Corporate Social Responsibility Practices in Selected Public Sector Banks of India

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Abstract

Corporate Social Responsibility contributes positively to the development of society. The Companies Bill makes it mandatory for the Companies of certain strength to spend at least 2 percent of their average net profit of three years on CSR practices. RBI also asks the banks to spend on activities that contribute to the development of society and report them under Non Financial Reporting practices that cover the performance of banks towards social, economic and environment development. CSR practices are gaining more attention in current scenario as increasing attention to CSR activities contributes positively to the financial performance of the banks. CSR practices encompass rural development, poverty eradication, women empowerment, health care, education, training to enhance skills for self employed, environment protection, etc. The present paper analyses the CSR practices of five selected public sector banks in India under various categories for four years. The paper also examines the relation between CSR practices and performance of the banks to study the impact of Size, ROA and ROE of the banks on their CSR expenditure.

Key Words: Corporate Social Responsibility, Financial performance, Promoting education, Health care, Environment protection, Promoting gender equality

Introduction

Corporate Social Responsibility is what a company does for the society apart from statutory requirements. There are many issues like pollution, unethical business practices, unemployment, poverty, poor health services, etc. which adversely affect the society and hence result in poor social and economic development. CSR fixes the responsibility of corporate houses towards the social development. The advent of globalization has brought a boom in industrialization resulting in progress through the usage of advanced technology. But this has also raised some issues like global warming, rising level of e-wastage and many more which have an adverse effect on the human life. The growing concerns for sustainable development through pollution control, waste management, education and training facilities, health services and promoting gender equality has given birth to the concept of CSR. It is related to contribution to the society while doing the business ethically. CSR is defined as the voluntary activities that a company undertakes to operate in economic, social and environmentally sustainable manner. The implementation of CSR practices in India has been very slow. The concept of CSR is gaining momentum in all spheres of business and the banking sector is not an exception. The RBI passed a circular in December, 2007 which directed the banks to undertake CSR initiatives for sustainable development and start Non-Financial Reporting (NFR) that cover the activities performed for the betterment of the society. CSR witnessed tremendous increase in awareness especially after passing the new Company Act, 2013. This bill seeks to make mandatory for companies of certain financial strength (companies having either net worth of Rs.500 crores or more; turnover of Rs.1000 crores or more or net profit of Rs.5 crore or more) to spend at least 2 percent of their average net profit of more than three years on CSR practices (Section 135). The Companies Bill has not only made the reporting of CSR practices mandatory but also the spending of amount which is under agenda. Section 135 of the act also applies to the banking sector since April, 2014.

As financial services play a crucial role in economic development of the country, banking sector is also contributing towards the sustainable development. Presently India has 88 scheduled commercial banks-28 public sector banks, 29 private banks and 31 foreign banks. These banks have a combined network of over 53,000 branches and 17,000 ATMs. According to a report of the Rating Agency ICRA Limited the Public Sector Banks hold over 75 percent of the total assets of the banking industry, with the Private and Foreign Banks holding 18.2 percent and 6.5 percent respectively. The banks are performing vivid number of activities like skill development training, medical camps, education sponsorships, donations, child adoption, women empowerment programmes, etc. The performance in CSR practices contributes positively to the financial performance of the banks directly or indirectly. As the consensus is lacking on the opinion as to whether CSR is affected by the financial performance of the banks or not, the present paper studies the CSR practices in public sector banks and their relationship with SIZE and ROA and ROE of the banks.

Literature Review

The CSR practices is getting more attention of researchers and practitioners because these practices are now required to save the economy from all bad affects of businesses like pollution, poor waste management, unemployment, etc. Different studies reveal different results like Sharma (2011) recognised CSR as an organization's commitment to work in socially responsible manner. His study concluded that CSR practices in developing nations are not so healthy especially in financial sector even specific legal framework is not present. Reporting of CSR practices is also poor in financial sector and varies from country to country. Masud and Hossain (2012) studied that only 100 of selected commercial banks in Bangladesh reported their CSR practices while 60 percent banks participated in CSR activities as per financial act only. Maali Bassam et al (2008) also concluded from their study of 29 banks operating as per Islamic principles that their CSR reporting is significantly short of expectations and they disclose only activities building positive image like charity/donation, etc. Bert Scholtens (2009) analyzed from more than 30 international banks belong to North America, Europe and Pacific region that CSR is getting more attention in the banking industry with relative change in their performance. Kshitiz and Amar (2012) observed that most of the Nepalese banks especially public sector banks don't report CSR on their websites as CSR is not mandatory in Nepal, those banks reporting CSR practices voluntary, emphasis more on education, training and welfare of underprivileged, women development, environment, contribution to clubs, association and health care. Mohammad and Mohmood (2008) observed in the study of 38 banks listed in Mumbai Stock Exchange of India that almost 90 percent of sample banks disclose considerable amount of information in their annual reports. After the Company Bill and circular passed by RBI, many banks have started spending much attention on CSR activities and their reporting in annual reports, but not all banks. Many researchers also pointed out that CSR practices help the banks to enhance their financial performance.

Margolis and Walsh (2003) reviewed 109 studies and concluded that 54 studies indicated a positive relationship, 7 studies shown negative relationship, 20 studies resulted in mixed relation and 28 studies observed insignificant relationship between corporate social and financial performance. Choi, Kwak and Choe (2010) found in their empirical study of Korean Companies that financial performance had positive and significant impact on their social performance. Mann and Singh (2016) also concluded in their study of 20 commercial banks of India that CSR has impact on financial performance to some extent but it may be significant if the banks start following CSR practices to the desired extent. Pallavi (2013) analysed from the comparative study of Indian and foreign commercial banks that CSR reporting is moderate in Indian banks and profitability and size of banks have significant impact on CSR reporting. According to Samuel O, in 20th century CSR become important part of strategic decision making and companies took it practically to find out cost benefit analysis. That is why Wilson (2002) said that corporate responsibility must begin with the practical recognition that the corporation must be profitable enough to provide shareholders a return that will encourage continuation of investment. Companies started taking their stakeholder seriously and there is platform given to them for discussion. Labour unions, environmental groups and other relevant stakeholders and the implementation of certification solutions by corporations, which helped in the establishment of codes of, conduct (Kapstein, 2001).

Research Gap

From the literature review it can be observed that there are many studies on CSR practices, their reporting, relationship with financial performance and customer satisfaction worldwide but very few comprehensive studies in India. The recent studies conclude that the CSR practices and their reporting in Indian banks are not up to the satisfactory level till 2012. In the present scenario after passing of new Company Bill (2013) the study of CSR practices and their relationship with financial performance will be an important addition to the literature.

Objectives

1. To study the expenditure of selected banks on CSR practices and type of activities followed by them.

2. To study and analyze the CSR practices and their relationship with Size, ROA and ROE.

Research Methodology

The present study is based on CSR practices in Indian Banking Industry, so is the universe of the study.

Sample for the study is top five public sector banks selected on the basis of ranking of their average ROA for three years i.e. 2014-2017.

CSR is analyzed in terms of expenditure on these activities and number of activities conducted by the banks under various categories. From literature available on CSR and information given in section 135 of the Act, five variables namely promoting education, health care, environment protection, promoting gender equality and other activities comprising rural development, disaster management, sports promotion, aid to physically challenged, etc were taken to categorize all the CSR practices of selected banks.

To study the relationship between CSR, SIZE and financial performance, dependent variable of the study is CSR expenditure while financial performance in terms of Return on Assets (ROA) and Return on Equity (ROE) and Total assets in terms of SIZE are the independent variables.

The information related to CSR activities and related data has been collected from their Annual Reports, Business Responsibility Report available on their concerned websites and Statistical Tables Relating to Banks in India available on official website of RBI.

Time period for the study is three years after the passing of Companies Bill 2013 and making Section 135 applicable on banks from April 2014 i.e. 2014-15, 2015-16 and 2016-17.

To analyze the data, mean, correlation, t-test and regression model have been applied as the statistical tools. The data has been analyzed with the help of SPSS version 17.0.

Hypothesis

H_1: There is significant relation between CSR expenditure and SIZE of the banks.

H_2: There is significant relation between CSR expenditure and ROA of the banks.

H_3: There is significant relation between CSR expenditure and ROE of the banks.

Interpretation of Results

The analysis of data collected shows that mean SIZE i.e. total assets range between 14.75 lakhs to 2.37 crores where SBI has the big cake due to its large size. ROA ranges between 0.32 and 0.52 and ROE between -6.32 and 8.08. SBI shows the highest value for all the variables except CSR activities. Bank of India witnesses the lowest mean for ROA, ROE but its CSR activities are good in numbers at par with SBI. However, Bank of India doesn’t fall in mandatory condition of section 135 to carry CSR initiatives as its profit is not sufficient, spending on an average Rs. 10.71 crores per year for the benefit of society.

In all the cases, actual expenditure on CSR activities is lesser than that is required to spend i.e. 2 percent of their profits after tax where Indian Bank shows the larger gap followed by Vijaya Bank. Total CSR activities undertaken by banks, range between 7 and 17 where Union Bank of India is on the top followed by Vijaya Bank and State Bank of India, Bank of India respectively.

Average number of activities of Indian Bank are very less in number though their ROA is higher. Among various categories, health care activities are on priority of all the banks with 3 to 4 activities. Environment protection and promoting gender equality activities also range from 1 to 3. Whereas, other activities including rural development, disaster relief and assistance to physically challenged person, etc. also promoted by banks that range between 2 to 7. Overall banks are doing well on an average though their actual expenditure is lesser than that should be spent.

Table 1: Average CSR and Financial Performance

Banks/Indicators	BOI	IB	SBI	UBI	VB
Assets (Rs. in crores)	61,83,070	20,49,265	2,37,05,545	41,30,054	14,76,275
ROA (percent)	0.32	0.52	0.52	0.32	0.37
ROE (percent)	-6.32	6.63	8.08	6.01	7.45
Actual CSR Expenditure (crores)	10.71	2.76	123.18	9.16	2.95
CSR Expenditure as 2 % of PAT	-39.59	20.81	223.57	24.59	10.48
Total Activities	14.3	7.67	14.3	16.7	14.7
Promoting Education (PE)	3	1	2.3	4	2
Health Care (HC)	2.3	2.67	4	2.7	3.3
Environment Protection (EP)	2.3	1	3	2	2.7
Promoting Gender Equality (PGE)	2.3	1.3	1.3	1.7	2.3
Other Activities (OTH)	4.3	1.67	3.7	6.3	4.3

Table 2 represents correlation matrix of dependent (CSR expenditure) and independent (SIZE and ROA) variables. CSR expenditure is positively correlated with SIZE and ROA of banks whereas correlation is significant ($P<0.05$) among CSR and SIZE of the banks. It means larger the SIZE, greater is CSR expenditure.

Table 2: Correlation Matrix

Variables	CSREXP	SIZE	ROA
CSREXP	1		
SIZE	0.957** (.000)	1	
ROA	0.195 (.487)	0.074 (.793)	1

** Correlation is significant at the 0.01 level (2-tailed)

Table 3 shows the results of regression model from where it can be drawn that 93 percent of the variation in CSR expenditure is explained by SIZE and ROA which is quite good. The regression model explains a significant ($p<0.05$) relationship between CSR expenditure and SIZE of the banks where it is not significant with ROA. It proves that greater the SIZE of banks the bigger is the level of CSR expenditure. Hence the H_1 is accepted. But ROA does not show significant impact on CSR expenditure hence the H_2 is rejected which means profitable banks do not spend more on CSR initiatives. F- Ratio explains the best fit of model as it is also significant. It also explains one or more explanatory variable are linearly related to CSR expenditure.

Table 3: Results of Regression Model

Variables	Coefficient Value	t-value	p-value
SIZE	0.949	11.367	.000
ROA	0.117	1.331	.213
R2	0.931		
Adjusted R2	0.904		
F statistics	33.801 (.000)		

Predictors: (Constant), YD2017, SIZE, ROA, YD2016
Dependent Variable: CSREXP

The results have shown that larger the SIZE higher is the CSR expenditure though profitability in terms of ROA is not the significant variable to influence CSR expenditure. To support these inferences, the result has also been analysed with ROE. Where again, table 4 explains positive correlation between CSR expenditure and SIZE and ROE of selected banks but it is significant with SIZE only. ROE is negatively correlated with the SIZE of the banks. Again the results are similar to the study's hypothesis which means CSR expenditure increases with the SIZE of the banks.

Table 4: Correlation Matrix

Variables	CSREXP	SIZE	ROE
CSREXP	1		
SIZE	0.957** (.000)	1	
ROE	0.058 (.837)	-0.081 (.775)	1

** Correlation is significant at the 0.01 level (2-tailed)

Table 5 explains the regression results where it is again drawn that 94 percent of the variations in CSR expenditure are explained by the SIZE and ROE, where SIZE significantly affect the CSR expenditure supported by t-value 12.569 which is significant (p=.000) while ROE doesn't have any significant impact on CSR expenditure. F- Ratio is significant, that explains the fitness of the model, which is 39.738 (p=.000) and is significant. Again H_1 is accepted but H_3 is rejected.

Table 5: Results of Regression Model

Variables	Coefficient Value	t-value	p-value
SIZE	0.971	12.569	.000
ROE	0.162	1.923	0.083
R2	0.941		
Adjusted R2	0.917		
F statistics	39.738 (.000)		

Predictors: (Constant), YD2017, SIZE, ROE, YD2016
Dependent Variable: CSREXP

It can be drawn from the results that CSR expenditure significantly increases with the increase in SIZE but not with ROA and ROE. It means change in profit doesn't affect CSR performance to a significant level however some banks carry these activities even in case of insufficient profits.

Conclusion

After making CSR mandatory for the Banks, no doubt banks started to disclose and spend on CSR activities but still all banks are not responding to the desired extent. Many of the banks do not disclose and publish separate business responsibility report either because some of them do not fall under the category of mandatory CSR initiatives or because of their lack of interest. Few banks are doing well like Bank of India, Indian Bank even though their profits are not sufficient to be eligible for CSR initiatives. No doubt the banks are continuously putting their efforts to spend more on CSR initiatives but study proves that CSR expenditure is lesser than actually has to be spent although larger banks influence higher CSR expenditure. Actually, it will take some time to mature but only with the positive efforts of the banks. Like other sectors, financial sector should also be comparable with more comprehensive corporate social responsibility initiatives.

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