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The Interrelationship Between Corporate Governance and Corporate Social Responsibility in Indian Private Sector Banks

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Abstract

India is one of the few nations in the world where corporations in their class are required to engage in corporate social responsibility (CSR). Companies that is follow corporate social responsibility engage in philanthropy on behalf of their stakeholders. Conversely, corporate governance includes a framework for the management of corporations. Corporate governance and CSR are essential components of society. Businesses cannot develop in society without adhering to these standards. Companies are required under corporate governance and corporate social responsibility to have the highest standards of accountability to their stakeholders. Both fields support accountability, openness, and disclosure policies in business operations. Businesses that do not rely on these fundamental pillars of corporate governance will never be able to achieve their CSR goals.

A company's governing and controlling framework is referred to as corporate governance. It is made up of concepts that are used in the internal workings of businesses. By adhering to these standards, a business improves interactions with its investors, directors, and shareholders while fortifying its board. It makes use of these concepts to attempt to address agency issues. The term "Corporate Governance" is held by the Organization for Economic and its Co-operation and Development as a framework that assigns rights and responsibilities to different members of the company, such as shareholders, directors, management, and other stakeholders. By choosing corporate governance, the business establishes goals and keeps focussed management team's activities. It consists of the framework through which business hopes to achieve its strategic objectives.

To sum up, corporate governance (CG) and CSR play a vital role in determining ways corporations behave as well as affect the economy, society, and the environment in India. Indian businesses may help create a more inclusive, egalitarian, and sustainable future for all stakeholders by adopting these principles and using them as catalysts for positive change.

Introduction

Corporate governance and corporate social responsibility (CSR) in Indian private sector banks play a complex interaction that shapes the banks' operational culture and societal impact. This essay explores the mutually beneficial interaction between these two pillars, clarifying how they integrate dynamically and how the affect stakeholder trust and organizational sustainability.

The cornerstone of organizational structure and supervision, corporate governance, establishes the groundwork for moral decision-making, openness, and responsibility in private sector banks. Robust governance procedures, firmly rooted in statutory frameworks and optimal practices, guarantee prudent risk management, strategy orientation, and protection of shareholder interests.

Simultaneously, corporate social responsibility becomes an essential means through which private sector banks can carry out their more extensive social responsibilities. Banks adopt a comprehensive strategy and incorporate CSR programs into their main business plans.

A positive cycle of responsible banking practices is sparked by the connection between CSR and corporate governance, benefiting stakeholders as well as society at large. Strong governance frameworks enable banks to reduce reputational risks, build brand equity, and match corporate principles with CSR objectives. On the other hand, a bank's commitment to CSR reflects its dedication to moral behavior, stakeholder involvement, and value creation that goes beyond financial measurements, and it acts as a yardstick for the success of its governance.

Despite the similarities between Corporate Governance and Corporate Social Responsibility. Although they are around for many years, in recent times they have demonstrated their importance and versatility even more. significance in the present day. Since they were first created, both ideas have been widely discussed. adapting to the evolving needs and demands of both businesses and customers, forming. significant transformation within the community.

The term "corporate social responsibility" describes the altruistic efforts made by businesses to address economic, social, and environmental issues while they go about their daily operations. It includes many different activities, such as community development, ethical work practices, environmental sustainability, and charity. Conversely, corporate governance refers to the framework of every discipline. In the management and decision-making processes of enterprises, it guarantees accountability, justice, transparency, and responsibility, protecting the interests of all individuals. There are several historical and legal turning points in the history of CSR and CG in India. A paradigm shift in the business landscape brought about by the liberalization of the Indian economy in the 1990s resulted in a greater focus on corporate responsibility and governance. Businesses started to realize how important it was to match their objectives with the more general objectives of social welfare and sustainable development.

By creating rules, norms, and regulations, the Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI), Ministry of Corporate Affairs (MCA), and other regulatory authorities have been essential in advancing CSR and CG. The rise of civil society organizations, non-governmental organizations (NGOs), and industrial associations has also accelerated the implementation of accountable.

The corporations Act, adopted in India in 2013, required certain corporations to allocate a part of their income to corporate social responsibility (CSR) initiatives. This law's requirement was a crucial step toward the nation's institutionalization of CSR practices. As mandated by the Act, qualifying businesses must set up a CSR committee, create a CSR policy, and include information about their CSR initiatives in their yearly reports.

To improve transparency, accountability, and integrity in the operations of listed companies, SEBI has released a number of guidelines and codes related to corporate governance, including the SEBI.. Even with the advancements in CSR and CG, a number of issues still exist. These include the need for increased stakeholder engagement, resource restrictions, a lack of awareness and capacity building, and poor implementation and enforcement of legislation. Moreover, the COVID-19 epidemic has brought with it previously unheard-of difficulties, highlighting the significance of robust and socially conscious company operations.

Prospects for CSR and CG in India seem bright yet complicated. There is a rising understanding of the relationship between corporate performance and societal well-being as the business environment keeps changing. As a result, businesses will have to tackle CSR and CG holistically, ingraining environmental and moral values into their core values.

Furthermore, to maintain long-term sustainability and competitiveness in a global marketplace that is constantly evolving, firms will be forced to adopt responsible business practices due to the emergence of stakeholder capitalism and the growing demand for transparency and accountability.

From this perspective, the goal of this study is to investigate how scientific knowledge on the relationship between sustainability and corporate social responsibility (CSR) is developing. The goal is to map the relationships between this pairing to investigate the main developments in this field of study to accomplish this goal. The study will fill in the knowledge gaps, spot trends, and project new lines of inquiry that the scientific community will be interested in in the upcoming years. Our theory recognizes the importance of investigating sustainable economic growth. According to this viewpoint, it entails considering social development and environmental issues, as well as how CSR and Sustainability 9 solve those issues.

Literature Review

The encore analysis of corporate social responsibility is becoming more popular in realm of management research. Following India's independence, the status of corporate governance was dire. During that period, there were no appropriate provisions in The Companies Act 1956 that supported corporate governance procedures in companies. In India, there was no formalized framework for corporate governance. Often, the people using the Board's authority were personal friends or family. At that time, it was typical for minority shareholders to be suppressed. Up until the 1990s, corporate governance was in extremely bad condition and corporate reporting was of extremely low quality. Following 1991, India chose to liberalize and globalize its domestic economy, which aided in the implementation of many reforms. Parliament passed the Securities and Exchange Act in 1992.

The development of corporate governance started with the passing of the 'Desirable Code of Conduct' in the year 1998 by the Confederation of Indian Industry. This code appliedto all private and public companies including banks and financial institutions. After this, the SEBI in the year 2000 constituted theK.M. Birlacommittee to uplift thegovernance standards of the company. It also stressed on Cl. 49 of the Listing Agreement which applies to the companies listed on the stock exchange. These companies were bound to contain compliance reports on corporate governance. Later due to the passing of the Sarbanes Oxley Act by the United States and due to the incidents of governance activities the Naresh Chandra Committee was constituted in the year 2002 to put a mandatory recommendation on the role of auditors and independent directors of the company. During this period, the SEBI also analyzed the working of Clause 49 of the Listing Agreement and found that there was still a need to safeguard the rights of the investors. To this support, SEBI formed the committee under the guidance of Nagavara Ramarao Narayana Murthy to strengthen the Listing Agreement. A revised clause 49 was released on the recommendations of this committee.

The number of business frauds that have occurred in India in recent years, shocking investors' confidence, has also highlighted the necessity for corporate governance. Following the emergence of these frauds, the firms began to rebuild investor confidence by addressing several business ethics, disclosure policies, transparency, and accountability issues within their corporate structures. Put another way, corporate governance is the instrument that allows any company to mitigate the risk to its reputation.

Numerous businesses in India have adopted CSR activities, which have addressed various societal concerns. This study aims to raise awareness and provide insight into the dimensions, importance, and management of corporate social responsibility.

Industrial welfare and corporate social responsibility have a long past in India, dating back to the late 1800s. Due to its religious foundation, business people's charity in India has historically mirrored that of the West. During the 1900s, businesses engaged in a variety of socially conscious activities, such as charitable donations, community service, improving employee welfare, and encouraging religious behavior.

The notion of Corporate Social Responsibility (CSR), which is leading n India, has gained significant traction over time. Corporate Social Responsibility (CSR) has emerged as a crucial business strategy, garnering significant interest from large, global corporations' management. It makes it easier for corporate activities to be in line with social values. CSR is seen as the hub for many programs designed to guarantee the socioeconomic advancement of the local community.

CSR has evolved significantly from the belief that businesses have no social responsibilities to the realization that social responsibility is essential. Numerous research have examined this concept's various facets from a theoretical and empirical standpoint. One aspect that has drawn a lot of attention from academics is corporate social reporting. Nonetheless, most of these studies are situated within the economic and organizational frameworks of both the United States and Europe.

To boost investor and stakeholder confidence, they are integrated into corporate governance. It even aids in the long-term gains and commercial continuity of organizations. Recently, SEBI developed regulations for publicly traded firms, which are required to reveal all relevant information as part of their mandate, including ownership and governance data, financial reports, and performance information.

The requirement of both corporate governance and corporate social responsibility for successful business operations is another similarity between the two fields. They ought to be just as much a part of how the businesses run. While corporate social responsibility (CSR) is socially conscious and safeguards the company's stakeholders, effective corporate governance is thought to safeguard the company's shareholders. In the end, businesses that choose sound corporate governance models will make better CSR choices. It will assist the businesses in increasing the value of their enterprises.[46] A lot of Indian businesses have chosen to incorporate a Corporate Social Responsibility Committee within their internal organization. They have included CSR and corporate governance in their board report.

Research Methodology

Evaluating the outcomes of Corporate Governance (CG) and Corporate Social Responsibility (CSR) in India entails looking at a number of factors, including as financial performance, stakeholder participation, regulatory compliance, and societal effect.

In India, information is gathered for Corporate Social Responsibility (CSR) and Corporate Governance (CG) from a variety of sources, such as industry surveys, government publications, academic research, and business reports. The following is a manual for gathering data for CSR and CG in India:

Data that is either

- Primary
- Secondary

Here are some primary data involved in the study,

Reports: Examine Indian companies' annual reports, which frequently contain sections on performance metrics, governance frameworks, board makeup, and CSR initiatives.

Sustainability Reports: A lot of businesses release stand-alone sustainability or corporate social responsibility (CSR) reports that provide comprehensive details about their impact analyses, stakeholder engagement strategies, and social and environmental efforts.

Corporate Governance Reports: A few businesses also release stand-alone reports on corporate governance, or portions of their yearly reports that address subjects including risk management, board effectiveness, and regulatory compliance.

Ministry of Corporate Affairs (**MCA**): Use the MCA portal to get data on corporate social responsibility (CSR) initiatives, expenditures, and compliance status of companies required by the Companies Act.

Secondary Data:

To learn the name and position of the employer who is working with this organization as well as the firm profile, secondary data is also employed, but in a smaller degree. Information obtained by someone other than the researcher conducting the current study is referred to as secondary data. These data may be internal or external to the company and may be viewed online or by reading previously recorded or published material. A wealth of information is available for study and problem solving from secondary sources of data. As we have seen, most of these data are qualitative in nature. Secondary source of data: Company brochure.

* Internet.

* Websites

* Organizational Reports & Records.

* Business magazine

* Journals

CSR is the procedure of assessing an organization ‘s impact on society and evaluating their responsibilities.Each individual plays a vital role in the CSR and CG. It starts from the basic to the advanced level.It begins with an assessment of the following aspects of each business:

o Customers

o Suppliers

- Environment
- Employees
- Communities

In research studies on Corporate Social Responsibility and Corporate Government, researchers often use different sampling techniques to select participants for their studies. One simple method is random sampling, where participants are selected randomly from a larger population of individuals who meet the study's criteria. The choice of sampling technique depends on the research question, population of interest, and available resources. It is important for researchers to carefully consider the strengths and limitations of each method before selecting the most appropriate sampling technique for their study.

To acquire a deeper knowledge of the motives, attitudes, and experiences of people and organizations regarding CSR and CG activities, qualitative research methodologies are employed, such as content analysis, case studies, and interviews. Researchers can investigate the background, subtleties, and intricacies of these traditions thanks to these methodologies. In contrast, quantitative research methodologies measure and evaluate the effects of CSR and CG activities through the gathering and analysis of numerical data. Financial reports, questionnaires, and surveys are frequently used to collect quantitative data. The data is then analyzed using statistical methods like regression analysis and hypothesis testing to find connections between CSR, CG, and organizational outcomes.

Researchers can gain a deeper understanding of the effects and efficacy of CSR and CG activities by combining qualitative and quantitative methodologies. This methodology facilitates a comprehensive examination and furnishes significant perspectives for establishments striving for social responsibility and accountability.

The best corporate social responsibility (CSR) plans make sure that, in addition to following the law, businesses respect the environment and the growth and development of underprivileged populations. Additionally, CSR ought to be sustainable, encompassing actions that a company can maintain without adversely influencing their corporate objectives.

Indian businesses have embraced corporate social responsibility (CSR) programs and incorporated them into their operations with great wisdom. It has been more prevalent in the Indian corporate environment because of corporations realizing how crucial it is to build wholesome ties with the society at large in addition to expanding their enterprises.

Data Analysis and Interpretation

We will start our evaluation with HDFC bank, then it will move to ICICI bank, then to SBI and finally it will evaluate PNB. It will keep our discussion limited to five main characteristics:

1. Customer Mix

2. Product Mix

3. Infrastructure

4. Rural Exposure 5.Communication

Synergy

We have gathered data about these banks by means of personal visits to their branches, talking to their customers, frequently visiting their websites and most importantly by studying their annual reports. We will focus on their performance in the financial year 2022-23 (FY23) spanning 1st April, 2022 to 31st March, 2023. However, we will consider the impacts of the events in the recent past to understand their current position effectively.

Let us start our evaluation from the private as well as public banks:-

1. HDFC Bank

It is currently the largest bank in India by market capitalization. Let us evaluate this bank based upon the five characteristics mentioned before.

Customer Mix: As per the annual report 2022-23, the bank has approximately 8.28 crore+ customers, a total advance of Rs. 1600586 crore and total deposit of Rs. 1883395 crore. That gives us an approximate advance of Rs. 1.92 lakh and deposit of Rs. 2.19 lakh per customer. They have 173222 employees or 501 customers per employee.

Product Mix: HDFC bank has several products for both retail and wholesale customers. It offers deposit, credit, payment, investment, forex, insurance and other products under its own brand name.

Infrastructure: HDFC bank has a robust and powerful digital infrastructure as well as a wide branch network all over India and abroad. In December 2020, it faced some difficulty in its digital infrastructure and was prohibited from issuing new credit cards until further direction by RBI. RBI partially lifted the restrictions in August 2021. HDFC bank provides completely digital services such as account opening and loan disbursal with very ease. It provides a smooth experience and prompt customer support. The internal grievance redressal system is also satisfactory.

Rural Exposure: HDFC bank has most of its presence in metro, urban and semi-urban area with 2158, 1566 and 2674 branches respectively. It lacks rural exposure in terms of branch network with only 7821 branches. But it compensates for that with 10748 CSC BCs and 204 other BCs. It has 19727 ATMs and cash deposit and withdrawal machines respectively in metro, urban, semi- urban and rural areas.

Communication and synergy: HDFC bank has a wide array of products and a large number of branches, ATMs, cash deposit and withdrawal machines along with other service points. It has been quite successful in establishing efficient communication channels and creating synergy among all these service points.

Now, coming on to the public sector bank;

2. SBI (STATE BANK OF INDIA)

Customer Mix: As per the annual report 2022-23, the bank has approximately 46.77 crore customers, total advance of Rs. 3269242 crore and total deposit of Rs.4423778 crore. That gives us an approximate advance of Rs. 0.58 lakh and deposit of Rs. 0.86 lakh per customer. They have 235858 employees or 1914 customers per employee.

Product Mix: SBI has several products for both retail and wholesale customers. It offers deposit, credit, payment, investment, forex, insurance and other products under its own brand name.

Infrastructure: SBI has a robust and powerful digital infrastructure as well as a wide branch network all over India and abroad. But it is not as efficient as the previous two banks we discussed. It is mostly because of the huge number of transactions every instance. SBI provides digital services such as account opening and loan disbursal. But it still relies on some amount of paperwork. Customer support in SBI is not prompt but it tries its best in spite of low employee to customer ratio. The internal grievance redressal system is satisfactory.

Rural Exposure: SBI has total 22405 branches, 76089Customer Service Points (CSPs), 65627 ATMs and Automated Deposit and Withdrawal Machines (ADWMs). It has more than 8000 branches and most of its CSPs in rural areas.

Communication and synergy: SBI has a wide range of products and many branches, ATMs, cash deposit and withdrawal machines along with other service points. It has been somewhat successful in establishing efficient communication channels and creating synergy among all these service points. However, there is still scope for improvement.

Conclusion

We witnessed the significance of a corporation adhering to sound corporate governance procedures. Next, we examined India's current financial and economic state as well as a quick overview of the country's corporate governance history. Subsequently, the research delves further into the underlying causes of variables, that have an impact on corporate governance, including internal governance, ethics, and audit committee and auditor selection. India has to put in more effort to regulate corporate governance practices because it is a growing economy. Indian businesses still have the opportunity to envision a better future for themselves. They must accept the necessity for corporate governance change and go forward with it, bearing in mind that this better future will not come without its share of difficulties. Corporate governance's future is evolving towards betterment.

The methods chosen by the CSR committee to carry out the CSR policy will determine how far CSR can go. The CSR Committee's operations ought to be open and visible. The Board must work on rotating the committee's directors to increase the effectiveness of the CSR committee. There is a good possibility that the CSR Committee will continue to operate if this approach is used. Additionally, the organization will benefit from having a steady flow of suitable tasks rather than haphazard ones. Another way that a corporation can incorporate CSR efforts is by incorporating them into its information and management systems, as well as its corporate governance. Businesses will function by integrating CSR into their information and management systems.

It may be inferred from a thorough investigation of CSR and CG in India that the nation is becoming more aware of and committed to corporate governance and social responsibility. Indian businesses are increasingly putting CSR ideas into practice, with an emphasis on community development, healthcare, education, and environmental sustainability.

With the adoption of the Companies Act, 2013, which requires certain companies to allocate a percentage of their revenues to CSR initiatives, the government has also made a substantial contribution to the promotion of CSR. As a result, business processes now have more accountability and openness.

Moreover, attempts to strengthen board independence, transparency, and shareholder rights have made corporate governance standards more significant in India. To raise corporate governance standards, the Securities and Exchange Board of India (SEBI) has put in place a number of rules and directives.

But there are still issues that require attention. A true commitment to social and environmental effect may not be present in the CSR practices of certain corporations, which view it as merely a compliance exercise. To guarantee that CSR and CG practices are implemented effectively everywhere, stakeholders must also work together and increase their understanding and capacity.

All things considered, India is still in the process of developing strong CSR and CG standards, and continual work is required to promote ethical and sustainable business practices for the good of stakeholders and society.

In summary, even if there are obstacles to overcome, continual learning, adaptation, and group effort are necessary to achieve meaningful CSR and CG outcomes in India. This progress has the potential to positively impact social, environmental, and economic transformation for future generations.

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