Corporate Social Responsibility and Corporate Governance in Banking Sector in India – A Selective Study

by

Mr. Navin Mukesh Punjabi
Assistant Professor H R College of Commerce and Economics
123, Dinshaw Wacha Road, Churchgate, Mumbai 400021.
Mobile: +91 9920177199, email: navin.punjabi@gmail.com

Research Assistant
Mr. Ronaq Varma
Student Third Year B.Com (Financial Markets)
Mobile: +91 9769300740
e-mail: ronaq@live.com

Introduction

Corporate Social Responsibility (CSR), also known as corporate responsibility corporate citizenship, responsible business, sustainable responsible business (SRB), or corporate social performance is a form of corporate self regulation integrated into a business model.[1] CSR policy basically works as a standard of built-in, self-regulating mechanism and ensure their harmony with law, ethical standards, and international norms.

The three keys to an effective CSR policy are commitment, clarity and congruence with corporate values. Clarity is all-important because social responsibility is a broad term, and it needs to be debated and hammered out to meet each company's circumstances. Congruence is about ensuring that the company's attitude to its responsibilities towards society is consistent with the way in which it runs the whole business, i.e. its values and culture.

An important aspect of corporate social responsibility is Sustainable Development. It is broadly defined as the advancement of economic development while maintaining the quality of environmental and social systems. Incorporating Environmental & Social (E&S) issues into development is important because environmental resources provide a basis for social and economic development. The principles of sustainable development are important in all industrial and commercial sectors, as all activities have the potential to influence social and environmental welfare quality. The financial sector is of particular importance, as this sector is able to affect many projects and the development trends that result from them.

There is much that the financial sector can do to assist efforts to achieve sustainability. Internal efforts to make day-to-day operations cleaner, more efficient and supportive of social structures can help. Integrating various issues into strategic operations is also important. In this way, financial institutions not only ensure that internal activity is sustainable, but they can also help financing itself to have more sustainable development.

RBI guidelines on CSR:

To highlight the role of banks in corporate social responsibility the RBI circulated a notice on December 20, 2007 for all the scheduled commercial banks, with title **"Corporate Social Responsibility, Sustainable Development and Non-Financial Reporting – Role of Banks".**[2]

[1] A letter to all scheduled banks excluding the RRBs from the Chief General manager (P. Vijaya Bhaskar) of the Reserve bank of India on 20th December,2007.
[2] The Times Of India ,Article Indian Banks Beyond CSR, June 16,2008

Major issues discussed in the notice were regarding -

1. Corporate Social Responsibility
2. Sustainable Development
3. Non-Financial Reporting.

Briefing about the corporate social responsibility program to other member commercial banks RBI followed many international initiatives to highlight the importance of this notice like:

1. United Nations Environment Program Finance Initiative (UNEP FI)
2. Global Reporting Initiative (GRI)
3. International Finance Corporation
4. The Equator Principles
5. Declaration on Financial Institutions.

Apart from these international initiatives, RBI report also talked about other important and urgent issues regarding

1) Global warming & extent of problem,
2) Stern Review – The Economics of Climate Change
3) The Happy Planet Index,
4) The Kyoto Protocol.

The concern of RBI is also inclined to other activities like -

FT Sustainable Banking Awards -

The FT Sustainable Banking Awards to acknowledge the progress that banks have made in integrating social, environmental and corporate governance objectives into their operations while maximizing shareholder value. The goal is to highlight initiatives that work and to reward progress on the journey toward sustainability.

Carbon Trade

The concept of carbon credit came into vogue as a part of an international agreement popularly known as Kyoto Protocol (KP). The KP aims to tackle global warming by setting target levels for nations to reduce greenhouse gas emissions worldwide. The scheme allows developed nation polluters to fund emissions cuts in developing countries, which is cheaper than cutting emissions at home.

Indian Scenario

India acceded to the KP in August, 2002. India is in a position to reap maximum benefits from the global carbon trade. India, being a developing country, is exempted from the requirements of adherence to the Kyoto Protocol. However, it can sell the Carbon Credit to the developed countries.

RBI focuses on CSR:

RBI's assistance to Mahindra & Mahindra Financial Services Ltd for the year 2008 the Company has complied with all the applicable regulations of the Reserve Bank of India (RBI). RBI then assisted it by providing additional provisioning for Non Performing Assets (NPAs) at a faster rate than that prescribed by RBI for NBFCs. In the earlier years also the company continued to involve itself in social welfare initiatives by contributing to recognized charitable Institutions, which specifically benefit the economically disadvantaged and socially weaker sections of the society.During the year 2008, the Company contributed Rs. 81.1 lacs towards Corporate Social Responsibility to various institutions for charitable purposes.

Use multiple channels to expand outreach[3]

Banks do not exist in a vacuum. They make a large contribution to the country's GDP growth, meet the demand of the growing middle class, contribute to infrastructure spending, and reach out to the semi-urban and rural areas so, when it comes to social responsibility banks need to move beyond a straitjacketed understanding of the 'corporate social responsibility. The mindset RBI follow is that a deposit account is the gateway to financial inclusion and its approach is to connect people and use multiple channels to expand outreach.

Responsible Corporate Citizens – T he RBI view[4]

Taking in consideration wide concerns on climate change and global warming, Reserve Bank of India (RBI) asked banks to go green by taking effective steps to further the cause of sustainable development. The banks are advised to implement suitable and appropriate plan of action toward helping the cause of sustainable development. RBI also asked banks to place

[3] The Times of India, Indian banks Beyond CSR published in June 2008

[4] Article read in the livemint.com and the wall street journal December 2007

the information about their efforts toward corporate social responsibility (CSR) and sustainable development in the public domain along with their annual accounts

The Equator Principles [5]

In December 2007, the Reserve Bank advised banks to put in place a suitable and appropriate plan of action to raise the level of awareness and focus the attention of banks in India on issue of 'Corporate Social Responsibility', with the approval of their boards. In this context, a particular reference was drawn to the International Finance Corporation's principles on project finance (the Equator Principles) and carbon trading.

Human Resource Development and Organizational matters[6]

The goal is to enhance the efficiency of the organization by nurturing a motivated staff in an organizational culture that facilitates congruence between personal goals with those of the institution, thereby fostering a sense of pride and belonging.

Subsidiaries

Fully owned, subsidiaries are National Housing Bank (NHB), Deposit Insurance and Credit Guarantee Corporation of India (DICGC), Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL) and also have majority stake in National Bank for Agriculture and Rural Development (NABARD), all these units are following RBI guidelines on CSR and getting assistance as well.

Corporate Governance for Banking Organisations

The Basel Committee in the year 1999 had brought out certain important principles on corporate governance for banking organizations which, more or less have been adopted in India. Basel committee underscores the need for banks to set strategies for their operations. The committee also insists banks to establish accountability for executing these strategies. Unless there is transparency of information related to decisions and actions it would be difficult for stakeholders to make managements accountable. The underlying theme is accountability at all levels including the Boards.

[5] Business standard and the Reserve Bank of India Publication
[6] MSN money , April 2009

From the perspective of banking industry, corporate governance also includes in its ambit the manner in which their boards of directors govern the business and affairs of individual institutions and their functional relationship with senior management.

This is determined by how banks:

- set corporate objectives (including generating economic returns to owners);
- run the day-to-day operations of the business and; consider the interests of recognized stakeholders i.e., employees, customers, suppliers, supervisors, governments and the community
- align corporate activities and behaviours with the expectation that banks will operate in a safe and sound manner, and
- in compliance with applicable laws and regulations; and of course protect the interests of depositors, which is supreme.

These papers have highlighted the fact that sound corporate governance should have, as its basis, the following strategies and techniques:

- the corporate values, codes of conduct and other standards of appropriate behaviour and the system used to ensure compliance with them;
- a well-articulated corporate strategy against which the success of the overall enterprise and the contribution of individuals can be measured;

The clear assignment of responsibilities and decision-making authorities, incorporating an hierarchy of required approvals from individuals to the board of directors;

- establishment of a mechanism for the interaction and cooperation among the board of directors, senior management and the auditors;
- strong internal control systems, including internal and external audit functions, risk management functions independent of business lines, and other checks and balances;
- special monitoring of risk exposures where conflicts of interest are likely to be particularly great, including business relationships with borrowers affiliated with the bank, large shareholders, senior management, or key decision-makers within the firm (e.g. traders);

- the financial and managerial incentives to act in an appropriate manner offered to senior management, business line management and employees in the form of compensation, promotion and other recognition; and
- appropriate information flows internally and to the public

Scholars Literature review on CSR and Banks

We present a range of perspectives on corporate governance and corporate social responsibility frameworks in a search for explanations of corporate social responsibility disclosures in the annual reports of firms within the banking sector in India.

Anderson (2005) discussed the increased pressures brought on US based multi-national corporations from global competition and regulations, particularly in the European Union and Japan. Anderson recommended strategies for developing sustainability risk governance systems and explored their considerable advantages, which include decreasing risk costs, increasing competitive advantage, improved community image, enhanced reputation, and increased profitability and stock performance.

Wartick and Cochran (1985) depicted the evolution of the corporate social performance model by focusing on three challenges to the concept of corporate social responsibility: economic responsibility, public responsibility, and social responsiveness. They also observed social issues governance as a dimension of corporate social performance. The corporate social performance model is valuable as it provides the beginnings of a paradigm for the field. It is of interest in our study to identify whether corporate social responsibility disclosures made in the Bangladesh banking sector focus on economic responsibility, public responsibility or social responsiveness. Further research of a similar nature might be able to pinpoint where Bangladesh lies in terms of Cochrane's evolutionary model.

Wood (1991) defined corporate social performance and formulated a model to build a coherent, integrative framework for business and society research. Principles of social responsibility are framed at the institutional, organizational, and individual levels.

Processes of social responsiveness are shown to be environmental assessment, stakeholder governance, and issues governance; and outcomes of corporate social performance are posed as social impacts, programs, and policies. Following Wood, we expect that firms in the banking sector might make corporate social responsibility disclosures in broadly similar areas, that is, environmental, stakeholders, social impacts, programs and policies.

Batra, Kaur and Dangwal (2007) argue that in order to achieve high standards of corporate governance, internal pressures such as peers and market competition should be more effective than enforcement by regulating agencies. It is also imperative that the regulators should expand their role and take effective measures to propagate the concepts of best practices in ushering an era of good corporate governance. Corporate social responsibility disclosures can be an attempt by a firm to legitimize corporate actions. In our study we search for indications that corporate social responsibility disclosures are a result of peer and/or regulatory pressure.

Hoffman, Frederick and Schwartz (2001) tried to address whether a corporation has a conscience and how ethical governance and managed care can coexist. They stressed the need for corporate morality. In our study we examine disclosures with a view to understanding whether the firm is attempting to convey a sense of corporate conscience and ethical behaviour.

Assessment of RBI move on Notifying guidelines on CSR

As per guidelines issued by RBI, majority of its member commercial banks started new programs like Canara Bank started expanding its coverage under its self employment training institutes, rural clinical services scheme and drinking water facilities under jal yoga scheme.[7] Jammu and Kashmir bank also started customer convenience programs, lead bank responsibility and human resource development to follow RBI guidelines. It was also awarded Asian CSR Award in the year 2004 for corporate social responsibility.[8]
Anil Khandelwal, former received Chairman and Managing Director, Bank of Baroda, India lifetime achievement in the banking industry award for his contribution to financial services. The Asian Banker Leadership Achievement Award is widely acknowledged by professionals as the highest possible accolade available in the financial services industry. This is the highest award available in the Asia Pacific and Gulf region today.[9]

[7] Canara Bank Annual Report, 2009
[8] Asian banker awards,2008-09
[9] The Deccan Herald ,July 2004

To broad base its services, RBI has started the m-payments space operatoragnostic. Payment service providers have applauded RBI for its proactive stance on the issue.RBI keeps on announcing better measures to boost up the believes of other banks in CSR. As a result other member commercial bank comes up with new schemes, projects and strategies for social interest. This helps in building a social interest, High performance workplaces that integrate the views of line employees into decision-making processes, Adoption of operating policies that exceed compliance with social and environmental laws.

As per RBI guidelines on CSR, each and every member commercial bank is asked to release their annual report. The banks doing well accordingly with RBI guideline are given financial assistance and recognition and the violators are either penalized or their license is cancelled.

Implementation of CSR by Indian Financial Institutions

In the Indian context, very little systematic documentation of CSR initiatives is available so far. According to the study of Business Community Foundation for TERI (The Energy and Resources Institute). Some of the findings of the study are as follows –

(1) Serious and committed approach to CSR is increasing its reach, but there is vast ground yet to be covered.

(2) Collaboration work between companies & NGOs is increasing.

(3) Corporate are realizing that “Good for business is good business”.

(4) Most interventions so far philanthropic in nature, rather than strategic

Constraints of CSR

Shareholders put their risk capital in a Joint Stock Company (or business) and therefore, companies should be managed in the interest of the owners or the shareholders. This primacy of treatment given to the shareholders is being justified on the grounds of ownership and shareholding. It is felt that maximization of profits or the bottom line should be the ultimate objective of the management. Developing corporations argue that practicing and following CSR is matter of concern for companies having big business with lot of resources at their disposal. It is argued that CSR is the responsibility of the politicians. It’s not business role to get involved. Business has traditionally been beyond morality and public policy.

Recommendations on CSR implementation

Some guidelines as plan of action are proposed by the Reserve Bank of India in this aspect act. The financial institutions have to see the environmental and social sustainability of the projects of the company, coming for financing. Social Responsibility of the companies and firms should be acknowledged. In the financial sector too there is a visible trend to promote environmentally and socially responsible lending and investment in emerging markets.

Therefore, financial institutions that implement strategies incorporating environmental and social issues in lending and investment should be able to better assess, mitigate, document and monitor risks associated with financing and investment.

Banks should make sure that the companies for which they are financing or investing incur the risks that the impacts due to their anti-environmental acts create can be legal, financial, and reputational, and banks themselves are increasingly accountable for the effects their portfolios have on the environment and society. The costs that can be incurred by a business operating without regard to environmental and social issues include[10]

- Pollution cleanup costs
- Fines
- increased waste handling costs
- Costs from damaged assets with reduced value
- Legal claims
- Regulatory delays
- Reduced public regard, and reduced sales

As an important player in the Indian economy, the Banks realize that its role should extend beyond the commercial sector to include the social sector as well. The group can achieve its mission by supporting initiatives that are -

(1) Cost effective;

(2) Measurable;

(3) Capable of large-scale replication and

(4) Have the potential for both near and long-term impact.

[10] United Nations Environment program

Conclusion

Banks are beginning to recognize that they have a social responsibility to fulfill as they emerge from the shadow of traditional banking. As per Relatively indirect nature of their environmental and social impacts, banks need to examine the effects of their lending and investment decisions. Incorporating environmental and social criteria into business decision making can reduce the impacts of operating activities.

Financial institutions can do a lot to assist efforts for corporate social responsibility and achieve sustainability. Financial institutions not only ensure that internal activity is sustainable, but they can also help financing itself become more sustainable.

Sustainable finance should be promoted.SRI (sustainable and responsible investment/socially responsible investment) is an investment strategy that identifies investment targets that carry net E&S benefits, or no net E&S detriment, as well as provide financial growth. Sound financing of sustainable economy can be promoted by the banks itself. A lot more can be done by bank so as to practice the corporate social responsibility.

The follow up of the Equator Principles and other CSR supporting measures shall be strictly dealt and implemented. Until and unless environmental authorities are serious and stricter about this, the financial institution will face a lot of problems. There would be general social and economic benefits that would accrue to society, if business recognized broader social goals in its decisions.

Bibliography

Books Referred

1. Samuel O. Idowu, Walter Leal Filho (2009) Professionals Perspective on Corporate Social Responsibility. 1st Edition., 2010, ISBN: 978-3-642-02629-4

2. Brennan, Daniel et al. Ed. (2005) Corporate Social Responsibility: Corporate Governance in 21st Century. Kluwer Law International

3. Thomas Clarke, (2007) International Corporate Governance : A comparative Approach published by Routledge

4. Shrivastava Prasad Mohan, Pandey Pradeep Kumar, Vidyarth V.P, Nangia B S (2007) Banking Reforms and Globalisation APH Publishing Corporation
5. Gup E Benton (2007) Corporate governance in banking: a global perspective

6. Wayne Visser, Manfred Pohl (2009) The A to Z of Corporate Social Responsibility: A Complete reference guide to concepts, codes and organisations published by the Institute of corporate cultural Affairs.

Reports Referred

I. Corporate Governance in Financial Institutions (2007) by Institute for Development and Research in Banking Technology
II. CSR trends 2010 (2010) by Price Water House Coopers by a Joint Venture of Craibdesign and Communication and Price Water house Coopers LLP
III. CSR Program in Banking Sector (2008) R K Srivastava
IV. CSR and Corporate Governance In Banking Industry (2009) by Department of Business and Economics Victoria Wise.

Web links Referred

1) http://en.wikipedia.org/wiki/Reserve_Bank_of_India

2) http://en.wikipedia.org/wiki/Corporate_social_responsibility

3) http://www.rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=3987

4)http://gujarati.economictimes.indiatimes.com/dirreport.cms?year=2008&companyID=3540&Go=Go

5) http://timesofindia.indiatimes.com/articleshow/msid-3132402,prtpage-1.cms

6)http://timesofindia.indiatimes.com/Business/India_Business/Disha_and_RBI_launch_comic_book_Raju_and_the_Money_Tree/articleshow/2447522.cms

7) http://www.livemint.com/2007/12/20184250/RBI-asks-banks-to-promote-sust.html (The Wall Street Journal)

8) http://www.rbi.org.in/scripts/PublicationsView.aspx?id=10924 (corporate social Responsibility, 2.117)

9) http://www.business-standard.com/bs_csr/news.php?autono=301358

10) http://www.moneycontrol.com/india/news/pressnews/disha-financial-counselling-rbilaunches-comic-book/307414/1

11) http://www.rbi.org.in/scripts/AnnualReportPublications.aspx?Id=820

12) http://news.in.msn.com/business/article.aspx?cp-documentid=1157346

13) http://www.canarabank.com/Upload/English/PressReleases/CanPrMar07.doc

14)https://www.theasianbanker.com/ind/award.nsf/LeadershipAwards_Winners2008?OpenForm

15) http://www.deccanherald.com/deccanherald/july202004/spt9.asp