

## CSR Practices in Indian Banking Sector

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### Abstract

In the recent years Corporate Social Responsibility (CSR) has witnessed tremendous increase in awareness and control in the global arena. CSR that emerged in 1960 was an attempt to link business with society. Corporate social responsibility (CSR) refers to strategies that Corporations or firms employ to conduct their business in a way that is ethical, society friendly and beneficial to community in terms of development. It is a concept where Business organizations apart from their profitability and growth show interest in societal and environmental welfare by taking the responsibility of impact of their activities on stakeholders, employees, shareholders, customers, suppliers, and civil society. It takes into consideration the social and environmental implications of corporate financial decisions. With the increasing need for economic development across the globe, there is demand for Financial Institutions to take central role in the efforts to eliminate poverty, achieve equitable and accountable systems of governance and ensure environmental security. In this regard, actions taken by corporate houses and regulatory authorities operating in developed nations are quite satisfactory. However in developing nations the situation of CSR activities by financial institutions is not so flourishing. In this reference the present paper attempts to analyze the CSR practices in Indian banking sector.

### 1. Introduction

Social Responsibility of business refers to what a business does over and above the statutory requirement for the benefit of the society. The word “responsibility” emphasizes that the business has some moral obligations towards the society. CSR, also known as Sustainable Responsible Business (SRB), or Corporate Social

Performance, is a form of corporate self-regulation integrated into a business model. Industrialization and commercialization of service sector have explored vivid avenues of progress to a nation but at the flip side it has rooted the use of non-renewable energy sources, global warming, green house gas mission and rising levels of waste which have harmful effects to the generation coming next. The growing concerns for sustainable development, environmental performance, encompassing pollution control and management of natural resources has given mass recognition to the concept of Corporate Social Responsibility (CSR). The integration of CSR principles in operating activities of business is very much essential to ensure sustainable development of an economy. In the financial sector several international initiatives like United Nations Environment Programme Finance Initiative, Global Reporting Initiative, Equator Principles and Collavecchio Declaration on Financial Institutions are underway to ensure the adoption of CSR practices in normal business operations. These initiatives have favorably tuned up developed countries to behave in a socially responsible way. But in developing nations, there is a lack of focused and effective actions to the current need. In addition to this 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. In this context, the present paper attempts to examine the steps initiated by Indian commercial banks to represent their efforts in this arena. The second section unfolds some prominent dimensions of CSR practices world-wide. Next section entails the discussion of CSR practices in banking industry with special reference to Indian banks. The Last section summarizes the limitations of CSR practices in Indian banking sector and gives suggestions to improve the current scenario.

## **2. Review of Literature**

The concept of corporate Social Responsibility (CSR) is not a new one. But its focal point 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. The concept lead to profit maximization without deception or fraud to any party i.e.,

lying within the rules of the game. In this period, a socially responsible firm was identified as one which balances multiplicity of interests instead of striving just for profit making for its stockholders. Davis (1973) described CSR as firm's consideration and response to different issues which may rest beyond the narrower territories of economic, technical and legal requirements of the firm. In this phase researchers pointed out that CSR encompasses the economic, legal, ethical and discretionary (philanthropic) expectations that society has at a given point of time.

In 80s and 90s a need was felt to give recognition to some new concepts like stakeholder theory, Corporate Governance, and Corporate Social Performance, Corporate Citizenship, Corporate Social Innovation and Communication of CSR practices through CSR reporting. Lee (1997) explained CSR as the company's commitment to operate in an economically and environmentally sustainable manner, while acknowledging the interests of a variety of stakeholders and maximizing economic, social and environmental value. Holmes and Watts (1999) defined CSR as the 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 of the local community and society at large. Some researchers argued that corporations make more long term profits by operating with a CSR perspective, while others argue that CSR distracts from the economic role of businesses. However, Matten & Crane (2005) emphasized that the firms will experience divergent degrees of internal, external and lateral pressures to engage in CSR, as firms are embedded in different national business systems.

In the 21st century a general attempt was made to establish the linkage among economic, legal, social and ethical standards so as to bring sustainable development. World Business Council for Sustainable Development (2001) explained CSR as the commitment of business to contribute towards sustainable economic development, working with employees, their families and the local communities. Uhlaner et al (2004) discussed the economic, legal, ethical, philanthropic aspects in regards to CSR. Juholin (2004) made a distinction between CSR as simple legal compliance and CSR as conducting business with a high regard for morality.

According to Friedman (2006) "There is one and only one social responsibility of business- 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, engages in open and free competition without deception or fraud". In contrast to Friedman's statement, Robbins and Coulter (2007) explained that the management's social responsibility goes beyond making profit to include protecting and improving social's welfare of its stakeholders and the environment in which the firm carries out its operations. They also have the responsibility to the society that allow their formation through various laws and regulations and support them through purchasing their products and services. (Carroll, 2008). Zain (2008) extending the Carroll's statement said that ethical standards play an important role in a firm's success in the long-run. The social responsibility standards and moral activities by a firm can create a positive rapport between the firm and all its stakeholders. Sharma (2011) made an attempt to analyze CSR practices and CSR

reporting in India with special reference to banking sector and concluded that banking sector in India is showing interest in integrating sustainability into their business models but its CSR reporting practices are far from satisfaction.

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.

<b>Phase 1</b> <b>1850-1914</b>	<b>Phase 2</b> <b>1910 -1960</b>	<b>Phase 3</b> <b>1950-1990</b>	<b>Phase 4</b> <b>Since 1980/1990</b>
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

### 3. CSR Practices in Indian Banks

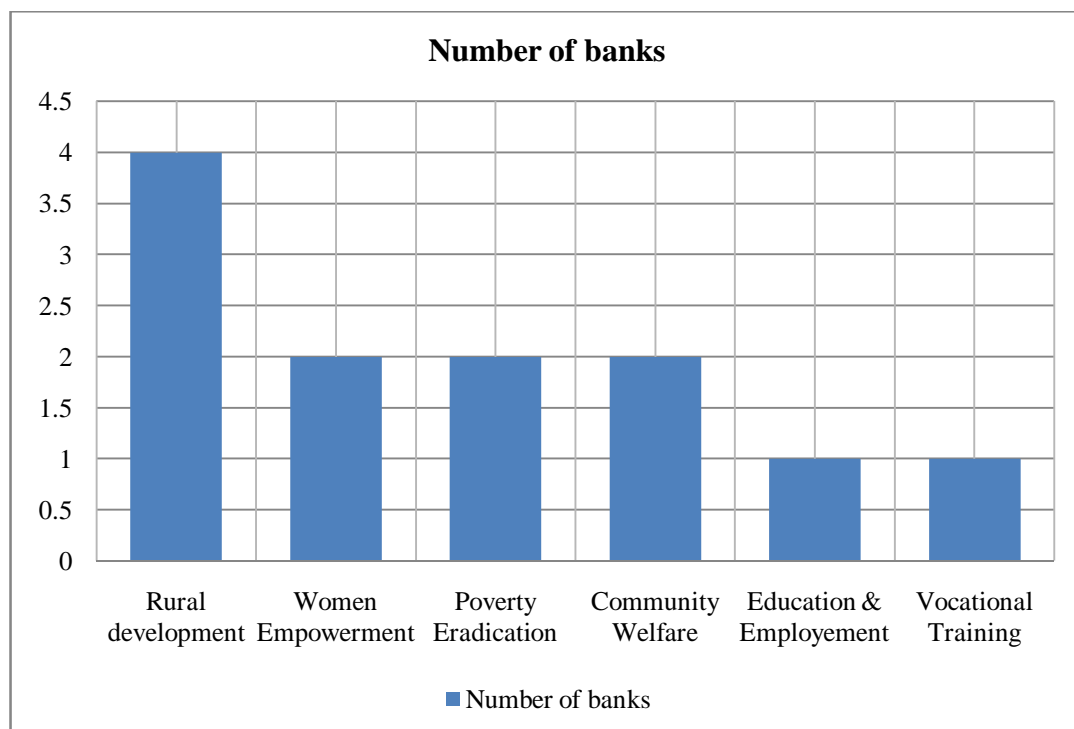
Banking in India originated in the last decades of the 18th century with the establishment of General Bank of India in 1786 and the Bank of Hindustan set up in 1870 (however both of the banks are now defunct). The oldest bank existing in India is the State Bank of India and the apex regulatory authority of Indian banking sector is Reserve Bank of India. At present, the commercial banking structure in India consists of Scheduled Commercial Banks & Unscheduled Banks. Since independence, banking in India has evolved through four distinct phases:

- Foundation phase (1950s till the nationalization of banks in 1969),
- Expansion phase (mid-60s to 1984),

- Consolidation phase (1985 to 1991) and
- Reforms phase (since 1992).

In recent years an attempt has been initiated to ensure socially responsible behavior 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.

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

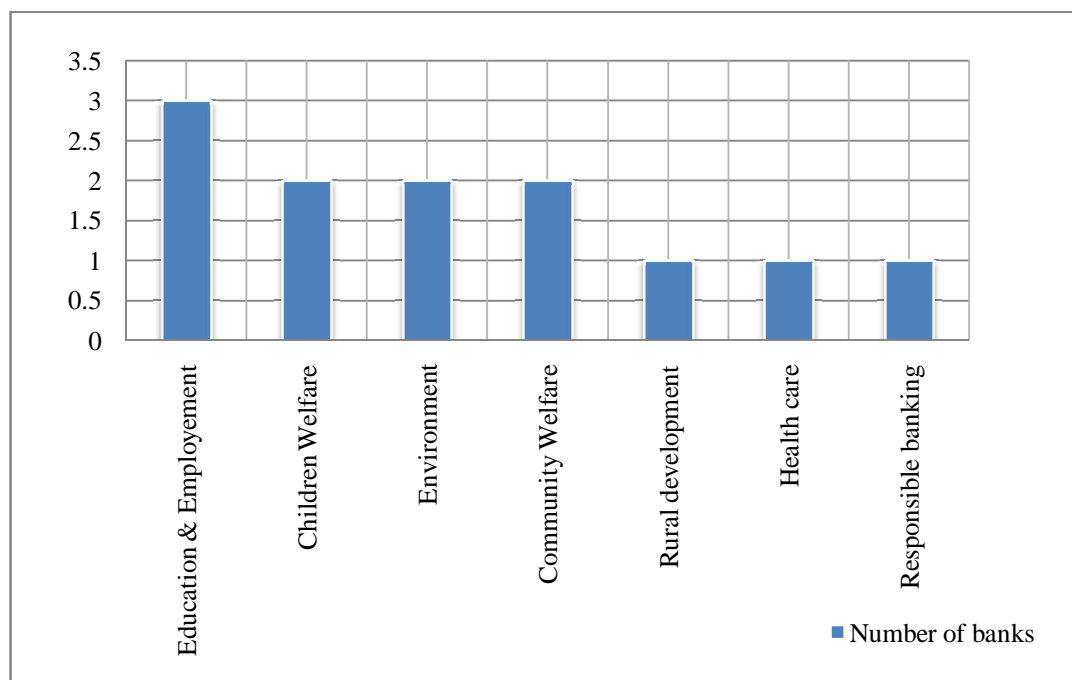


Source: Compiled from respective websites of Selected public sector banks.

However the core areas for reporting CSR activities are slightly different in both types of banks. The analysis of three core activity areas as depicted by these banks reflected some prominent fields for CSR activities. These areas could be shown by the following Charts. The X axis of chart represents the fields and the Y axis of the chart represents the number of banks, claiming these areas, out of the selected sample. Chart 1.1 reports the thrust areas of the public sector banks.

Indian public sector banks most actively participate for improvement of regional imbalances through initiating various activities for promotion of rural development. Besides it, they principally focus on the issues of gender equality through women's empowerment. The major areas investigated for reporting CSR activities in private sector banks are indicated in Chart 1.2.

**Chart 1.2:** Core thrust areas for reported CSR activities in private sector banks.



Source: Compiled from respective websites of selected private sector banks

The chief domains for reporting CSR activities in Indian private sector banks are to enhance the level of education and employment. The other prominent areas for their concern include community welfare, programmes for child welfare and protection of environment. As indicated in Chart 1.2 CSR practices of the selected banks represents a wide spectrum of different activities including rural development, community development and social welfare, family initiatives, women's empowerment and environment protection. A significant part of the bank's annual earnings is used to support structures, events and individuals across diverse areas of child healthcare and education, entertainment, environmental beautification, human capital development

and arts. The study of core areas as reported by the selected banks reveal that primary concern for both type of bank is social welfare. However both have different approach to promote the same. The general trend of selected public sector banks are mainly practices for rural development and removal of gender inequality. On the other hand, the core operational CSR activities in private sector banks are focused on education and employment for all and mitigating the risk of environmental degradation through their green banking strategies.

### 3.1 Some recent initiatives by Indian Banks

In order to address ecological and environmental concerns, Reserve Bank of India has decided to go for energy efficient buildings. Bureau of Energy Efficiency has awarded the first star rating labels to the Bank's building at Bhubaneswar and New Delhi. The four buildings located at Bhubaneswar, Chennai, Kochi, Kolkata are recognized as 5-star building under the rating system.

**Small Industries development bank of India** (the prime financier to small and medium scale industries) has also incorporated environmental and social aspects in its core business activities so as to ensure sustainable development. It is providing concessional and liberal credit to medium and small scale industries which are initiating energy saving projects and are adopting pollution control measures.

**State Bank of India (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. **ICICI bank** has shown its commitment to corporate environmental stewardship and extended a great support to clean technology projects. It has also liberalized credit to zero emission vehicles. **IDBI** has set up carbon desk. **IDBI** has come forward to join hands with Smile Foundation in social development initiatives. The bank has contributed 14 personal computers to Smile Foundation which have been utilized in four different projects being implemented through as many partners in Delhi and NCR. **YES BANK**, India's fourth largest private sector Bank, in association with *CARE India*, a humanitarian relief and development NGO working in India for more than 60 years, has launched India's first Social Deposit Account (SDA). "*The Social Deposit Account (SDA)* is an evolution of the regular Fixed Deposit account where customers have the option of donating their interest income to a social cause through CARE India. It also won Best CSR Practice Award in March 2011. **Axis Bank Foundation (ABF)** aspires to contribute in the areas of education and healthcare. It has set up various programmes which provide educational support, in order to meet these goals. **Balwadis-** the Foundation has identified the need to focus on early childhood programs for 2 - 6 year olds. As part of our initiatives to support education, we help develop learning places for young children living in large urban slum clusters so that it creates a strong foundation and inculcates social and cultural awareness in them. **HDFC Bank** has been working with NGOs for providing non formal vocational and technical education

programs as well as skill up gradation courses to enable sustainable employment and income generation for economically weaker sections.

#### 4. Conclusion

Banking sector in India is showing interest in integrating sustainability into their business models but its CSR reporting practices are far from satisfaction. There are only a few banks which report their activities on triple bottom line principles. As a matter of fact, the standards for rating CSR practices are less uniform in comparison to that for financial rating. This leads to problem in comparison of corporate houses and determining the CSR rating. The study found out that among the reporting banks also, some banks are making false gestures in respect of their efforts for socio-environmental concerns. Most of the Banks use CSR practices as a marketing tool and many are only making token efforts towards CSR in tangential ways such as donations to charitable trusts, NGOs, sponsorship of events, etc. Very few banks have a clearly defined CSR philosophy. Mostly banks implement CSR in an ad-hoc manner, unconnected with their business process and don't state how much they spend on CSR activities. Further voluntary actions are required to be taken by the financial bodies to ensure the socio-environmental feasibility of projects to be financed. Indian banking sector must also portray their socially responsible behaviour through integrating triple bottom line principle. Financial Institutions can do a lot to assist efforts for social responsibility and achieve sustainability. Banks must also provide appropriate training to its employees on environmental and social risks in lending to ensure that climate change is taken into account in corporate banking decisions.

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