

Corporate Social Responsibility Expenditure (CSR): An Analysis of Public Sector Banks in India

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Abstract

This paper aims to compare the CSR expenditure made by top ten banks of public sector in India in the financial years 2015-16, 2016-17, 2017-18 and to study the association between CSR expenditure, age of the bank, net profits and net NPA ratio. The study used the annual reports of the respective banks. Regression analysis was used as a tool to study the association between dependent and independent variables. The results revealed that net profit has a positive relationship with CSR expenditure but there is no association between age of the bank and net NPA ratio as far as CSR expenditure is concerned. CSR spending analysis of the banks in various years' states that even the top performing banks are not compiling the regulations of Companies Act, 2013 i.e. they are not yet expending 2% of average net profits of previous three financial years on CSR activities.

Keywords: CSR, CSR Expenditure, Public Sector Banks, Companies Act, 2013.

1. Introduction

There are many studies on the topic of CSR at international level as the concern for social responsibility is increasing day by day. The business is bound to be socially responsible to ensure its survival and growth in pursuit of increasing awareness among different stakeholders. Across the globe, increasing number of companies is voluntarily disclosing the CSR reports through their annual reports, website and CSR reports (KPMG, 2005). The realization of need of social responsibility has made the business accountable for the betterment of consumers, employees, local community, environment etc. The sense of responsibility and the growing compressions by the society make it mandatory for organizations to fulfil and report about their CSR practices. The regulatory bodies in India like Reserve Bank of India, Ministry of Corporate Affairs, SEBI etc. are providing guidelines to business firms on the CSR front. On international level the GRI guidelines have been issued by World Business Council for Sustainable Development to ensure the best and desirable aspects to be covered in reporting. Financial sector can play a very important role for attainment of sustainability in development of economy as they are the links between suppliers of funds and business for socio-economic growth. They can better serve the underprivileged sections of society by achieving the goal of financial inclusion.

2. Review of Literature

Friedman (1970) has stated that the business should not aim only at maximizing the profits rather it should strive at making the best possible use of all available resources and carrying on those particular activities which aim at increasing the profits. Henderson (2001) has argued that business should focus on how to do the best; it should be able to create job opportunities and increase the wealth of stakeholders. CSR is the concern of only government, not business people. According to Global Reporting Initiative (2007), the incidental effects of products and services provided by financial institutions on environment can be significantly important than the direct visible effects on the environment such as the energy consumption or generation of wastes. Luo et al. (2006) analysed the CSR efforts of 500 organisations in Fortune and revealed that there is CSR and consumer satisfaction is closely linked. Morsing and Schultz (2006) has stated that reporting and communicating the social responsibility practices of the enterprise will increase the faith and confidence of all stakeholders in the entity. Zappi (2007) has stated that banks have recognized that importance of CSR on their operations and its impact on their existence. Singh et al. (2013) has stated that majority of public as well as private sector banks are discharging their CSR obligations but the amount spend by them are still not disclosed in their websites. Kilic (2016) has investigated banks in Turkey to determine the influence of independent variables ownership, size, listing in multiple exchanges and internationalization of

banks on the dependent variable i.e. level of CSR reporting. The result has explained that the banks focus more on marketing of their products and influencing the customers and less focus on the issues of conserving energy and preserving the eco-system. The size, ownership pattern, listing in multiple exchanges is important in explaining online CSR disclosure level. Botshabelo et al. (2017) have studied the CSR reporting by banks in Botswana and revealed that banks have reported their involvement in community development and activities relating to human resources. The study has concluded that size positively affects the levels of reporting CSR activities and each individual bank should involve in sustainable activities as their foremost responsibility. Ndiweni et al. (2018) have studied the factors responsible for influencing the CSR activities undertaken by the banks in Bangladesh. They have concluded that not only the Global Reporting Initiatives rather the Islamic philosophies have been a great motivating force in shaping the social responsibility activities like eradicating poverty.

1. Objectives

- To make a comparison of the CSR expenditure made by top ten banks of public sector in India for the financial years 2015-16, 2016-17, 2017-18.
- To study the association between CSR expenditure, age of the bank, net NPA ratio and net profits.

2. Research Methodology

An effort is made in the current paper to enlist the spending behaviour of top 10 public sector banks contributing towards CSR activities to evaluate whether they are spending according to the provision of Companies Act 2013 or not. Secondly to study the association between dependent variable- CSR expenditure and independent variables like age of the bank, net NPA ratio and net profits. Here net profit is taken as 2% of average net profit of previous three financial years. For the analysis secondary data has been taken from annual reports, web pages and bulletins of the respective banks. The data is collected for 10 public sector banks. The study incorporates the financial year 2015-16, 2016-17 and 2017-18.

• Hypotheses

To calculate the age of the bank the date of incorporation or registration date of the bank is considered. In banks NPAs are very important as they affect the profitability of the bank so net NPA ratio is the second variable considered for the study. The profit considered here is 2% of average profit of previous three financial years. So the following hypotheses have been formulated:

H10: Age of the bank has insignificant relationship with the CSR Expenditure.

H20: Net NPA ratio of the bank has insignificant relationship with the CSR Expenditure.

H30: Net profit of the bank has insignificant relationship with the CSR Expenditure.

3. Analysis & Discussion

Table I. Showing the prescribed CSR expenditure, actual CSR expenditure and amount unspent by banks in 2015-16

No.	Banks	2% of average net profit of FY13, FY14 and FY15 (in Cr)	Actual CSR spending in 2015-16 (in Cr)	Amount unspent on CSR activities in 2015-16 (in Cr)
Public Sector Banks				
1	State Bank of India	369.60	143.92	225.68
2	Punjab National Bank	101.00	6.76	94.24
3	Bank of Baroda	105.00	19.40	85.60
4	Bank of India	55.65	-	55.65
5	Canara bank	68.22	32.78	35.44
6	Union Bank of India	52.77	6.98	45.79
7	IDBI	14.41	9.44	4.97
8	Central Bank of India	8.10	1.20	6.90
9	Syndicate Bank	34.68	12.93	21.75
10	Andhra Bank	24.82	1.28	23.54
	Total	834.25	234.69	599.56

Table II. Showing the prescribed CSR expenditure, actual CSR expenditure and amount unspent by banks in 2016-17

No.	Banks	2% of average net profit of FY14, FY15 and FY16 (in Cr)	Actual CSR spending in 2016-17 (in Cr)	Amount unspent on CSR activities in 2016-17 (in Cr)
Public Sector Banks				
1	State Bank of India	328.41	109.82	218.59
2	Punjab National Bank	19.4	2.72	16.68
3	Bank of Baroda	28.13	1.40	26.73
4	Bank of India	NA	6.42	-
5	Canara bank	22.5	32.68	-
6	Union Bank of India	44.11	7.27	36.84
7	IDBI	NA	4.35	-
8	Central Bank of India	NA	Nil	-
9	Syndicate Bank	17.45	1.45	16.00
10	Andhra Bank	19.71	3.19	16.52
	Total	479.71	169.3	331.36

Table III. Showing the prescribed CSR expenditure, actual CSR expenditure and amount unspent by banks in 2017-18

No.	Banks	2% of average net profit of FY15, FY16 and FY17 (in Cr)	Actual CSR spending in 2017-18 (in Cr)	Amount unspent on CSR activities in 2017-18 (in Cr)
Public Sector Banks				
1	State Bank of India	319.62	112.96	206.66
2	Punjab National Bank	1.54	28.61	-
3	Bank of Baroda	7.96	12.24	-
4	Bank of India	Nil	2.18	-
5	Canara bank	13.02	28.53	-
6	Union Bank of India	32.6	5.55	27.05
7	IDBI	Nil	16.69	-
8	Central Bank of India	Nil	Nil	-
9	Syndicate Bank	10.84	1.40	9.44
10	Andhra Bank	17.2	1.49	15.71
	Total			

CSR spending analysis of the banks in 2015-16 states that even the top performing bank are not compiling the regulations of Companies Act, 2013 i.e. they are not yet spending 2% of their previous three-year average net profits on social responsibility (Table I). State Bank of India has a deficit of 225.68 crore, Bank of Baroda has a deficit of 85.6 crore and Punjab National Bank has spent just 6.76 crore and has a deficit of 94.24 crore. Bank of India has also given only qualitative information regarding CSR activities and the amount spent is not stated in annual reports. As depicted by Table II. the CSR expenditure of banks in 2016-17, the amount unspent is quite more than the actual spending on CSR activities in case of State bank of India, Punjab National Bank, Bank of Baroda, Union Bank of India, Syndicate Bank and Andhra Bank. Despite of average losses Bank of India and IDBI bank have spent 6.42 and 4.35 respectively on CSR projects and nothing is spent by Central Bank of India this regard. In 2017-18 State Bank of India has a deficit of 206.66 crore, Union bank has a deficit of 27.05 crore, Syndicate bank 9.44 crore and Andhra bank has not spent 15.71 crore on CSR projects. Bank of India and IDBI suffered losses in previous years but still they have spent on CSR projects.

Punjab National Bank, Bank of Baroda and Canara Bank has spent on CSR activities more than the required limit

(Table III.). But the situation regarding the CSR expenditure is quite improved in 2017-18 as compared to the previous year

Then to check the relationship between dependent variables and independent variable the multiple regression model is used for which regression equation is as follows:

$$Y = \alpha + \beta_1 + \beta_2 + \beta_3 + \beta + e$$

Where,

Y= Corporate social responsibility expenditure

α = Constant term

β_1 = Age of Bank

β_2 = Net NPA Ratio

β_3 = Net Profit

Table IV (a) Model Summary for Regression Analysis (2017-18)

Model	R	R Square	Adjusted R Square	F Change	Sig.
1	.956	.913	.870	21.047	.001

Predictors (Constant), Age of the bank, Net NPA ratio and net profits

Table IV (b) Coefficients of Regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1. (Constant)	-51.515	41.032		-1.255	.256
Age of the bank	.349	.282	.228	1.238	.262
Net NPA ratio	2.540	1.702	.251	1.493	.186
Net Profits	.398	.065	1.152	6.095	.001

Dependent Variable: CSR Expenditure

The degree of relationship is studied with the help of square of multiple regression coefficient R^2 , also known as coefficient of multiple determination. R^2 is .913 which shows that 91.3% of the movement/variance observed in CSR Expenditure is explained by the movement in independent variables. As sample size is less than 40 adjusted R square explains that 87% of the movement/variance in CSR Expenditure is explained by the movement in independent variables. The F- statistic has been conducted. The value of F is 21.047, which is significant at 5% level. (Table IV (a). The multiple regression analysis is shown in Table IV (b). Standardized coefficients compare net profits, Net NPA ratio, Age of the bank on a standardized scale. Net profits explain much more change in CSR Expenditure as against net NPA ratio and age of the bank. Among these three factors, net profits is strongly and positively associated and effective while determining the CSR expenditure as $\beta=1.152$ with the significance level of 5% whereas $\beta=.228$ in case of Age of the bank and $\beta=.251$ in case of net NPA ratio but values are insignificant at 5% level of significance as shown in table IV (b).

4. Conclusion

The present study explains and analyse the CSR expenditure of top 10 public sector banks in India and studied the association between CSR expenditure and other independent variables and revealed that there exist significant association between net profits of the bank and its CSR expenditure. But there is no association between age of the bank and net NPA ratio as far as CSR expenditure is concerned. The study shows that the banks focus their spending only on few activities mainly covering promoting education, health maintenance amenities, proficiency advancement, abolition of poverty, national assistance reserve, hygiene, countryside growth etc. the banks are not making significant contribution towards providing the benefits to the veterans of military and defence forces and war widows. A very little effort is made by the public sector banks towards the promotion of environmental sustainability especially for conservation of natural resources. Most of the public sector banks are accomplishing their CSR activities well and providing facts and figures in their financial reports however still some of them are not revealing the figures and provide only qualitative information. We recommend quantitative information should be disclosed by the banks in the annual reports along with qualitative information regarding CSR activities. Comparison of CSR expenditure over a number of years shows that spending on CSR projects has improved in 2017-18 as compared to the years 2015-16 and 2016-17. So, Government as well as regulatory bodies should put

added emphasis on working of banks through CSR actions. The guidelines given by RBI has made CSR a vital target for the banks but some further guidelines and innovative strategies are essential to apply the model of CSR by the banks in India effectively. RBI has to draw a policy to distinguish between the banks which are executing the CSR guidelines and the banks which are not executing the guidelines. Majority of the banks have a tendency to incorporate and implement CSR practices in a temporary modus without incorporated this in the organization's policies. Further deliberate effort should be made to guarantee the feasibility of ventures to be funded in terms of socio and economic terms. Moreover the banks should guide and train their employees on ecological and societal perils in advancing for the purpose to ensure safeguard of environment in banking dealings.

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