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CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES IN BANKING

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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.

Key Words: Corporate Social Responsibility, Banking & Ethical

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 Declaration on Financial Institutions are underway to ensure the adoption of CSR practices in normal business operations. These initiatives have favourably 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 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.

The General Interpretation of CSR in Banking Sector:

There is no universally accepted definition of Corporate Social Responsibility (CSR). It is described as an instrument, a concept or even a business model that requires companies to apply a radical change in attitude. The latter assumes a paradigm shift in business, according to which there is more to a company than return on investment and maximisation of profit. It is also a community of people, which operates in a social and natural environment and social impacts of which must be considered. One of the best known and most widely accepted definition of CSR is by Carroll, who says that corporate social responsibility encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organisations. The CSR pyramid distinguishes various layers of responsibilities. The foundation is economic responsibility. At the same time, however, companies also need to comply with legal norms. Ethical responsibility equals the obligation to conduct in a fair way and to do the right thing, going beyond mere compliance with rules. It can also mean discretionary or philanthropic responsibility the banking sector responded relatively late to the challenges of CSR. First it considered environmental, then social issues. CSR as an instrument of the business sector serves to increase and legitimise the sector's economic performance and also appears as the embodiment of the fundamental principles of business ethics

CSR Pyramid:

Philanthropic Responsibility:

It cannot be interpreted through external expectations; it is a voluntary activity, however, it has become common practice among banks, contributing to the better reputation of the financial sector. In the years following the crisis, there was an apparent shift in social expectations towards the general domains of CSR in the banking sector and its preferences. There is a need for the endorsement of social expectations in CSR that are more directly linked to the bank's business activities. As far as stakeholders are concerned, the key expectations of clients include secure products and appropriate information provision. Employees want a safe workplace that is free from discrimination, and the respect of human dignity, while competitors expect fair competition. Banks not only need to watch the direct environmental impacts of their own operations, but also the impacts of their lending activities

Ethical Responsibility:

Ethical norms can be interpreted through individual conscience and the expectations of external stakeholders. The motto of the London Stock Exchange „My word is my bond" embodies the basic ethical principles of honesty and sincerity, which together with trust, are traditionally linked to the financial sector.The codes of ethics that embody voluntary constraints also include the basic principles of integrity, fair conduct, respect and transparency in the financial sector. The ethical values and expectations of stakeholders are most apparent in the stakeholder dialogue, which puts communicative ethics into practice.

Legal Responsibility:

Regulation is determined by statutes, and its aim is to minimise risk and ensure safety and confidence in the financial system. In practice, statutes are supplemented by the compliance with the guidance of various supervisory bodies and trade associations, which is signified by the compliance function.

Economic Responsibility:

This is the traditional reason for having banks, in other words to increase the owners' welfare, ensure profitability and growth. One of the means of this is financial innovation. Since individual and corporate financial interests are constantly changing, banks create new opportunities for risk management and the effective mediation of resources. This involves developing new products, redefining the existing ones and creating new channels. Interaction with stakeholders has a crucial role in determining these new products.

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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