

## **A Brief Study on Corporate Social Responsibility in Indian Banking Sector**

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**Abstract:** *Corporate social responsibility is not a new concept in the banking sector and nowadays it has become highly topical since the crisis has significantly highlighted the need for integration of moral principle, ethics and values in the banking business. Knowledge of business practice indicates the fact that the acceptance of moral principles in business is not integrated into management decisions of companies. Many banks in India have created significant and unique image for their respective brands in the field of Corporate Social Responsibility (CSR) undertaking various initiatives in the era of social welfare and community development. The catalytic contributions made by the banks for economic growth in India have created their separate entities towards financial growth.*

*The main objective of this study is to analyze the CSR activities carried out by selected private banks of India. An attempt has been made to list out the existing CSR practices of two private banks i.e., ICICI Bank, and HDFC Bank. The selected banks are found to have directly engaged in CSR activities mostly in the area of Rural Development and Education, Community Welfare, Women and Children welfare. The study shows that, these banks are making efforts for the implementation of CSR, but are restricted within certain fields. The CSR activities by the banks can be possibly value added with more and more social development activities diversified across.*

**Key Words:** *Development, Responsibility, Significance, Bank, Initiative, Society.*

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### **I. Corporate Social Responsibility: An Introduction**

The totality of CSR can be well understood by three words: ‘corporate,’ ‘social,’ and ‘responsibility.’ In broad terms, CSR relates to societal responsibilities of corporate and contribute to the development of their respective society. CSR is comprehended differently by different people. Some perceive it to be a commitment of a company to perform various roles in society, employer, customer and citizen in a responsible manner while others may interpret it to be synonymous to Corporate Responsibility (CR) or Corporate Citizenship or Social Action Programme (SAP). The term can also be linked up with Triple Bottom Line Reporting (TBL) which measures an enterprise performance against economic, social and environmental indicators.

Nowadays there is an increasing awareness about Corporate Social Responsibility (CSR), Non Financial Reporting (NFR) and Sustainable Development (SD). Consequently, there is a concerted effort across organizations ensuring that the sustainable development is not lost in the pursuit of their respective goals such as profit making, social service, philanthropy, etc. CSR necessitates the integration of social and environmental concerns by companies in their business operations to be interactions with their stakeholders. The contribution of financial institutions and banks to sustainable development is of greater importance, considering the vital role they play in financing the economic and developmental activities of the world. The CSR activities of banks should reflect their concern for human rights and environment.

Reserve Bank of India senses the lack of adequate awareness on the issue in India. In this context the need for sustainable developmental efforts by financial institutions in India assumes urgency and banks, in particular, can help contribute to this effort by playing a meaningful role. RBI has notified banks on 20<sup>th</sup> December 2007 to put in place a suitable and appropriate plan of action towards helping the cause of sustainable development and well being of the society, with the approval of their Boards.

### **II. Review of Literature:**

An early emphasis on CSR concept began in scholarly academic circles. From then scholarly academic perspective, most of the definitions of CSR and initial conceptual work were started in the 1960s by writers such as Keith Davis, Joseph McGuire, Adolph Berle, William Frederick and Clarence Walton (Carroll 1999). Later some evolving refinements and applications have evolved, especially after certain important social movements of the 1960s, particularly the consumer movement, civil rights movement, , women’s movement and environmental movement.

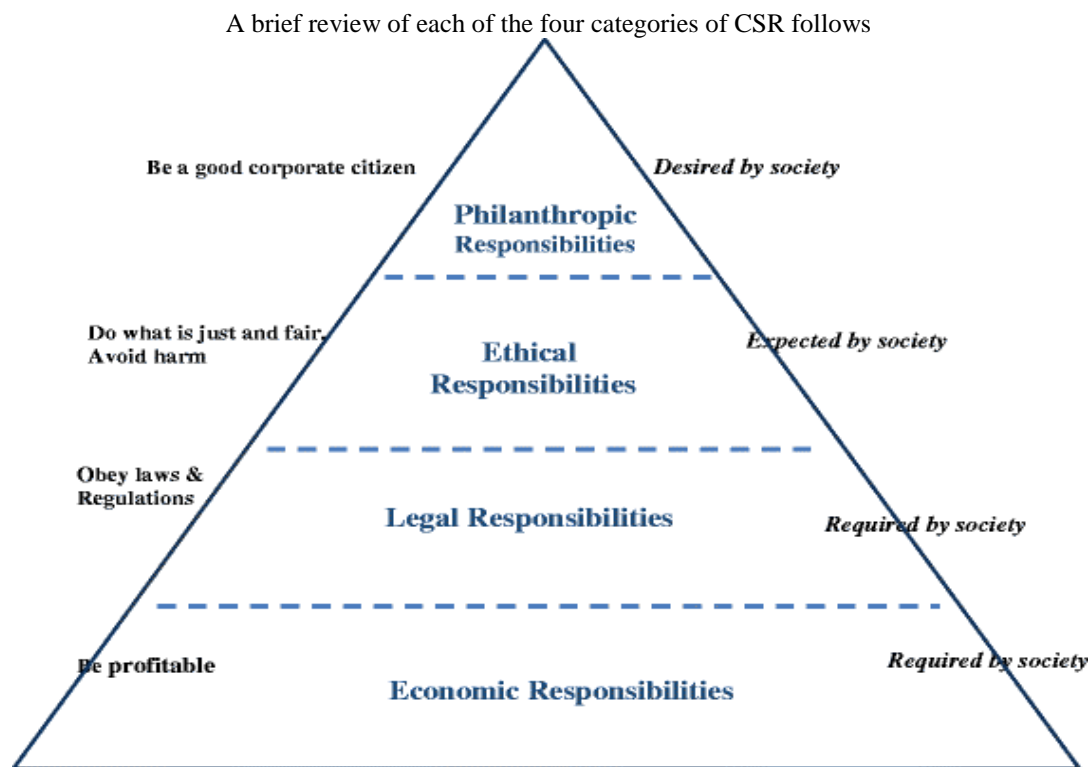
Since then various definitions of corporate social responsibility have come up. In one of the study published in 2006, Dahlsrud identified and analyzed 37 different definitions of CSR.

### 2.1. Pyramid of Social Responsibility.

Today Banking Sector is becoming considerably sizeable and powerful than before. Non-government organizations have been potential sources for the evolved pressure among Banks to act responsibly towards their stakeholders. The said pressure has become the reason for evolution of a concept called Corporate Social Responsibility. CSR is defined as “the economic, legal, ethical, and philanthropic expectations placed on organizations by society at a given point in time.” (Carroll and Buchholtz, 2000:35).

Carroll’s four part definition of CSR stated that “Corporate social responsibility encompasses the economic, ethical, legal and philanthropic expectations of the society on organizations at a given point in time” (Carroll 1979, 1991). These four responsibilities create a foundation that helps to describe in detail and the nature of responsibilities of the business organization towards the society of which it is a part. In the first research study using the four categories it was found that the construct’s content validity and its assessing instrument were valid (Aupperle et al. 1985). It was also found that experts were capable of distinguishing among the four components. Further, the factor analysis conducted has concluded that there are four empirically interrelated, yet conceptually independent components of corporate social responsibility.

Later research supported that Aupperle’s instrument measuring CSR using Carroll’s four categories was valid and useful. In short, the distinctiveness and usefulness of the four categories in research has been established through a number of empirical research projects.



**Figure.1** (Carroll’s four-part model of corporate social responsibility (Carroll, 1991)

**Source:** Carroll’s pyramid of CSR: taking another look, International Journal of Corporate Social Responsibility, 2016.

**2.1.1. Economic responsibilities:** The first responsibility of the company towards society refers to running the business as an economically healthy unit. It includes aspects such as return on investment for shareholders, fair employee salaries, and quality products supplied to customers at fair prices; all required by the society.

**2.1.2. Legal responsibilities:** Demands that companies act in accordance with existing legislation and regulatory requirements. The legal framework consequently fosters the ethical view of the society and all companies attempting to be socially responsible are therefore required by society to follow the law.

**2.1.3. Ethical responsibilities:** It refers to responsibilities of the corporations which are not covered by legal or economical requirements, but instead by what could be considered as Right or Fair in the eyes of society. Society therefore expects corporations to act ethically towards their stakeholders.

**2.1.4. Philanthropic responsibilities:** This involves willingness of the corporations to enhance the quality of living for their stakeholders (i.e. employees, local community, and society at large) through charitable donations and organizational support. These corporate decisions are entirely voluntary, of less importance than the former three, and (with regards to social responsibility) only seen as desired by society.

### **III. Defining Corporate Social Responsibility**

**Philip Kotler and Nancy Lee (2005)** define CSR as *“a commitment to improve community well being through discretionary business practices and contributions of corporate resources.”*

According to **World Business Council for Sustainable Development** *“Corporate Social Responsibility is 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”*.

### **IV. Corporate Social Responsibility: A Historical Perspective**

The concept of 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 “Dharamada” and Sikhs the “Daashaant”.

### **V. Need for Corporate Social Responsibility**

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.

### **VI. CSR practices in Indian Banking Sector**

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 as illustrated below



**Figure.2.** Focus Areas of Corporate Social Responsibility  
**Source:** www.vedantaaluminium.com

**6.1 CSR at ICICI Bank**

Corporate Social Responsibility (CSR) has been a long-standing commitment at ICICI Bank and forms an integral part of its activities. The Bank’s Contribution to social sector development includes several pioneering interventions, and is implemented through the involvement of stakeholders within the Bank and the broader community. ICICI Foundation was established for Inclusive Growth (ICICI Foundation) in 2008 with an objective of significantly expanding the activities in the area of CSR. Over the last few years ICICI Foundation has developed and undertaken significant projects in specific areas and has done the capability building for direct project implementation.

The main goal of the bank is to pro-actively support meaningful socio-economic development in India and encourage people to participate in and benefit from the economic progress of the country. This refers to the belief that growth and development are effective only when they turn out to be potential gateways wide range of opportunities and benefit a broader section of society. Identification of critical areas of development that require investments and intervention that make us realize India’s potential for growth and prosperity is the main aim of the said initiative by the Bank.

The Corporate Social Responsibility Policy (CSR Policy) of the Bank sets out the framework guiding the Bank’s CSR activities. The Policy also sets out the rules that need to be adhered to while taking up and implementing CSR activities.



**Figure.3.** CSR Activities of ICICI Bank  
**Source :** Compiled by researcher

**6.2 CSR at HDFC Bank**

HDFC Bank as a responsible & accountable corporate has always been open & receptive to changing requirements of the Society/Community, socio-economic situations and/or compliance required by statute. In the light of Companies Act, 2013, HDFC Bank reviewed its CSR policy, processes & framework to make it compliant to mandated CSR guidelines. Apart from being compliant, past experience, opinions of stakeholders and societal needs were also considered in the process of revision CSR policy & framework.

The CSR framework focuses on the following areas of intervention, which are in line with Schedule VII of Companies Act 2013 and beyond business as given in the figure below. The captioned initiatives have made the bank to be acclaimed as one of the significant and exemplary contributor towards the economic and societal development.



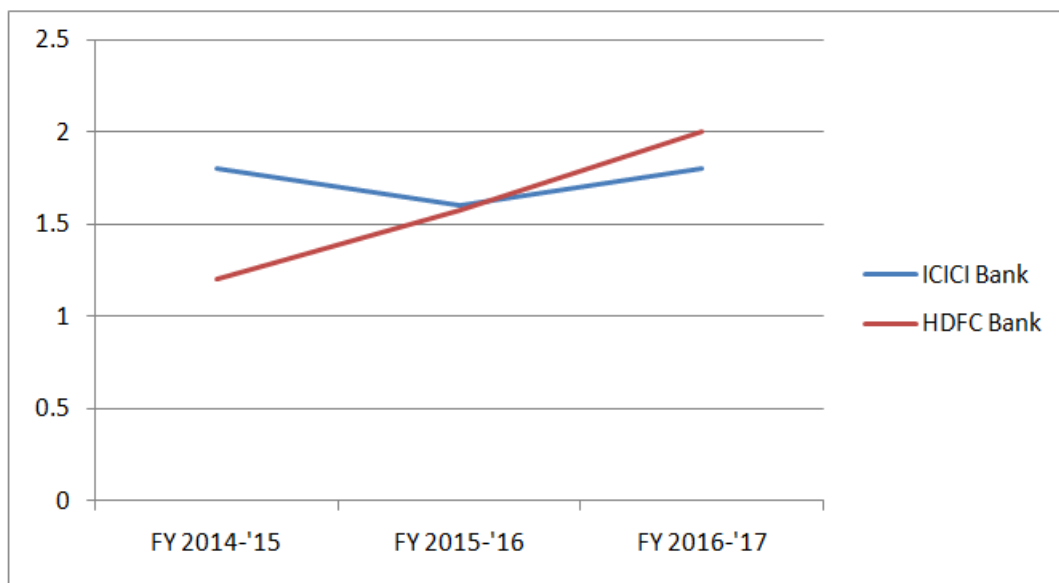
**Figure.4.** CSR Activities of HDFC Bank.  
Source: www.hdfcbank.com

**VII. CSR spending: A Comparison**

The CSR spending of both the banks as a percentage of their Net Profit has been taken for comparison and illustrated as follows

	CSR Spending as % of Net profit		
	FY 2014-'15	FY 2015-'16	FY 2016-'17
ICICI Bank	1.8	1.6	1.8
HDFC Bank	1.2	1.57	2

**Illustration.1.** CSR Spending as a percentage of Net Profit  
Source: Compiled by researcher



**Figure.5.** CSR sending comparison of ICICI Bank and HDFC Bank  
Source: Compiled by researcher

X-Axis: Financial Year  
Y-Axis: CSR spending as a percentage of Net Profit

Banks are striving hard to engage themselves in CSR activities in which ICICI Bank has an upper hand when compared to HDFC Bank. Still both the banks need to meet the benchmark of minimum 2% of Profit after Tax to be spent on CSR activities.

### **VIII. Conclusion**

At present banks the performance of banks is more effective in comparison with the past and they have also started working towards social banking namely Corporate Social Responsibility. Maximum number of banks is highly performing in CSR activities as per their priority wherein when it comes to expending the money as per the prescribed limit that they have planned for, they are lagging behind by narrow margins. Even disclosure of the events and activities along with the money spent for the same in their respective websites has been a challenge across.. After RBI intruded into, CSR has become an important part of Banking Sector wherein quite few regulations and new policies are to be formulated to elevate the extent of implementation of CSR in Indian Banking Sector.

A clear bifurcation has to be possibly done by RBI between banks conducting CSR practices and those not participating, basis their involvement in social banking and spending on CSR activities. Proper monitoring need to be looked into by an appointed committee so that Banks do increase their contribution of profit towards CSR activities because *Corporate social responsibility is just not the charity but a practical implementation of ethical ideas towards the society.*

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