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# Financial Performance and Corporate Social Responsibility (CSR): Empirical Evidence from Banks in India

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**Abstract** *In the era of changing business dynamics and evolving socio economic systems the concept of Corporate Social Responsibility (CSR) has become widespread. In the recent decades this ideology is gaining momentum in both academic and business life, i.e., the company exists for and has responsibilities towards a wider group of stakeholders and it must have some objectives other than profitability. The Friedman's formulation that "The Business of Business is Business" has outlived its utility, and corporate social responsibility and being a good corporate citizen are the buzzwords today. It is believed that organizations which do not consider any social responsibility towards society will ultimately tend to lose in the long run. It is questioned whether any relationship exists between financial performance and social performance.*

*The present study aims to examine the impact of financial performance on CSR investments of selected banks in India. The research based on 20 banks (listed in BSE) investigates the impact of financial indicators viz a viz Profit After Taxes (PAT) and Earning Per Share (EPS) on CSR investments in some selected banks in India. Correlation and multiple regressions have been used to analyze the relationship among these financial profitability indicators and CSR investments. Results indicated a high significant positive correlation between PAT and CSR investments indicating that with an increase in profits, banks are increasingly spending on their CSR initiatives and vice versa. On the contrary though a significant positive correlation exits between PAT and EPS, the association between EPS and CSR investments though positive was found to be insignificant.*

**Keywords** *Corporate Social Responsibility (CSR), Financial Performance, PAT, EPS, CSR investments, Indian Banks*

## INTRODUCTION

The concept of "Survival of the fittest" in the competitive business environment demands what is now defined and popularly known as social responsibility. The last 50 years have witnessed a revolutionary change in the world's business environment. This has necessitated businesses to realign their objectives from historical objective of profit or wealth maximization to social objectives. This concept is based on premise that business entities have more to do than just make profits (bottom line). Instead of one bottom line (profit), business should also have focus on triple bottom lines (TBL), i.e., People, Planet and Profit. The objective of TBL approach is to benefit the natural order to the extent possible or at the least do not harm and curtain environmental impact.

To achieve the objectives of sustainable development and growth, the companies must assume certain more duties, popularly termed as Corporate Social Responsibility (CSR). CSR is a form of corporate self-regulated mechanism, integrated in to business model with an intention to operate business, meeting the ethical, legal, commercial and public expectations that a society has from the business. Corporate social responsibility is also known as corporate responsibility, responsible business, corporate citizenship, sustainable responsible business (SRB) or corporate social performance.

It is generally belief that both business and society gain when banks actively make every effort to be socially responsible i.e. the business organizations gain enhanced reputation, better patronage competitive advantage etc. when the society gains from the social projects executed by the business organizations. "There is one and only one social responsibility of business: to use its resources and energy in activities designed to increase its profits so long as it stays within the rules of the game and engages in an open and free competition, without deception or fraud".

India is the first country that has made mandatory to spend 2 percent of the average net profits of three immediately preceding financial years. The provisions of CSR under section 135 of Companies Act 2013 is applicable to all companies which satisfies any of one condition given below :

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- Companies having net worth of 500 crores or more or
- Turnover of 1000 crores or more or
- Net profit of 5 crores or more.

If any of the three criteria is satisfied then provision of section 135 has to be complied by the company

## CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

Corporate Social Responsibility is understood to be the way firms integrate social, environmental and economic concerns into their values, cultures, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society. According to Business for Social Responsibility (BSR), "Corporate social responsibility is operating a business in a manner which meets or excels the ethical, legal, commercial and public expectations that a society has from the business." According to the Commission of the European Communities (2003) "CSR is the concept that an enterprise is accountable for its impact on all relevant stakeholders. It is continuing commitment by business to behave fairly and responsibly and contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large".

Today the concept of CSR has undergone a drastic change. It has integrated social as well as environmental issues into their mission and decisions. Now, the companies are keen interested in disclosing their CSR activities to their stakeholders as well. Around the globe business enterprises have undertaken CSR initiatives in the area of water conservation, rural welfare, environmental protection, community investment projects, green environment, governance, waste management etc.

## RELATIONSHIP BETWEEN CORPORATE SOCIAL PERFORMANCE (CSP) AND FINANCIAL PERFORMANCE (FP)

It has been evident from the last decade that companies CSR activities increased simultaneously with the rising of stakeholder's demands. With a view to explore the potential benefits of CSR activities on financial performance, numerous studies have been conducted to study the relationship between CSR and financial performance. Windsor (2006) conceptualizes the linkage between CSR and financial performance. The scenarios are:

- If CSR and FP both increases at the same time, it is win-win situation regardless of governmental or ethical input towards the activities.
- If CSR and FP decreases at the same time, it is lose-lose situation where govt. input is likely to occur to counteract the unwanted situation.
- If the CSR decreases and FP increases at the same time public dislike the environmental or social harm that leads to increased profits.
- If CSR increases and FP decreases at the same time in this situation companies are unwilling to invest in CSR activities due to decline in financial performance.

## REVIEW OF LITERATURE

Literature review brings to light a number of studies exploring this relationship of CSR and financial performance.

Schotens (2008)[1] examined the interaction between financial and social performance. A sample of 189 firms from U.S. is selected from the time period 1991–2004 and test employed is Ordinary Lease Square (OLS) and granger causation. The most important finding is the support for a positive and significant interaction between financial and social performance. It is also found that different themes of CSR (community involvement, employee relations, diversity, environment and product) do not all have the same type of interaction with financial return and risk. Later Menassa (2010)[2] identified the type and quality of social information disclosed by Lebanese commercial banks and their relationship with size, financial performance, and other chosen variables by using content analysis of annual reports of social disclosures of 24 Lebanese commercial banks to determine the nature of social disclosures and their association with selected variables. It revealed that selected banks under study attribute a greater importance to human resource, product and customers disclosures as compared to environmental disclosures. In addition, a strong association is found between these disclosures and size and financial performance variables, whereas the relationship with the bank age is found to be a weak one. Finally, findings suggest

[1] Scholtens, B. (2008). A note on the interaction between corporate social responsibility and financial performance. Ecological Economics,68(1-2 ), 46-55.

[2] Menassa, E. (2010). Corporate social responsibility. *Journal of Applied Accounting Research J Applied Accounting Research, 4–23.*

no difference in social disclosure behavior between listed banks and banks with an overseas presence, and non-listed banks and those operating only in Lebanon. Yilmaz (2013)[3] investigated the association between CSR activities and financial performance and also the direction of relationship. The statistical method employed to find the association between CSR and financial performance is content analysis trough the annual reports of the company and also run panel data regression. It has been found that some indicators shows significant results and some shows insignificant results. In the same year Wu and Shen (2013)[4] investigated the association between CSR and financial performance and find the major drivers for motivating towards CSR activities. Data collected for the purpose of study includes 162 banks from 22 countries from the year 2003-2009. The statistical technique used for this study is an extended version of the Heckman two-step regression, in the first step and adopts a multinomial logit model, and the second step estimates the performance equation with the inverse Mills ratio generated by the first step. The results show that CSR is positively associates with FP in terms of return on assets, return on equity, net interest income, and non-interest income and negatively associated with non-performing loans. Sethi (2013)[5] explores the potential effects of size of the bank, gearing and profitability on CSR disclosure in published annual reports of the banks. For the purpose of study a sample of 79 banks are selected (which includes 21 private sector banks, 22 public sector banks and 36 foreign banks are taken). Cooperative banks have been excluded from the study. The data collected for the purpose of the study involves the examination of annual reports for the year 2009-2010 of the banks of India. Multivariate Analysis has been adopted as a statistical technique to examine the influence of asset size and earnings margin on annual report disclosure. The results of the study demonstrate that overall CSR reporting by Indian banks are moderate. It also shows that there is no significant relationship between gearing and CSR reporting in Indian banks. Profitability and size of the bank have been found to have significant impact on the CSR reporting. Whereas in case of foreign banks all the factors have a role to play. In another recent study by Famiyeh (2017)[6] investigated the association between CSR and firm's competitive operational capabilities in terms of cost, quality, flexibility and delivery in Ghana. Statistical method employed Structural Equation Modelling (SEM) was used to study the relationship between corporate social responsibility, competitive operational capabilities, and overall organizational performance It has been found that firm's overall performance in terms of Return on Investment and increase in sales volume as well as market share when they invest in CSR activities.

[3] Yilmaz, I. (2016). Social performance vs. financial performance: CSR disclosures as an indicator of social performance. *International Journal of Finance & Banking Studies*, *2*(2), 2147–4486.
[4] Wu, M., & Shen, C. (2013). Corporate social responsibility in the banking industry: Motives and financial performance. *Journal of Banking & Finance, 37(1), 3529–3547.*
[5] Sethi, P. (2013). Social reporting by Indian Banks and Foreign Banks – A comparative analysis. *IOSR Journal of Business and Management IOSR-JBM, 15(3), 45–53.*

## NEED AND OBJECTIVES OF THE STUDY

Today the India is one of the fastest growing economics in the world. The Indian business scenario has become highly dynamic with escalating focus on economic reforms, globalization, consumerism, technology and digitalization and sustainability. However in the midst of these developments, there is growing impetus societal and community welfare. In the recent decades this ideology is gaining momentum that a company exists for and has responsibilities towards a wider group of stakeholders and it must have some objectives other than profitability. Heightened emphasis on Corporate Social Responsibility initiatives and its mandatory inclusion in the new Companies Act 2013 is the outcome of these socio economic changes. The specific objective of the current research is to determine the impact of financial indicators like Profit After Tax and Earning Per Share on investment in Corporate Social Responsibility practices among selected Banks (listed on BSE) in India.

## RESEARCH METHODOLOGY

All the public and private sector banks listed on Bombay Stock Exchange comprise the universe of the study. A sample of 20 banks was selected randomly from these banks for the purpose of the study. Secondary data about the independent variables viz a viz PAT and EPS and dependent variable of CSR for these banks was collected from the audited annual reports of these selected banks for the year 2016-2017 (available at their respective websites). Later this data was analyzed using correlation and regression techniques.

## RESULTS AND DISCUSSION

The inferences derived from the above study can be explained with the help of regression results presented in Tables 1-5 below.

[6] Yilmaz, I. (2016). Social performance vs. Financial performance: CSR disclosures as an indicator of Social Performance. *International Journal of Finance & Banking Studies*, *2*(2), 2147–4486.

**Table 1: Investments in CSR, PAT and EPS of selected Indian banks.**

| S. No. | Name of Bank | Investments in CSR (in Cr) | PAT (in Cr) | EPS (in Rs) |
|---|---|---|---|---|
| 1 | SBI | 109.82 | 10,484.10 | 10.44 |
| 2 | Bank of Baroda | 8.76 | 1,383.14 | 4.18 |
| 3 | PNB | 2.72 | 1,324.80 | 5.66 |
| 4 | Canara Bank | 32.68 | 1,121.92 | 14.26 |
| 5 | Vijaya Bank | 4.96 | 750.49 | 6.52 |
| 6 | Corporation Bank | 2.05 | 561.21 | 4.89 |
| 7 | Punjab & Sind Bank | 0.24 | 201.08 | 3.12 |
| 8 | Allahabad Bank | 13.45 | -313.52 | 3.87 |
| 9 | HDFC Bank | 305.42 | 14,549.64 | 64.69 |
| 10 | ICICI Bank | 182 | 9,801.09 | 12.12 |
| 11 | Axis Bank | 135.39 | 3,679.28 | 14.39 |
| 12 | Kotak Mahindra Bank | 54.92 | 3,411.50 | 20.67 |
| 13 | Yes Bank | 41.62 | 3,330.10 | 17.22 |
| 14 | IndusInd Bank | 33.81 | 2,867.89 | 56.76 |
| 15 | IDFC Bank | 4.85 | 1,019.74 | 2.92 |
| 16 | Federal Bank | 23.01 | 830.79 | 5.03 |
| 17 | Karur Vysya Bank | 1.6 | 605.98 | 7.06 |
| 18 | City Union Bank | 10.45 | 502.77 | 8.15 |
| 19 | RBL Bank | 3.68 | 446.05 | 14.06 |
| 20 | South Indian Bank | 11.44 | 392.5 | 1.64 |

Source: Author's compilation based on secondary data from annual reports and websites.

A perusal of Table 1 depicts the PAT, the amount invested in CSR activities and the EPS of the selected 20 banks for the financial year 2016-2017. Independent variables in the study are PAT and EPS and dependent variable is the amount invested in CSR practices by the banks.

**Table 2: Correlation Among the Independent Variables**

| Financial Parameters | PAT (in Cr) | EPS (in Rs) | Investment in CRS (in Cr) |
|---|---|---|---|
| PAT (in Cr) | 1 | 0.603 | 0.932** |
| EPS (In Rs) | 0.603* | 1 | 0.639 |
| Investment in CSR (in Cr) | 0.932** | 0.639* | 1 |

Source: Author's calculations based on secondary data.

Note: *Significant at 5 percent level of significance.

** Significant at 1 percent level of significance.

A perusal of Table 2 depicts the correlation among the different independent and dependent variables for the purpose of the study. This is done because it is essential before applying the regression analysis to check the correlation among the independent variables to check the co-linearity among the independent variable. The results show that there is significant positive correlation (0.603) between the independent variables of PAT and EPS. Similarly there is high significant positive correlation (0.932) between PAT and CSR investments.

**Table 3: Z Values of Dependent and Independent Variables to Make Data Unit Less**

| S. No. | Name of Bank | Investments in CSR | PAT | EPS |
|---|---|---|---|---|
| 1 | SBI | 0.77 | 1.89 | -0.2 |
| 2 | Bank of Baroda | -0.52 | -0.36 | -0.57 |
| 3 | PNB | -0.59 | -0.38 | -0.49 |
| 4 | Canara Bank | -0.21 | -0.43 | 0.02 |
| 5 | Vijaya Bank | -0.56 | -0.52 | -0.44 |
| 6 | Corporation Bank | -0.6 | -0.57 | -0.53 |
| 7 | Punjab & Sind Bank | -0.62 | -0.66 | -0.64 |
| 8 | Allahabad Bank | -0.46 | -0.78 | -0.59 |
| 9 | HDFC Bank | 3.27 | 2.9 | 3 |
| 10 | ICICI Bank | 1.7 | 1.73 | -0.1 |
| 11 | Axis Bank | 1.1 | 0.21 | 0.03 |
| 12 | Kotak Mahindra Bank | 0.07 | 0.14 | 0.4 |

| S. No. | Name of Bank | Investments in CSR | PAT | EPS |
|---|---|---|---|---|
| 13 | Yes Bank | -0.1 | 0.12 | 0.2 |
| 14 | IndusInd Bank | -0.2 | 0.01 | 2.54 |
| 15 | IDFC Bank | -0.57 | -0.45 | -0.65 |
| 16 | Federal Bank | -0.33 | -0.5 | -0.52 |
| 17 | Karur Vysya Bank | -0.61 | -0.56 | -0.4 |
| 18 | City Union Bank | -0.49 | -0.58 | -0.34 |
| 19 | RBL Bank | -0.58 | -0.6 | 0.01 |
| 20 | South Indian Bank | -0.48 | -0.61 | -0.72 |

Source : Author's calculations based on secondary data.

Table 3 shows the Z values of dependent and independent variables. This is done because it required before applying regression analysis is that units of dependent variables and independent variables must be same or unit less. We can see that one of the independent variable is given in rupees, i.e., EPS and rest all dependent and independent variables values are given in crores so for the same Z score is calculated to make the data unit less.

**Table 4: Summary output of OLS Regression Analysis.**

| Regression Statistics | |
|---|---|
| Multiple R | 0.94 |
| **R Square** | 0.88 |
| Adjusted R Square | 0.86 |
| Standard Error | 0.37 |
| Observations | 20 |

Source : Author's calculations based on secondary data.

**Table 5: ANOVA (F-Value ) OLS Regression Analysis.**

| | Df | SS | MS | F | Significance F |
|---|---|---|---|---|---|
| Regression | 2.00 | 16.69 | 8.34 | 61.31* | 0.00 |
| Residual | 17.00 | 2.31 | 0.14 | | |
| Total | 19.00 | 19.00 | | | |

Source : Author's calculations based on secondary data.

Note: *Significant at 1 percent level of significance.

**Table 6: Results of OLS Regression Analysis.**

| Independent Variables | Coefficients | Standard Error | t Stat | P-value | Lower 95% | Upper 95% |
|---|---|---|---|---|---|---|
| Intercept/Constant | 0.00 | 0.08 | 0.00 | 1.00 | -0.17 | 0.17 |
| PAT (in cr) Z values | 0.86* | 0.11 | 8.09 | 0.00 | 0.63 | 1.08 |
| EPS (in Rs) Z values | 0.12 | 0.11 | 1.14 | 0.27 | -0.10 | 0.35 |

Source: Author's calculations based on secondary data.

Note: *Significant at 1 percent level of significance.

Table 4 shows the value of R square and adjusted R square. In general the higher the value R squared the better the model fits your data. It is the statistical measure of how close your data to regression line. The value of is 88% while adjusted is 86%. It means that 88% of the variation in CSR investment is explained by the model of independent variables, i.e., PAT and EPS. Further Table 5 depicts the calculated value of ANOVA (F-value) is 61.36 where the statistical tabulated value is 3.59. Also the p value is less than 0.01. Hence the null hypothesis that the independent variables (PAT and EPS) are ineffective in explaining CSR investment is rejected as F value is significant at 1 percent level of significance. Further, the independent variable of PAT has strong predictive value for the dependent variable CSR as t value is significant at 1 percent and 5 percent significance level as p value is less than 0.01 as revealed by Table 6. However EPS has an insignificant predictive value for CSR as the t value is insignificant. In other words we can say that among the financial indicators PAT has a stronger predictive value and impact on CSR investment as compared to EPS in Indian banks.

The OLS regression equation used is:

$$X_1 = a_{1.23} + b_{1.23} X_2 + b_{13.2} X_3$$

Where

$X_1$ = Dependent Variable, i.e., Investment in CSR

$X_2$ and $X_3$ = Independent Variables, i.e., PAT and EPS

a = Intercept of the equation

$b_{12.3}$ and $b_{13.2}$ are the beta coefficients for independent variables

The Model based on the above equation can be explained as below:

$CSR_{it}$ (Investment) = 0.00 + 0.86 ($PAT_{it}$) + 0.12($EPS_{it}$) + ε1

where CSR = Investment in CSR of bank i at time t;

i = 1, 20 banks.

t = Time is year 1 April 2016–31 March 2017

$PAT_{it}$ = Profit after taxes of bank i for time t

$EPS_{it}$ = Earnings Per Share of bank i for time t

**ε1** = Error term

# CONCLUSIONS AND RECOMMENDATIONS

A company has to give back to the society in which it operates, clean up all forms of pollution it has caused in its course of operation and also provide infrastructural facilities to the society as a way of giving back and developing the society. A growing impetus on Corporate Social Responsibility practices is an outcome of this recent ideology. The study conducted on 20 banks (listed in BSE) aimed to study the impact of financial indicators viz a viz Profit After Taxes (PAT) and Earning Per Share (EPS) on CSR investments in some selected banks in India. Correlation and multiple regressions have been used to analyze the relationship among these financial profitability indicators and CSR investments. The study brought to light certain interesting findings. The results revealed a significant positive correlation high significant positive correlation between PAT and CSR investments indicating that with an increase in profits, banks are increasingly spending on their CSR initiatives and vice versa. On the contrary though a significant positive correlation exits between PAT and EPS, the association between EPS and CSR investments though positive but is insignificant. The regression model also highlights the pervasive relation that exists between PAT, EPS and CSR with nearly 88 percent variation in CSR being explained by these two independent variables. However, PAT emerged to have a strong predictive value and significant impact on CSR investments as compared to EPS where the impact was insignificant.

The study has strong implications for the banking industry in specific and society in general. It is heartening to observe that in era of ruthless competition, there are banks who are still investing in CSR and an increase in profits persuades them to increase their CSR spending. It is apparent that the Indian banks believe that by embracing the spirit of being socially responsible and focusing on corporate social responsibility practices, will not only boost the goodwill of banks but will provide added benefits in terms of increased customer satisfaction, investors loyalty and growing financial worth. Consequently banks would built strong brand image and have edge over other banks through increasing patronage of their services. It is gratifying for the society in general to witness that banks are not only acting as profit makers but also thinking terms of community welfare.

This present study based on a limited sample of 20 banks mainly uses secondary data for analysis. Further, it is industry specific research with special focus on banking industry. Hence there is scope for future research in the area of CSR. Research can be carried out on Impact of financial indicators on investment in CSR practices of other industries in the Indian corporate world. A comparative study of the CSR practices may also be carried across various industries.

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