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Social Responsibility Accounting Index: Study of Five Banks

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Abstract

This paper aims to examine the social responsibility accounting disclosure by banks in India and as part of the analysis, 32 areas were disclosed in a qualitative or quantitative manner. The study looks at how these items are reported in the annual reports of the sampled banks with a view of establishing the format of reporting and visibility of these items. In addition, through the sample reports, this study intends to determine the proportion and location of social responsibility accounting items, which gives perception of current practices and developments of social reporting practice within the banking sectors.

Keywords: Social Responsibility Accounting, Banking Sector, Accounting Reports

Introduction

The level of business activity in a country significantly influences its economy. The development of the economy entails the creation of new employment opportunities, the founding of numerous industries, the enhancement of commercial activities, the mitigation of unproductive rivalry, and the elevation of the standard of living for the populace. Business is an economic activity focused on the creation and distribution of goods and services to generate profit or benefit society.

Commerce serves as a connection between manufacturers and customers. The producer is a distinct individual; nevertheless, the producer may simultaneously act as a consumer, who is a separate individual. There exists no correlation between these two entities. The production function is established in locations where raw materials, inexpensive labor, favorable environment, power, and energy are readily accessible, and consumers reside in areas equipped with various civil amenities. There is a necessity for a shared platform where producers and consumers may interact, enabling producers to get insight into consumer preferences and habits, while consumers can acquire comprehensive knowledge about the items to be manufactured, including their quality and application. Commerce offers a marketplace for both manufacturers and consumers. It facilitates the process of buying and selling. It generates time utility by storing and warehousing goods during periods of low demand, creates place utility by transporting goods to locations where demand exists, and provides information about new or existing products to consumers through advertising or sales agents. Thus, commerce benefits consumers. Production and distribution are interconnected, just as industry and commerce are tightly interwoven.

Society significantly influences a nation's commercial activities, and it is believed that robust business activity correlates with societal advancement and development. An educated society and heightened awareness within the community are essential. Business and society are intricately interconnected.

The primary purpose of a business is to generate profit, as profitability is essential for a business to effectively serve society. Thus, profit is essential for societal growth. The purpose of business is to furnish goods and services to customers, contribute to employment and income generation, and offer incentives and motivation for employee satisfaction. Additionally, it entails the provision of equitable wages and bonuses to employees, donations to educational and community welfare initiatives, housing and medical benefits for employees, and the remittance of taxes to local, state, and federal governments.

Numerous aspects of social responsibility accounting are typically provided by various banks in the country. Thirty-two domains of social responsibility accounting have been identified, described either qualitatively or quantitatively. An effort is being made to determine if the item is offered in quantitative or qualitative form, as well as the respective positions of other items in yearly reports.

Business units must fulfil diverse responsibilities to both internal and external stakeholders, as both exist within society. Internal members include shareholders, managerial staff, board of directors, and employees, while external parties affected by business activity encompass creditors, debenture-holders, consumers, and government entities. Business actions must consistently align with societal welfare initiatives. It must exercise caution on environmental issues, such as air pollution, water pollution, and the discharge of solid waste, which significantly impact social life and adversely influence the health of individuals within the community. Likewise, businesses must meet their obligations to employees by offering a range of amenities such as medical care, housing, transportation, entertainment, educational opportunities, and the promotion of arts and culture. Shareholders or proprietors of the enterprise, who assume risk and invest their capital, are integral to society. While its primary purpose is to generate profit, it must also address both economic and social requirements. Businesses must generate profit, as insufficient earnings hinder their ability to meet numerous social commitments. It is a significant social and economic entity, created to protect the interests of employees, shareholders, creditors, debenture-holders, suppliers, customers, the government, and the general public.

The principal role of traditional accounting is to quantify economic outcomes in monetary terms, while social accounting aims to assess significant variables of social repercussions in terms of socio-economic non-monetary effects alongside economic outcomes.

Contemporary accounting theory along with data economics focus on overarching assumptions that might generate accounting frameworks from particular informational objectives. This structure increasingly prioritizes its function as a control tool, not only for internal stakeholders and shareholders but also for society as a whole. Social responsibility accounting is a discipline of accounting that addresses the operation of the economic system in its entirety. It may be regarded as the accounting for the community. Social responsibility accounting encompasses areas such as pollution control, equal employment opportunity, philanthropic contributions, community relations, product quality, plant safety, employee benefits, and reaction to consumer complaints.

The purpose of social responsibility accounting is to quantify and reveal the societal 'costs' and 'benefits' generated by a business's production activities. Attributes of social concern are typically acknowledged in annual reports. They encompass product and quality enhancement, human resources, equitable business practices, environmental stewardship, & community engagement.

In former periods, when the economy was underdeveloped, several small-scale company units operated as sole proprietorships and partnerships, necessitating less money, labor, and entrepreneurial skills and experience. These business divisions were not obligated to submit their annual report detailing the profit and loss account and balance sheet. The industrial revolution occurred, leading to the emergence of numerous large-scale enterprises that produced and distributed goods and services in substantial numbers, necessitating significant capital and labor for their establishment and operation. These business units adopted a corporate structure, possessing a distinct legal identity separate from the individuals overseeing all business operations. Consequently, these units were legally obligated to disclose their annual reports, detailing total expenditures and income for the period in a mandated profit and loss account, as well as the actual financial status of the business at that time via a balance sheet. This encapsulated the concept of providing annual reports, including the chairman's and director's reports. No reference was made to social reporting.

The term social responsibility accounting is often conflated with several other terms, such as social audit, social information system, social reporting, socio-economic accounting, social accounting, social disclosure, and corporate social performance; however, all these terms share the same meaning and are used interchangeably. These terms are currently undergoing evolution and crystallization. They emphasize that corporate entities have an obligation to uphold and enhance the quality of life within the community.

Social responsibility accounting refers to an accounting report detailing the social actions undertaken by company entities for the benefit of society. Since business cannot operate independently of society, every business entity is obligated to provide an accounting report of its social actions. Social responsibility accounting refers to the documentation of a business's diverse social obligations, including the financial reporting of expenditures on educational, medical, canteen, housing, transportation, water and electricity services, employment opportunities for minorities, recreational facilities, taxes remitted to local or state authorities, and contributions to charitable causes for social welfare.

Social responsibility accounting is a financial report detailing the social expenditures and benefits of a corporate unit. “Social reporting, or social accounting, is a systematic evaluation and disclosure of specific business activities to the public and other stakeholders concerning its social performance, measured in either monetary or non-monetary terms, highlighting the positive or negative impacts of the organization's activities on itself and those influenced by it.”

Objective

The primary aim of the study is to determine whether banks are disclosing their social responsibilities. The additional purpose is to determine whether the data being reported is qualitative or quantitative. If social reporting exists, in what form or format is it being offered by the banks? The study aims to assess the extent of banks' expenditures on social initiatives.

Research Methodology

We have chosen 5 banks for the study using random sampling. The gathered data consist of secondary information available in the annual reports of various banks chosen for the study. All five banks included for the study were profitable. The social reporting index has been computed to assess the degree of social reporting in banks and to evaluate its impact on key features of these banks. Several aspects of social responsibility accounting have been identified to determine the elements that hold significant importance in social responsibility accounting methods.

CSR in Banks

In August 2011, the Executive Committee of the Central Board approved a comprehensive policy for Corporate Social Responsibility. In the year 2011-12, the Bank's CSR initiatives reached unprecedented levels of success, culminating in the receipt of the esteemed Golden Peacock Award for Corporate Social Responsibility in 2012.

In accordance with the directives of the Reserve Bank of India, the Bank allocates 1% of the prior year's net profit as the budget for Corporate Social Responsibility expenditures for the current year. The Bank's CSR policy stipulates that donations be exclusively allocated to organizations that qualify for tax exemption under Section 80. This guarantees that the Bank's assistance is provided solely to meritorious cases.

The chart of CSR expenditures for this year (2011-2012) is as follows:

- National Donations: 5.50 (To assist victims of natural disasters)
- Standard Contributions and Additional Direct Activities 65.68
- Total CSR expenditure 71.18

Table 1: The distribution of sectoral allocations for CSR expenditures for the year 2011-2012

Amount (in Crores)

National Donations	5.50
Supporting Education	38.33
Supporting Healthcare	15.03
Assistance to underprivileged	5.37
Research & Development	3.75
Supporting Culture	1.15
Environment Protection	0.67
Other projects	1.38
Total	**71.18**

Academic Year 2012-2013

The annual gift limit, namely 1% of the prior year's published profit, is allocated as follows: "Normal Donations" [0.75% of profit] and "National Donations" [0.25% of profit].

The budget for the Bank's Corporate Social Responsibility (CSR) expenditures for FY 12-13 constituted 1% of the previous year's Profit After Tax (PAT), totaling INR 117.07 Crores. The Bank's actual expenditure on social responsibility initiatives for FY 12-13 were INR 123.27 crores. The Bank's CSR initiatives impact the livelihoods of millions of impoverished individuals nationwide.

Academic Year 2013-2014

The budget for the Bank's Corporate Social Responsibility (CSR) expenditures for FY 2013-14 was 1% of the prior year's Profit After Tax (PAT), totaling ₹141 Crores. The Bank's actual expenditure on CSR activities for the fiscal year 2013-14 was ₹148.93 crores. The Bank's CSR initiatives impact the lives of millions of impoverished individuals nationwide.

Aspects of Social Responsibility Accounting in Financial Institutions

From the gathered data, 32 domains or aspects of social responsibility accounting have been identified. Additionally, these topics are examined in sample annual statements of chosen banks to ascertain the extent of social reporting. The various areas are presented in Table 1 below.

Table: 2 Items of Social Responsibility Accounting in Banks

S.No.	Items of social reporting	No.of Banks	% value
1.	Supporting education	5	100
2.	Supporting healthcare	5	100
3.	Environment protection	5	100
4.	Entrepreneur development	2	40
5.	Loans and Advances	5	100
6.	Employee career and Training Facility	5	100
7.	Human resource development and staff welfare	5	100
8.	Sustainable Product and Services	5	100
9.	Scholarship to employee’s children	2	40
10.	Special recruitment (employee with disabilities)	5	100
11.	Respect for human rights	4	80
12.	Serving customers	5	100
13.	Assistance to poor and unprivileged	3	60
14.	Fair banking	5	100
15.	Enabling inclusive growth of nation	3	60
16.	Help in National calamities	5	100
17.	Supporting girl children and child development	3	60
18.	Welfare of women and youth (employment	4	80
19.	Welfare of physically challenged / orphans	4	80
20.	Research and development	1	20
21.	Audit and Vigilance	5	100
22.	Insurance facility	5	100
23.	Responsibility towards stakeholders	5	100
24.	Society and Community development	5	100
25.	Rural development	5	100
26.	Supporting agriculture	5	100
27.	Supporting culture	2	40

28.	Development of heritage	2	20
29.	Welfare of Solders	1	20
30.	Promotion of Sports	2	40
31.	Financial literacy programmes	4	80
32.	Other	5	100
	Total	**127**	

Table 3

	BANKS				
YEARS	**SBI**	**PNB**	**BOB**	**UBI**	**UCO**
2014	10,891	3,343	4,541	1,696	1,511
2013	14,105	4,748	4,481	2,158	618
2012	11,707	4,884	5,007	1,787	1,109
2011	8,265	4,433	4,242	2,082	907
2010	9,166	3,905	3,058	2,075	1,012

Source: from annual reports of all Banks

Following an examination of the profit and loss status of banks, an effort is made to ascertain whether social reporting correlates with profitability, specifically, whether all profit-generating institutions provide a social report.

The Social Responsibility Accounting Index (SRI) of Banks

The Social Responsibility Accounting Index (SRI) is calculated as the ratio of the maximum scores achieved by the banks to the total scores earned by the banks, multiplied by 100. The social responsibility accounting index reveals the percentage worth of things relative to the total items.

The scores achieved by banks and their corresponding percentages are presented in the table 4.

Table 4: Social Responsibility Accounting Index of Banks

S.No.	Name of Banks	Scores	S.R.I
1.	State Bank of India (SBI)	31	97
2.	Punjab National Bank (PNB)	25	78
3.	Bank of Baroda (BOB)	26	81
4.	Union Bank of India (UBI)	23	72
5.	United Commercial Bank (UCO)	22	69

Consequently, the data clearly indicates that the State Bank of India possesses the highest SRI, achieving a score of 97. This was succeeded by the score of 81 from Bank of Baroda. Subsequently, the score of

Punjab National Bank was 78. Subsequently, it was succeeded with a score of 72 from the Union Bank of India. The lowest SRI score, at 69, was recorded by United Commercial Bank.

Current Status of Corporate Social Responsibility

The Ministry of Corporate Affairs announced the implementation of Section 135 and Schedule VII of the Companies Act, 2013, pertaining to corporate social responsibility, beginning April 1, 2014.

Any company with a net worth of five hundred crore rupees or more, a turnover of one thousand crore rupees or more, or a net profit of five crore rupees or more in any financial year must establish a Corporate Social Responsibility Committee of the Board comprising three or more directors, with at least one being an independent director. The Board of each company mentioned in sub-section (1) shall guarantee that the company allocates a minimum of two percent of the average net income in each financial year.

The company's activities for the three immediately preceding financial years, in accordance with its Corporate Social Responsibility Policy. All five selected banks do not fall under the Companies Act. The new regulations are not obligatory for these banks.

Results

The current study's research revealed multiple findings.

1. The examined banks record social expenses but fail to publish them in an appropriate format.
2. All five banks have categorized social expenses under the umbrella of CSR for the past 2-3 years. Prior to this, they disclose their social activities under the titles "Director's Report" or "Chairman's Speech."
3. Among the five banks, only the State Bank of India has revealed its social expenditure for the past five years in its annual reports.
4. The analysis reveals that Punjab National Bank, Bank of Baroda, and Union Bank of India have all commenced their social responsibility initiatives in the recent two years (2012-13 and 2013-14).
5. United Commercial Bank has not adequately accounted for social expenses to date.
6. The Reserve Bank of India mandates a provision of 1% of the previous year's profit for banks' social expenditures. However, there are no established norms or regulations requiring banks to disclose social accounts.
7. The report indicates that the State Bank of India allocated 1.37% of its profits to social initiatives in the fiscal year 2013-14, above the standard of 1%.
8. In the fiscal year 2013-14, the remaining three banks allocated less than 1% of their profits to social initiatives: Punjab National Bank at 0.09%, Bank of Baroda at 0.33%, and Union Bank of India at 0.22%.

9. United Commercial Bank has inadequately calculated social expenditure.
10. The current analysis indicates that the State Bank of India is the foremost institution in delivering social reports in accounting terms, providing a comprehensive description of many components of the social report.
11. In 2014, the social expenditure of four banks increased compared to 2013. The banks are State Bank of India, Bank of Baroda, Union Bank of India, and United Commercial Bank. Nevertheless, there is only one bank whose expenditures have diminished. The financial institution is Punjab National Bank.
12. Four out of the five selected banks have reported their social activities and expenditures under the "Corporate Social Responsibility Report (CSR)" banner. The banks are State Bank of India, Punjab National Bank, Bank of Baroda, and Union Bank of India.
13. Only United Commercial Bank has not acknowledged its social responsibility individually. It is disclosed under the section titled "Directors' Report" in the annual report.
14. Four out of the five examined banks exhibited a rise in their social expenditure in 2014 compared to 2013. These financial institutions are Bank of Baroda 118%, Union Bank of India 399%, State Bank of India 20%, and United Commercial Bank (NA).
15. Among the five selected banks, only Punjab National Bank exhibits a decline of -9% in social expenses in 2014 compared to 2013.
16. Among the numerous models of social accounting, only one has been implemented by all five selected banks. This model is a descriptive model.
17. It is now recognized that social expenses are unrelated to the profitability or profit-generating capabilities of the entity.
18. The fluctuation of profit does not significantly impact the variation in social expenditure and activities.
19. The current analysis indicates that four out of five banks possess a social responsibility policy. Only United Commercial Bank lacked a social responsibility policy.
20. The highest social reporting index recorded was 31 for the State Bank of India, while the lowest was 22 for the United Commercial Bank. The SRI scores of the remaining three banks are as follows: Punjab National Bank 25, Bank of Baroda 26, and Union Bank of India 23.
21. The age of the bank bears no substantial correlation with the SRI. The age distribution of banks indicates that Bank of Baroda (106 years) is younger than Punjab National Bank (119 years), although it holds a superior position in SRI, with a score of 26 compared to Punjab National Bank's score of 25.
22. Additionally, the social spending of Bank of Baroda is In 2014, the expenditure was 1530.05 lakh, surpassing Punjab National Bank's expenditure of 293.75 lakh.

23. The analysis concludes that the overall assets of the banks exhibit no meaningful correlation with social expenditure. The total assets of Punjab National Bank rose from 4,78,947 crore to 5,50,419 crore between 2013 and 2014, while total expenditure as a percentage of total assets declined. Thus, it indicates that there is no correlation.

24. The observations conducted in the study indicate that the capital utilized by the banks is unrelated to social expenditure. The fluctuation of social expenditure is unrelated to the variation in capital utilized by banks.

25. The turnover of the various banks is unrelated to social expenditure. The fluctuation in overall corporate activity does not affect social expenditure. Social expenditure fluctuates independently of overall corporate performance.

26. Various aspects of social reporting, such as educational support, healthcare, environmental protection, loans and advances, human resource development, employee welfare, assistance during national disasters, auditing and vigilance, community development, rural development, and agricultural support, are increasingly being prioritized in social reports.

27. It has been observed that aspects such as entrepreneur development, research and development, cultural support, welfare of veterans, and sports promotion are receiving diminished emphasis in social reporting.

28. The qualitative reporting of items such as cultural support, heritage development, sports promotion, equitable banking, human rights respect, and customer service has been conducted at five selected banks.

Recommendations

1. **Governmental Rules and Regulations:** The government must implement stringent regulations requiring all banks to submit social responsibility reports, subject to scrutiny and oversight. In the event of noncompliance, punitive measures should be enforced against banks that fail to present these reports. There will be an opportunity for the advancement of social responsibility accounting.
2. **Modification of the Banking Act:** The Indian Banking Act should be revised to include a provision mandating that financial statements have a social report alongside the profit and loss account and balance sheet.
3. **Regulations and Guidelines by the Reserve Bank of India**: The Reserve Bank of India should issue directives and recommendations to all other banks concerning social responsibility accounting. As of today, there are no definitive norms or regulations for banks. The RBI mandates that banks allocate 1% of their previous year's profit for social expenditure. However, the issue is that this serves merely as a recommendation rather than a directive or mandate. Consequently, banks are not adhering to it in its entirety. The Reserve Bank of India must establish comprehensive rules and regulations in this domain.
4. **Self-Awareness within Financial Institutions:** In addition to stringent norms and regulations, banks must cultivate self-awareness about social expenditure and social responsibility accounting.

Financial institutions ought to prioritize their societal obligations and responsibilities. Banks should be cognizant of engaging in social activities and must document their efforts, preparing an annual social responsibility report. In the absence of banks' self-interest in this sector, all laws and regulations are rendered futile.

5. **Revelation of Social Expenditure:** There must be adequate disclosure of social expenditures. Banks engage in social activities and allocate funds to meet their social responsibilities; yet, they do not report these activities and expenditures in their financial records or make them accessible to the public.
6. **Issuance of Social Responsibility Report:** The social responsibility report should be published with the financial statement in prominent newspapers, and this information should also be accessible on the bank's publicly available website. This report should be published annually. Thus, the public could be well-informed about the company's societal actions.
7. **Social Income Statement and Social Balance Sheet:** ABT's social income statement and social balance sheet model may be regarded as an appropriate framework in the absence of a standardized format. It should be mandatory for all banks to disclose their social expenditures and income in this framework.
8. **Ethical Obligation and Accountability:** Legislation alone is insufficient; banks must regard it as a moral obligation, and public pressure must be sustained. Banks should be cognizant of their moral obligation and responsibility towards societal welfare, as well as the necessity for transparency in their actions.
9. **Evaluation of Social Responsibility Report:** The auditing of social responsibility reports should be mandated, and a standard audit team should be designated by the government to investigate these reports.

Conclusion

The Banking Sector is currently delivering its services more efficiently than in the past and has also begun to engage in social banking, reflecting Corporate Social Responsibility initiatives. The majority of public sector banks prioritize high-performing CSR operations; nevertheless, upon examining CSR accounting, it is evident that most banks fail to disclose their financial contributions to such efforts on their websites. Following the involvement of the RBI, Corporate Social Responsibility (CSR) has become a significant aspect of the banking sector; however, additional regulations and new policies are necessary to effectively implement CSR within Indian banks. The RBI should establish criteria to differentiate between banks that engage in CSR practices and those that do not, based on their commitment to social banking. Furthermore, a specific percentage should be mandated for all established banks to allocate towards CSR activities, accompanied by rigorous oversight from a committee to ensure that banks pursue profitability while also contributing to societal welfare. Corporate social responsibility transcends mere charity; it represents the practical application of ethical principles in society.

Consequently, it is mandated by law and governmental regulations for banks to retain a designated item on their balance sheets pertaining to their undertaken social responsibilities. Banks must rigorously apply social responsibility accounting concerning social costs and benefits with clarity and precision.

In India, social responsibility accounting is in its nascent stage and has yet to gain traction. It is evident that several of India's largest banks have commenced preparations. However, they are not embracing a unified practice. Currently, there exists It is necessary to reinforce this concept by advocating for common practices and establishing standards and regulations accordingly.

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