three years while Punjab National Bank comes out as the worst performing bank on CSR with meager 0.04% of the average net profit of previous three years being spent on CSR

Public sector and Private sector: The Gap

Out of the 19 banks analyzed 12 are public sector banks and 7 are private sector banks. A deeper analysis of public sector versus private sector banks reveals that public sector banks are far behind private sector in terms of spending on CSR. Public sector banks have spent just 0.43% of the average net profit of previous three years on CSR while private sector banks have spent 1.17% of the average net profit of previous three years.

	Actual CSR spending in FY 2014 as % of previous three year's average net profit
Public sector banks	0.43%
Private sector banks	1.17%

One more interesting fact that emerged out of the study is that most of the private sector banks have been undertaking initiative in strategic way with a focused approach towards long-term impacts while public sector banks have been spending more in activities and sponsorship for NGO initiatives and welfare schemes. Further, one of the favourites of public sector banks is donations to relief fund. Almost all public sector banks have contributed to Chief Minister/Prime Minister Relief Funds.

Conclusion

The analysis of the CSR spending of 19 Indian banks reveals that the sector is yet not prepared for 2% of the net profit spending on CSR projects. The 19 banks analyzed in this paper have spent just 0.70% of their average net profit of FY 2011, 2012 and 2013. The situation is even worse with public sector banks. Out of the 19 banks, 12 are public sector banks and their CSR spending is just 0.43% of their average net profit of FY 2011, 2012 and 2013. Private sector banks have been spending a lot more on CSR, than their peers in public sector. Private sector banks have spent 1.17% of their average net profit of FY 2011, 2012 and 2013 on CSR projects. Overall, these 19 banks have spent INR 535.85 Crores on CSR activities in FY 2013-14 and they need to spend almost three times of this amount, INR 1628.1 Crores, in FY 2014-15 to comply with the mandatory CSR clause of the new Act. These banks need to streamline their CSR policy and projects because most of their CSR spending has been in donation or sponsorship form or sporadic activities. The new Act requires CSR activities to be in project mode with pre-defined objectives, performance indicators and an enhanced monitoring and evaluation plan.

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