A Study on Corporate Social Responsibility spending of selected Banking and Non Banking Financial Companies in Central Districts of Tamil Nadu

Mr. A. Ebenezer Raja, Dr. R. Victor Lazaraus

Department of Management Studies, Bishop Heber College, Trichy

ABSTRACT

Corporate Social Responsibility spending by corporate in India is mandatory according to the Sec 135 of Companies Act, 2013. Every company having net worth of five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more, during any financial year have to spend at least two percent of the average net profits of the company made during the three immediately preceding financial years. The objective of this paper is to study about the CSR activities of ten financial institutions which includes three banks and seven non banking financial companies. The data used for the study was collected from the annual reports of the financial companies from 2014 to 2018. The study found that Sundaram Finance Ltd have almost spent the prescribed CSR amount, but the CSR spending of other financial institution is not as specified in the act. The study identified the most concentrated district for CSR activities among the Central districts of Tamil Nadu and the most concentrated development sector for CSR spending. The paper concluded with the suggestions to improve the amount spend by the corporate towards CSR activities according to the CSR Rules of the government.

Keywords: Corporate Social Responsibility, Companies Act, CSR spending, Development sectors, Central Districts of Tamilnadu.

INTRODUCTION

Corporate Social Responsibility (CSR) encompasses all the practices put in place by companies in order to uphold the principles of sustainable development. In India, contribution of two percentage of average net profit of the company made during three preceding financial year was made mandatory according to the Sec 135 of Companies Act, 2013. The related activities that the companies can contribute through CSR are listed in the Schedule VII of the Companies Act, 2013. The details about the act and schedule VII are given below:

Companies (Corporate Responsibility Policy) Rules, 2014

According to sec 135 of Companies Act 2013, Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net
profit of rupees five crore or more during any financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

The Corporate Social Responsibility Committee shall,
(a) formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII;
(b) recommend the amount of expenditure to be incurred on the activities referred to in clause(a); and
(c) monitor the Corporate Social Responsibility Policy of the company from time to time.

The Board of every company, shall ensure that the company spends, in every financial year, at least two percent of the average net profits of the company made during the three immediately preceding financial years

Schedule VII of Companies Act, 2013

This Schedule VII list the Activities which may be included by companies in their Corporate Social Responsibility Policies
Activities relating to:—
(i) eradicating extreme hunger and poverty;
(ii) promotion of education;
(iii) promoting gender equality and empowering women;
(iv) reducing child mortality and improving maternal health;
(v) combating human immunodeficiency virus, acquired immune deficiency syndrome, malaria and other diseases;
(vi) ensuring environmental sustainability;
(vii) employment enhancing vocational skills;
(viii) social business projects;
(ix) contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women; and
(x) such other matters as may be prescribed.

LITERATURE REVIEW

There are many research happened around various topics related to Corporate Social Responsibility, this literature review concentrated on the papers related to mandatory CSR contributions of the companies in India, CSR reporting of Banking Companies, CSR and performance linkages in Banks and Non Banking Financial Institutions.

Anupam Singh (2014) studied about the journey in India from Philanthropy activities of corporate to Mandatory CSR contributions according to Companies Act, 2013. The objective of this paper is to study the evolution of CSR from philanthropy to mandatory CSR in India and to study the rationale behind making the CSR spending mandatory in India. The paper described about the evolution of CSR from 1914 till 2014 and also stated the CSR activities as per Schedule VII of Companies Act, 2013. The author mentioned that Indian corporate has
generated wealth for shareholders for decades, but still the country grapple with problems like poverty, unemployment, illiteracy and malnutrition. It was also mentioned to fill this gap the government has mandated the two percent CSR spending for corporate.

Parul Gupta (2015) in his paper on Corporate Social Responsibility need of the hour, conceptualized the advantages and challenges faced by the corporate in promoting CSR. The paper explained about the economic, social, ethical and philanthropic responsibilities of the corporate. Globalization, Government and inter governmental bodies, awareness of the citizens are mentioned as influencing factors of CSR. It was mentioned that companies are bound to the mandatory CSR contribution in the competitive market setting. The author specified that the adoption of CSR is slow but it would definitely get a great pace in near future.

Sarwar Uddin Ahmed (2012) studied the linkage between the Corporate Social Responsibility and financial performance in Banking Sector in Bangladesh. The objective of the study is to examine the direction of the linkage between CSR and Corporate Financial Performance(CFP) and to apply the framework on the banking sector in Bangladesh. In this study based on the grades banks were separated into CSR banks and Non-CSR banks. In absolute comparison, it was found that CSR banks outperform the NCSR banks, but no significant evidence found in t-tailed test. It was concluded that it would take long time to see a significant linkage between the CSR and financial performance in developing countries like Bangladesh.

Awal Al Kabir (2016) have done a comparative analysis of CSR practices between Banks and Non Bank Financial Institutions(NBFIs) in Bangladesh. This is an exploratory research conducted among 56 Banks and 35 NBFIs in Bangladesh. It was found that both Banks and NBFIs have demonstrated good contribution to the education, health, art and culture, disaster management and sports sector. It was suggested that sports sectors should be concentrated in Bangladesh and NBFIs should launch online branches, solar power ATM units.

Suresh Chandra Bihari (2011) have studied about the CSR activities of banks in India. The paper described about the financial performance and CSR activities of major banks in India namely ICICI Bank, HDFC Bank, Bank of Baroda, IDBI Bank, Oriental Bank of Commerce and Punjab National Bank. Most of the banks are having strong financial performance record and were actively involved in CSR activities through trusts or foundations. It was mentioned that the increased CSR activities of banks have positive impact on performance of the business, apart from improving banks’ image and goodwill.

These papers focused on CSR activities of banks and non banks financial institutions. Most of these papers tried to find the linkage between the performance parameters and CSR activities of the finance companies. From these papers, it is possible to identify that a study on CSR activities of Banking and Non Banking Financial Companies (NBFCs) after the announcement of mandatory CSR by Government of India in central eight districts of Tamil Nadu was not done. This particular segment was taken as a research gap for this exploratory research.
OBJECTIVES OF THE STUDY
1. To study the Corporate Social Responsibility spending of selected Banking and Non-Banking Financial Companies in Central Districts of Tamilnadu.
2. To know the prescribed CSR amount to be spent by the selected financial companies.
3. To calculate the actual amount spent by the selected companies towards CSR activities.
4. To identify the most concentrated districts among the central districts of Tamilnadu.
5. To understand the most concentrated development sector for CSR activities of selected companies.

METHODOLOGY
For this exploratory research three banks namely - The Karur Vysya Bank Ltd, City Union Bank Ltd, Lakshmi Vilas Bank and seven Non Banking Financial Companies namely - Equitas Small Finance Ltd, Equitas Holdings Ltd, Sundaram Finance Ltd, Nabard Financial Services Ltd, The Kumbakonam Benefit Fund, Shriram City Union Finance and Sundaram BNP Paribas Home Finance Ltd are selected based on their contribution towards CSR activities in Central districts of Tamilnadu.

The data used for this study is secondary data collected from Annual Reports of the selected three banks and seven Non Banking Financial Companies. The period of data collection is from 2014-2018. It was found that all these ten companies have displayed their CSR spending in their annual reports as specified in the Companies Act, 2013.

The above chart shows the prescribed amount to be spent and actual amount spent by the selected Banking and Non Banking Financial Companies on CSR activities from 2014 to 2018. Out of these ten financial companies, Sundaram Finance Company Ltd spent around 95% of the prescribed CSR amount to be spent. Kumbakonam Benefit funds Ltd spent only 10% of the prescribed CSR amount followed by Lakshmi Vilas Bank Ltd which spent only 13% and Karur Vysya Bank which spent only 18% of the prescribed CSR amount.
The amount spent by Equitas Small Finance Ltd is 246% more than the prescribed CSR amount and Equitas Holdings Pvt Ltd spent 222% more than the prescribed amount. But, according to the annual reports of these companies, the CSR amount spent through Equitas Development Initiatives Trust (EDIT), which is running 8 schools named as 'Gurukuls' in Trichy, Karur, Salem, Sivakasi, Coimbatore, Cuddalore, Kumbakonam and Dindigul districts of Tamilnadu. More than 4000 students are studying in these schools, which has been running more as a profitable business but not as CSR activity.

### Unspent Prescribed CSR Amount

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<tbody>
<tr>
<td>1</td>
<td>Karur Vysya Bank</td>
<td>874</td>
<td>892</td>
<td>939</td>
<td>1140</td>
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<tr>
<td>2</td>
<td>Lakshmi Vilas Bank</td>
<td>190.5</td>
<td>346.86</td>
<td>512.71</td>
<td>983.54</td>
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<tr>
<td>3</td>
<td>City Union Bank</td>
<td>20</td>
<td>42</td>
<td>123</td>
<td>229</td>
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<tr>
<td>4</td>
<td>Kumbakonam Benefit Fund Ltd</td>
<td>87.8</td>
<td>69.43</td>
<td>75.86</td>
<td>63.26</td>
</tr>
<tr>
<td>5</td>
<td>Sundaram Finance Ltd</td>
<td>221.08</td>
<td>15.37</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>6</td>
<td>Shriram City Union Finance Ltd</td>
<td>13.04</td>
<td>875</td>
<td>935</td>
<td>277</td>
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<tr>
<td>7</td>
<td>Sundaram BNP Paribas Home</td>
<td>109</td>
<td>190</td>
<td>73</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>Equitas Holdings Pvt Ltd</td>
<td>0</td>
<td>0</td>
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The above table shows the unspent CSR amount from 2014-2018 by the selected financial companies. Karur Vysya Bank Ltd have a huge unspent CSR amount of 38.45 crores of rupees. The reason specified by the bank in CSR report is that the bank is in the process of identifying suitable projects. KVB have not added the previous year unspent CSR amount in the next year CSR spending.

Shriram City Union Finance Ltd have not spent 21 crores of prescribed CSR amount from 2014-2018. The previous year unspent CSR amount was not added for the nest year CSR spending. The company have mentioned the reason for not spending the prescribed CSR amount as, it is in the Process of evaluating CSR projects, working on modalities, identifying training partners.

The unspent CSR amount of Equitas Holdings Pvt Ltd was reported as zero for all the four financial years, as company is running eight schools in Tamil Nadu as CSR activity.
The above chart shows the amount spent by three banks and seven NBFCs in central districts of Tamil Nadu according to their annual reports from 2014 to 2018. It was found that the CSR amount spent by selected ten financial companies on Pudukkottai district is zero. The CSR amount spent in Karur district is only 31 lakhs. The highest CSR amount of 19.35 crores of rupees was spent in Thanjavur District mainly towards protection of national heritage, art and culture, which was followed by the spending of 3.93 crores in Trichy district.

From the above chart it is inferred that 20% of CSR spending in central districts of Tamil Nadu was towards Art and culture. 18% of the spending is towards Education, 14% of the spending is towards Health care and Environment Sustainability. The amount spent by selected companies on poverty eradication, women empowerment and conservation of natural resources in central districts of Tamil Nadu is zero.

FINDINGS

1. Sundaram Finance Company Ltd spent around 95% of the prescribed two percent CSR amount to be spent on average net profit.
2. Equitas Small Finance Ltd and Equitas Holdings Pvt Ltd spent more than the prescribed CSR amount but the spending was more as profit making business but not as social responsibility activity.

3. Karur Vysya Bank Ltd have a huge unspent CSR amount of 38.45 crores of rupees from 2014 to 2018 and the previous year unspent amount was not added to the next year CSR amount to be spent.

4. Pudukkottai District have not received any funds through CSR activities of the selected ten financial companies.

5. Most of the CSR amount was spent on Art and Culture, Education, Health care and environment sustainability activities.

6. No amount was spent on poverty eradication, women empowerment and conservation of natural resources by the selected companies.

SUGGESTIONS
The CSR spending made mandatory from 1st April 2014, even after five year, most of the companies are not spending according to the specification given in the Companies (Corporate Responsibility Policy) Rules, 2014. The reasons for this non compliance can be unwillingness of the corporate to spent on CSR activities, not having expertise in doing such CSR activities beyond their core areas of business, inability to identify the correct projects, not having tie ups with NGOs with good track record.

Government should take steps to reduce the unspent CSR amount like introducing the social audit system to monitor and verify the CSR spending of corporate, should ensure that any unspent CSR amount left in the previous year should be added in the next year CSR spending, providing awards and incentives like tax concessions, stringent rules on local area CSR spending, can allow to fund any state or central government project etc., Government have to ask the corporate to deposit the unspent CSR amount in Central or State government Funds, so that such amount can be used by the government for the welfare of the country.

CONCLUSION
Corporate Social Responsibility activities helps to transfer the benefits received by the corporate, from the society, in terms of natural resources, human resources etc., back to the society, in the form of welfare activities. It is a high time that, corporate should take the mandatory two percent spending of their average net profit in the right spirit. Government can recommend a list of NGOs or projects through which the companies can spend their CSR funds. Government can also allow the companies to do CSR activities related to their business such as cement or steel manufacturing companies can be allowed to do CSR activity on infrastructure development. If the amount specified under Companies (Corporate Responsibility Policy) Rules, 2014 spent by the corporate, crores of rupees will be spent on development activities of the country, which will improve the socio economic conditions of the citizens of India. But that state can be reached only through, voluntary spending of corporate and stringent follow up of the government. As citizens of the country, we look forward for the responsible actions of corporate and government.
REFERENCES


