A study on influence of CSR on financial performance: Selected Indian Private sector banks

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Introduction

CSR is the short form of Corporate Social Responsibility. It means the responsibility of companies towards the societal betterment and development. In today's changing world, Corporate Social Responsibility (CSR) is a growing area of interest for academics, practitioners and entrepreneurs, in terms of both theory and practice. Corporate Social Responsibility (CSR) is a concept whereby companies integrate social, environmental and health concerns in their business strategy (policy) and operations and in their interactions with stakeholders on a voluntary basis. The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time (Carroll, 1979).

In recent years, a growing number of companies are adopting various corporate social responsibility (CSR) initiatives - the voluntary incorporation of social and environmental issues into a company"s business model and operations (European Commission 2001) – in an attempt to meet the needs and expectations of a range of stakeholders, including but not confined to the company's shareholders. Meanwhile, numerous information intermediaries have been established to gather and make publicly available information about these CSR initiatives – what is termed as "CSR ratings" or "CSR scores" – thus rating and ranking corporations across several dimensions of environmental, social, and corporate governance performance. Not only information intermediaries, but also a number of voluntary reporting standards have emerged to enable these information intermediaries to standardize the way they disclose their CSR ratings.

The banking sector performs three primary functions in an economy; first, the operation of the payment system, second, the mobilization of savings and finally, the allocation of savings to investment projects. An efficient banking structure can promote greater amount of investment which can further help to achieve a faster growth rate of economy. Worldwide experience confirms that countries with well-developed and market oriented free banking system grow faster and more consistently. Banking sector is highly intellectually intensive, where the main asset of the banks is its human capital, as the expenses incurred on World

Wide Journal of Multidisciplinary Research and Development ~ 22 ~ World Wide Journal of Multidisciplinary Research and Development employees are the major operating expense in the banking sector. The human capital is a key intellectual and strategic asset which increases the efficiency of banks. Performance of the banks depends upon the efficiency of its human resources. High level of Human Capital Efficiency (HCE) leads to the high performance of the banks. Efficient employees are not a sufficient criterion to measure the performance of the banks. It should also be ensured that employees are efficient and satisfied both, because the dissatisfaction of employees may turn their efficiency into inefficiency at any time. Employee satisfaction is crucial in achieving quality and profitability in the service industry. Employee satisfaction leads to higher service quality and it influences customer satisfaction directly.

LITERATURE REVIEW

Narwal, (2007) proposed the investigation on to highlight the corporate social responsibility (CSR) initiatives taken by the Indian Banking Industry. Research is based on the survey questionnaire, administered to 33 public-private sector banks in Northern Haryana, including its capital Chandigarh. They found that banks have an objective view-point about CSR activities.

Bihari and Pradhan, (2011) in their paper titled ‘CSR and Performance: The Story of Banks in India’ made a study to examine the impact of CSR practices on their performance and image. They took CSR as independent variable and performance on the business as dependent variable. They found that banks in India have increased their CSR activities, which also have a positive impact on performance of the business, apart from improving their image and goodwill.

Wu and Shen, (2013) in their paper titled ‘Corporate social responsibility in the banking industry: Motives and financial performance’ investigates the association between corporate social responsibility (CSR) and financial performance (FP). They collected data from the Ethical Investment Research Service (EIRIS) databank and Bankscope database. Their results suggest that CSR positively associates with FP in terms of return on assets, return on equity, net interest income, and non-interest income.

Rahman et al, (2013) in their paper titled ‘CSR practices in Private Sector Indian Banking in Bangladesh: A Case Study on National Bank Limited. They find that the Bank’s contribution in different fields of CSR which have shown an upward trend as the expenditure has been increasing consistently over the last five years. They collected primary data through interviews and secondary data from Bank’s annual reports, existing files and documents, statements, brochures, manuals and publications of the bank.

Sharma and Mani, (2013) in their paper titled ‘Corporate Social Responsibility: A analysis of Indian Commercial Banks’ analyse the Corporate Social Responsibility (CSR) activities carried out by Indian commercial banks. They collected data for annual reports of the banks for the year 2009-10 to 2011-12. Their results shows that though the Indian banks are making efforts in the CSR areas but still there is a requirement of more emphasis on CSR.

Mallin et al, (2014) in their paper titled 'CSR and financial performance in Islamic banks' concentrates their examining the relationship between Corporate Social Responsibility (CSR) and financial performance in Islamic banks. They analysed the CSR disclosures in a sample of 90 Islamic banks across 13 countries using a comprehensive CSR index. Their findings show that the casualty between the two endogenous variable runs from financial performance to CSR disclosure.

Taskin, (2015) in their paper titled 'The relationship between CSR and banks' financial performance: Evidence from Turkey' analyse the bidirectional relationship between CSR practices of Turkish banks and their financial performance. They used content analysis to analyse the degree of CSR level based on CSR index calculation. They took CSR and financial performance as dependent variable and ROE, ROA and NIM for the year 2013 as independent variable. The results suggest that ROA and ROE have no explanatory power in explaining CSR, whereas there is a bidirectional relationship between CSR and NIMs.

Saxena, (2016) in their paper titled 'A Comparative study of corporate social responsibility (CSR) of private and public sector banks' compare the work done by Private sector Banks as well as Public sector banks in the field of Corporate Social Responsibility (CSR). They collected data for 12 Private sector banks and for 13 Public sector banks in field of CSR section. Their results suggest that the Indian Banks are making efforts in the CSR areas but still there is a requirement of more emphasis on CSR.

Bordoloi and Mukherjee, (2017) in their paper tilted 'A Comparative Study on the CSR activities of Public and Private sector Commercial banks' compare the CSR activities of public sector commercial banks with private sector commercial banks. The data is collected from secondary sources like Annual report of both selected public sector and Domestic Private sector commercial banks. The results shows that the private sector corporate houses are also very much conscious regarding their CSR activities.

Maqbool and Zameer, (2018) in their paper titled 'Corporate social responsibility and financial performance: An empirical analysis of Indian banks' examine the relationship between corporate social responsibility and financial performance in the Indian context. They collected data for 28 Indian commercial banks listed in Bombay stock exchange (BSE), for the period of 10 years (2007–16). They found that CSR exerts positive impact on financial performance of the Indian banks.

Cho et al, (2019) in their paper titled 'Study on the relationship between CSR and Financial Performance'. They find that the CSR performance has a partial positive correlation with profitability and firm value. They used Korea Economic Justice Institute (KEJI) index of 2015 to measure the CSR performance, profitability and firm value were used to measure corporate financial performance.

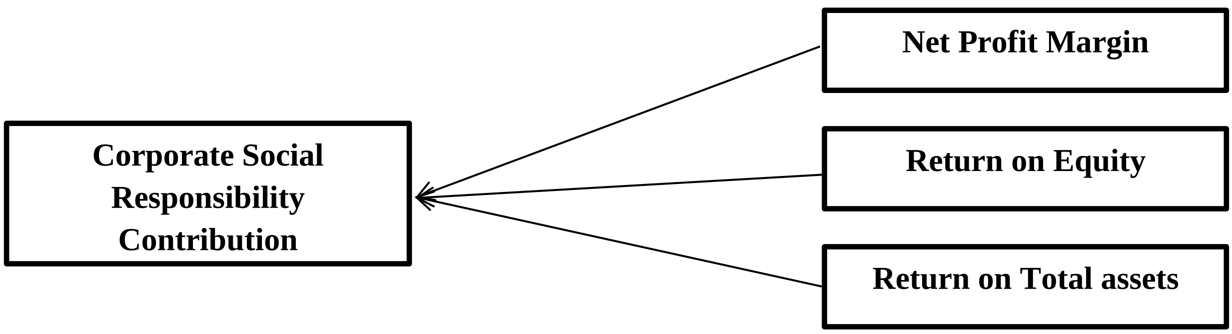
Patjoshi and Nayak, (2020) in their paper titled 'Impact of CSR on Financial Performance: A Study on Banking Companies in India' examines the effect of CSR contribution on the financial performance of selected banking companies in India. The data is collected from secondary sources from 2014-15 to 2017-18. They took four financial performance measures including Net Profit Margin, Return on Equity, Return on Total Assets and Return on Investment as dependent variable while CSR as independent variable. The findings show that the effect of CSR contribution on ROE and ROI is significant whereas effect of CSR contribution on NPM and ROTA is insignificant for banking companies in India.

Research Gap

Many studies have been conducted regarding the impact of CSR on financial performance of Indian private sector banks. Past studies have conducted data collection from 2014-2015 to 2017-2018 time period, this study is concerned with the data of recent years i.e. between 2016-2017 to 2020-2021.

Conceptual framework

Independent variable ***Dependent variable***



Research Methodology

In this study, the effect of CSR contribution on the financial performance of banking companies have been selected on the basis of their consistent presence and achieving profit on continuous basis. The study period is from 2016-17 to 2020-21.
The objectives of the study are:-

- To study the CSR Contribution of private sector banking companies in India from 2016-17to 2020-21.
- To measure the effect of CSR Contribution on financial performance of private sector banking companies in India from 2016-17 to 2020-21

Companies considered for the study are Axis Bank, Yes Bank, Kotak Mahindra Bank, ICICI Bank, HDFC Bank and Federal Bank.
This study is based on data from secondary sources. The data have been composed from official website of Government of India, Money Control and annual reports of sample banking companies over a period of last five years and stated data have been retrieved from published financial statements as well as financial reports of sample banking companies from the websites from 2016-17 to 2020-21.

The study considers three financial efficiency measures, comprising Net Profit Margin (NPM), Return on Equity (ROE) and Return on Total Assets (ROTA) as dependent variables, while CSR contribution as control variable.
The association of the planned study have been examined by means of MS excel. To study the objectives and explore the hypothesis different tools like Descriptive statistics, Correlation analysis and Regression analysis have been employed.

Analysis of CSR contribution from 2016-17 to 2020-21

Table-1 displays the CSR contributions of sample companies consider for the study period from 2016-17 to 2020-21. It can be observed that none of the sample companies could able to maintain the recommend 2% of their average net profit towards CSR for the financial year 2016-17 to 2020-21 which is the result of New Companies Act, 2013. However, HDFC Bank has contributed maximum towards CSR activities of 2 average percentages from the profit. Whereas Kotak Mahindra Bank has contributed minimum towards CSR activities of 1.25 average percentages from the profit for the year 2016-17 to 2020-21.

Table I. CSR contribution of selected banking companies in India from 2016-17 to 2020-21.

(Rs. In Crores)

SI. N0.	Companies	Year	CSR CONTRIBUTION			Percentage Average
			CSR Spent (in cr)	Average net Profit	Percentage Contribution	
1.	Axis bank	2016-17	135.39	9810.87	1.38	
		2017-18	133.77	9354.55	1.43	
		2018-19	137.00	6372.09	2.15	1.79
		2019-20	100.00	4975.12	2.01	
		2020-21	91.00	4550.00	2.00	
2.	Kotak Mahindra Bank	2016-17	17.33	1959.79	0.88	
		2017-18	26.40	2366.37	1.12	
		2018-19	36.55	4866.66	0.75	1.25
		2019-20	85.20	5762.66	1.48	
		2020-21	142.27	7113.74	2.00	
3.	ICICI Bank	2016-17	182.36	9965.03	1.83	
		2017-18	170.37	8518.50	2.00	
		2018-19	92.20	5762.50	1.60	1.95
		2019-20	134.35	6397.62	2.10	
		2020-21	200.5	9113.64	2.20	

4.	HDFC Bank	2016-17	305.42	15195.02	2.01	
		2017-18	374.54	18270.24	2.05	
		2018-19	173.52	8676.00	2.00	2.00
		2019-20	211.77	18764.66	1.13	
		2020-21	634.91	22767.66	2.79	
5.	Yes Bank	2016-17	4166	3000.86	1.39	
		2017-18	45.21	3861.08	1.17	
		2018-19	72.34	3364.66	2.15	1.56
		2019-20	64.92	3091.66	2.10	
		2020-21	91	7454.33	1.00	
6.	Federal Bank	2016-17	15.42	1150.89	1.34	
		2017-18	14.01	1194.22	1.17	
		2018-19	17.04	728.6	2.34	1.40
		2019-20	9.81	984.6	1.00	
		2020-21	14.18	1222	1.16	

Source: Annual Reports of the Banks

Analysis of correlation of CSR spent and financial performance ratio

Correlation analysis shows the relationship between CSR spent and the financial ratios of Indian private banking companies from 2016-17 to 2020-21 which has explained in the Table below-

Table II. Correlation matrix of CSR contribution and financial performance ratio

Particulars	CSR	NPM	ROTA	ROE
CSR	1			
NPM	0.48561	1		
ROTA	0.476907	0.997535	1	
ROE	0.474415	0.960405	0.973873	1

Above Table depicts that the correlation between CSR contribution and financial ratios are 0.48561, 0.476907 and 0.474415 for NPM,ROTA and ROE respectively from the period of 2016-17 to 2020-21 which signifies a moderate correlation between these variables. Thus, CSR Contribution of Indian private banking companies are positively correlated to NPM,ROTA and ROE.

Regression analysis net profit margin and CSR contribution

Table III shows the regression results with NPM as the dependent variable and CSR contribution as the independent variable. The importance of the goodness of fit of standard linear international multiple regression, using NPM as the dependent variable and the CSR contributor as the predictor, provided the model output and coefficients shown in Table III.

Table III. Regression results for net profit margin as dependent variable

Model Summary	Multiple R	R Square	Adjusted R Square	Standard Error
	0.4856	0.2358	0.0448	10.5405
Goodness of Fit- *ANOVA*	*SS*	*MS*	*F*	*Significance F*
	137.14	137.14	1.23	0.33
Regression Coefficients				
Particulars	*Coefficients*	*Standard Error*	*t Stat*	*P-value*
Intercept	5.5734	6.6423	0.8391	0.4486
CSR	0.0450	0.0405	1.1110	0.3288

As we can see in Table III that R square is 0.2358 (23.5%).This signifies that CSR explains the NPM by 23.5% and P value (0.3288) is more than 0.10.The ANOVA results displays that there is a statistically insignificant relationship as F value is 1.23 and P value >0.10 as shown in the above table. Hence, we have no evidence to reject the null hypothesis and the relationship is insignificant.

Regression analysis return on equity and CSR contribution

Table IV shows the regression results with ROE as the dependent variable and CSR contribution as the independent variable-.

Table IV. Regression results for return on equity as dependent variable

Model Summary	Multiple R	R Square	Adjusted R Square	Standard Error
	0.4744	0.2251	0.0313	8.5754
Goodness of Fit- *ANOVA*	*SS*	*MS*	*F*	*Significance F*
	85.433	85.433	1.162	0.342
Regression Coefficients				
Particulars	*Coefficients*	*Standard Error*	*t Stat*	*P-value*
Intercept	2.0363	5.4040	0.3768	0.7255
CSR	0.0355	0.0329	1.0778	0.3418

As we can see in Table IV that R square is 0.2251 (22.5%). This signifies that CSR explains the ROE by 22.5% and P value (0.3418) is more than 0.10.The ANOVA results displays that there is a statistically insignificant relationship as F value is 1.162 and p value >0.10 as shown in the above table. Hence, we have no evidence to reject the null hypothesis and the relationship is insignificant.

Regression analysis return on total assets and CSR contribution

Table V shows the significance of the goodness of fit of standard linear multiple regression with ROTA as the dependent variable and the CSR contribution as the independent variable-

Table V. Regression results for return on total assets as dependent variable

Model Summary	Multiple R	R Square	Adjusted R Square	Standard Error
	0.4769	0.2274	0.0343	0.9179
Goodness of Fit-*ANOVA*	*SS*	*MS*	*F*	*Significance F*
	0.9922	0.9922	1.1776	0.3389
Regression Coefficients				
Particulars	*Coefficients*	*Standard Error*	*t Stat*	*P-value*
Intercept	0.27484	0.57843	0.47514	0.65947
CSR	0.00382	0.00352	1.08517	0.33887

As we can see in Table V that R square is 0.2274 (22.7%).This signifies that CSR explains the ROTA by 22.7% and P value (0.33887) is more than 0.10.The ANOVA results displays that there is a statistically insignificant relationship as the F value of 1.1776 and a P value >0.10 as shown in the above table. Hence, we have no evidence to reject the null hypothesis and the relationship is insignificant.

Conclusion

This study examined the effect of CSR contribution on financial performance of Indian private banking companies from 2016-17 to 2020-21. The Indian private banks which has been taken for the study are Axis Bank, Kotak Mahindra Bank, ICICI Bank, HDFC Bank, Yes bank and Federal Bank. The study has considered three financial efficiency measures, comprising Net Profit Margin (NPM), Return on Equity (ROE) and Return on Total Assets (ROTA), as dependent variables, while CSR contribution as independent variable. To study the objectives and investigate the hypothesis different tools like Descriptive statistics, Correlation analysis and Regression analysis have been employed. It has been observed that none of the above banks could able to maintain 2.5% of their average net profit towards as CSR for the financial year 2016-17 to 2020-21.The correlation analysis reveals that CSR contribution of sample banking companies is positively correlated to NPM, ROE, and ROTA. From the regression analysis, it is revealed that all the financial ratios i.e. NPM,ROE and ROTA has positive and statistically insignificant relationship with CSR contribution which shows that there is no evidence to reject the null hypothesis.

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