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Impact of CSR on Financial performance: Evidence from Selected Private Sector Banks in India

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Abstract
Corporate Social Responsibility indicates the obligation of a firm engaged in business which contribute towards the social welfare activities beyond the common objective of earning profits. There is a belief that the social responsibility and financial performance are contradictory to each other. But interestingly, they are complementary to each other. The present research studies CSR in the Indian private sector banks. The present study intents to explore the relationship between Corporate Social Responsibility and financial performance and the effect of CSR on Indian Private Banks' financial performance. The present study found that in case of Return on Assets, only CSR expenditure and CSR activities have association with it while in case of Return on Equity, only CSR expenditure has an association with it. Moreover, the study found that the only CSR variable that has affected the financial performance is CSR Expenditure (both in terms of ROA and ROE).
Keywords:*CSR, Banks, financial performance, expenditure, business, impact, Private sector.*

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I. Introduction

Corporate Social Responsibility indicates the accountability of a business firm or organization towards the society beyond the common economic responsibility of earning profits. A business firm must use its financial strength to provide support and a shield to the social values and interest of the public as a financial agent of the economy. CSR does not take into account the taper segment, i.e., shareholders rather it covers a wider segment, i.e., the stakeholders which include shareholders, customers, suppliers, government, etc. A majority of consumers would like to purchase goods and services from a well-known, trustworthy and socially responsible company. Suppliers would also want to begin business with a reliable company. Similarly, employees or workers would like to work in a reputed and honorable company. The big investors would also prefer to invest their valuable money in a socially responsible company. There is a belief that the social responsibility and financial performance are contradictory to each other. As many belief that if they spent more towards social welfare activities, it will adversely affect their revenues. But interestingly, they are complementary to each other. We may say that they are two sides of the same coin. If a firm earns good amount of profit then its financial performance is improved and it can spend or contribute more towards the society. On the other hand, if an organization contributes toward the society then it helps the organization to increase its goodwill (Scholtens, 2008). In short run, the expenditure towards CSR programmes may shrink the profits of the organization but in the long run, it will build a favorable socio-economic environment for the business. A socially responsible business firm or organization can attract a good amount of investment as well. Now the banking sector is not also different from the several business organizations as it has direct or indirect connections with the society. Now a days, there is discernible trend in the banking industry to encourage the lending and investment practices that are environment friendly, sustainable and socially responsible. A number of research had been conducted highlighting the nexus between financial performance and social performance (or CSR) of the corporates and different business houses {(Brammer&Pavelin, 2006); (Scholtens, 2008); (Surroca, et al., 2010); (Cavaco&Crifo, 2014)}. Similarly, many studies are also undertaken that highlighted the importance of CSR spending on the financial performance of the Nationalised or Indian Public Sector Banks or Indian Public Sector and Private Sector Banks both {(Bihari & Pradhan, 2011); (Moharana, 2013); (Dhingra& Mittal, 2014); (Ranjan &Tiwary, 2018)}. Except the study conducted by (Rahman & Iqbal, 2013)to explore the importance of CSR on financial performance in context private sector banks only, no other study have taken into account the Indian private sector banks in particular. But this study was conducted on the Private sector banks in Bangladesh. Therefore, due to minor contribution towards the impact of CSR on financial performance in context of Indian private sector banks particularly, the research questions that come into light are:

→ Whether there is any association between CSR and financial performance of the Indian private sector banks or not?

→ What is the impact of CSR on the financial performance of the Indian private sector banks?

This research has emphasized on the CSR of Indian private sector banks. The private banks in India are in a cut-throat competition and to get competitive advantage over its rivals, the best weapon it can use is CSR. Moreover, CSR improves the long term profitability and sustainability as well as bring good reputation for the banks. The present study attempts to find out the association as well as impact of CSR on the financial performance of the Indian private sector banks only. Furthermore, the previous studies have only explored the nexus between CSR and financial performance and they have only considered the CSR expenditure for their research but in addition to that the present research considers two more CSR variables. They are CSR performance and CSR activities. Moreover, the financial performance is also measured in terms of Return on Assets and Return on Equity. Even the age and size of the private sector banks are also taken into consideration. For the above research questions, the answers can be met with following stated objectives:

1. To study the association between Corporate Social Responsibility and Private Sector Banks' financial performance in India.
2. To assess the impact of CSR on the financial performance of Private Sector banks in India.

This study tries to state a wider view of the CSR practices of the private banking sector in India. There are a total of 22 Indian Private Sector Banks. But for our study, only 13 private banks are taken into consideration. The present research is mainly focused on studying the effect of CSR on the selected Indian private banks' financial performance.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Brammer and Pavelin (2006) have represented the linkage between corporate reputation and social performance of top companies in UK. They found that the social performance has varying impact on reputation of the corporates. Moreover, they have highlighted the significance of fit, i.e., whether the CSR activities benefits or harms the reputation of the firm depends on the satisfaction of its stakeholders. If the CSR activities satisfy the stakeholders then the reputation is increased and vice-versa. Scholtens (2008) has highlighted the association among the financial performance and social performance of business houses. He found a significant positive relationship between both. According to him, there are two school of thoughts. According to one, good financial performance leads to yield more investment required for social activities and welfare and according to another, good social performance helps in attracting more investments to the business. Surroca et al. (2010) elaborate the role of resources which are intangible in negotiating the linkage or association between the corporate financial performance and the corporate social responsibility. They found that the intangible resources mediate relation between Financial Performance and ReportingPerformancein both directions in corporates. Bihari and Pradhan (2011) highlight the CSR's impact on the performance of major players in the Indian Banking Sector. They have found that the CSR has an influence on the financial performance. As more is spent by banks towards CSR, they found it positively affect the performance of the banks. Moreover, they gave an insight into the social responsible attitude of the banks towards the nation. Moharana (2013) has studied the CSR activities of five Indian nationalized banks. He witnessed the banks are contributing towards the activities concerning CSR but it is not satisfactory. Moreover their investment remains limited to certain areas only which should be further widened. He also suggests that separate funds should be created for specific CSR activities. Rahman and Iqbal(2013) have highlighted the activities concerning CSR of selected Bangladeshi private sector banks and at the same time studied the perception of its employees regarding its contribution to CSR.They found that education was the major or core area on which more amount of money should be spent according to the perception of the employees. Further, there exists a positive impact of CSR contribution on behavior of employees, behavior of customers and image creation of the banks. Dhingra and Mittal (2014) have highlighted the phases through which the CSR has developed. They have focused on the CSR practices of the banking sector in India. They have also highlighted the major sectors in which the private and public sector banks spent towards CSR. They have concluded that both the banks are spending towards CSR but it is not enough thus more attention and emphasis is required towards CSR practices in the banking industry.Karaye et al. (2014)put light on the relationship between three variables that are Corporate Social Responsibility Performance, Corporate Financial Performance and Corporate Social Disclosure. They found that there exists a positive relationship between them. The Corporate Social Disclosure has a moderate impact on the other two. Moreover, without social disclosure the work of the Corporates would have gone unnoticed by the stakeholders. Kulkarni (2014) stated that many a banks are contributing towards CSR but most of them do not have a proper CSR policy as per the RBI guidelines. Moreover, a lot of banks lack transparency in reporting. Though, public Sector Banks have contributed more to CSR but the Private Sector Banks have outperformed them in the context of planning and preparing proper CSR policy. Rodriguez-Fernandez (2016)has highlighted the bidirectional relationship between CSR and the financial performance of listed companies of Spain. He found that both the variables moves in positive direction that means better social disclosure leads to better financial performance and vice-versa. Cavaco and Crifo (2014) studied the relationship between the CSR scores and financial performance. They found that the study of impact of CSR policy on the financial performance will yield biased results due to omission of various other variables. Moreover, the scope of CSR affects the financial performance of firms while on the other complementary CSR practices would benefit in the financial performance of the same. Barnea and Rubin (2010)states whether CSR leads to conflict between the shareholders. They observed that there are two sides to this conflict. On one side, if the firm has spent more towards CSR then it will lead to decrease in the shareholders' value while on the other hand, if more CSR expenditure is spent then it will lead to greater social benefits in return of which the shareholders' value can be greater in the long run. Dutt and Grewal (2018) have focused on the CSR activities undertaken by the SBI Bank and the perception of its employees towards the programmes undertaken against CSR. They found that the growth of CSR contribution of the bank is slow and the bank is spending more than 50% of its CSR budget on development of skills and creation of livelihood. Moreover, the employees of the respective banks think that the bank is enough serious towards its CSR contribution.

Moreover, Pushpam et al. (2015) studied the CSR practices of the Indian Banks and their interest of adding sustainability to the same. They found that most of the banks have poor CSR reporting mechanisms and a few banks are following the principle of triple bottom line. Moreover, there is no standardized rating mechanism for rating the CSR of the banking industry. Kaur (2016) has enlightened the several activities concerning CSR of various banks in India. Even if banks are spending towards CSR but they need to more emphasize on it. As many of the banks are not also meeting the mandatory requirement of 2%. He found that in context of CSR contribution, the public banks out ranks the private sector and foreign sector banks. Most of the banks are not even contributing to major social issues. Further more transparency must be maintained by the banks. Ranjan and Tiwary (2018) has studied the CSR of five private and five public enterprises. He focused on finding the gap between the CSR spending of both public and private sector organizations. He had focused to find out whether they are spending on CSR or not, whether there are some hurdles to CSR activities and how the CSR impact the performance of the organizations.

Prabhavathi and Dinesh (2017) state the CSR spending of 41 listed banks in India. They attempt to find how the CSR spending of Indian Banks is affected by the Corporate Social Responsibility mandate. Moreover, the research attempts to determine the change that has occurred or the gap between pre and post CSR mandate. They found out that there has been a transparency in the CSR activities and an increase in the CSR spending of the bank post CSR mandate.Ching et al. (2017)represent the relationship among sustainability reporting's quality and the firm's financial performance. For the current research under consideration, Corporate Sustainability Index (ISE) listed firms are taken. They found no relationship between the accounting and marketing parameters and quality of sustainability reporting. Lorena (2018) has researched the affiliation between CSR and Corporate Reputation and found that there exists a positive relation between the two. Further, the upsurge in CSR leads to upsurge in the reputation of the banks which in turn helps in attracting and retaining the customers, decrease employees' turnover and leads to better financial performance of the banks. Singh(2018)has given an insight in to the CSR concept and the responsibility of SBI Bank. He has majorly focused on the amount spent on CSR, the sector wise deployment of CSR and the major CSR initiatives taken by the SBI Bank. He concluded that SBI never compromise between CSR spending and customer satisfaction. In other words, the bank follows an integrated approach.

Vijayalakshmi (2018) found out the contribution of various public and private sector enterprises towards education in rural areas. He has focused on the various problems and issues at different levels of education in rural areas. He concluded CSR contribution has a positive effect on rural areas education as well as on the performance of the enterprises itself. Kumar and Prakash (2019) highlighted sustainability reporting practices of various public and private banks in India. The Indian banks have lacked in reporting their sustainability. There exists a wide variation between the disclosure practices of Indian public sector and private sector banks. The social development indicators disclosure was common between both the banks and the environmental indicators are low in both the banks. Danko*et al.* (2008) have studied the relationship between profitability and the corporate social behavior of the companies. They have also highlighted the differences between the CSR reporting standards of US and Europe. They have also thrown light on the approaches of the CSR. Singh and Das (2016) has focused on sector wise deployment of CSR of one public and one private sector bank. i.e., SBI and ICICI bank, respectively. He stated that the CSR activities of both the banks are same but the approach of both of them are different this is because the initiatives taken by one may be good for it but not for others.

Alanazi and Alhoqail (2019) have enlightened us with the association between the corporate governance and firm's performance in terms of returns on stock in the market. For the study, 90 registered companies on Stock Exchange of Saudi Arabia are taken into consideration. He found that the performance of the good governed companies outperformed the performance of bad governed companies. Chowdhury and Nahel (2020) have studied activities concerning CSR in Bangladeshi banking sector. They attempt to find an association between the Corporate Social Responsibility expenditure and Banks' financial performance. They further suggests that to improve the financial performance, it should contribute more to donations and social welfare activities. Further the banks should not only think of earning profit but should think about the society and nation at large. Gupta (2020) has conducted a perception study of customers towards CSR in public sector banks. He has aimed at finding out the awareness of the customers towards the CSR contribution of the banks and the CSR practices of various public sector banks. He found that the customers are not fully aware of the CSR practices of the banks. But even though they support the banks who are contributing to the society and would defy the banks that are causing problems for the society. Uddin and Hassan (2013) have studied the association between the disclosure of corporate governance and the market risk of securities of two stock markets of UAE. They found a negative impact of corporate governance on the market risk of security of UAE. There is no uniform effect on all companies. And at last they concluded that there is negative association between corporate disclosure and security's market risk.

A number of intellectuals have studied CSR expenditure's impact on the financial performance in business firms and banks in India. But yet there are no studies that are being conducted examining the effect of CSR performance and CSR activities on the private sector banks' financial performance. Thus, this research endeavors to overcome the gap by examining the effect of CSR expenditure, CSR performance and CSR activities of Indian private sector banks on its financial performance. The outcomes of the present research would contribute to the current stock of learning and wisdom and would help to further extent the literature on the theme under study. Therefore, on the basis of the research gap, the hypothesis to be tested for the present research are stated as:

$H_0$1: There is no correlation between the CSR and private sector banks' financial performance in India.

$H_0$2: There is no significant effect of CSR on private sector banks' financial performance in India.

III. Research Methodology

The current research is empirical in nature. For the present research, secondary data has been used. The data is being retrieved from the official website of the respective private sector banks. The data is being compiled from the annual reports of those selected banks. The study covers a period of 5 years. The annual reports of respective private sector banks for 5 years are being examined from the F.Y. 2014-15 to 2018-19. Further, judgement sampling is being used to select the sample banks. There are 22 private sector banks in India. As per judgement sampling, we have taken 13 private sector banks.

1. HDFC Bank
2. Axis Bank
3. City Union Bank
4. Federal Bank
5. ICICI Bank
6. IndusInd Bank
7. Karnataka Bank
8. Karur Vysya Bank
9. Kotak Mahindra Bank
10. Laxmi Vilas Bank
11. RBL Bank
12. South Indian Bank
13. Yes Bank

The variables used for the present study are dependent, independent and control variables. The dependent variables are the financial performance variables and the independent variables are the CSR variables. Return on Assets (ROA) and Return on Equity (ROE) are the dependent variables.CSR expenditure (CSRE), CSR performance (CSRP) and CSR activities (CSRA) are independent variables. The control variables comprise of age and size. The CSR expenditure (CSRE) is the Natural Logarithm of Corporate Social Responsibility expenditure. The CSR performance (CSRP) is the binary variable representing whether the bank had spent 2% of the average of past three years profits towards CSR or not. CSR activities (CSRA) represents the number of Corporate Social Responsibility Activities. Similarly, age and size denotes the Natural logarithm for the age of the company since establishment and Natural logarithm for the total assets of the company for each year, respectively. For the present study, mean, standard deviation, correlation and regression are being used. IBM SPSS-23 software has been used for analysis.

IV. Results And Discussions

Table 1: Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
ROA	-2.320	2.300	1.1105	0.7954	-1.7216	5.5593
ROE	-52.250	21.500	11.2552	10.5731	-4.1764	22.2851
CSRE	14.022	22.2031	18.7934	1.8451	-0.1695	-0.4073
CSRP	0.0000	1.0000	0.0769	0.2685	3.2509	8.8397
CSRA	3.0000	33.0000	8.1077	5.1754	3.0156	10.8240
Age	2.3979	4.7449	3.8113	0.8010	-0.2833	-1.6751
Size	26.2329	30.1524	27.9451	1.1410	0.4033	-1.0984

Source: compiled from data collected using IBM SPSS-23 Software.

Table 1 represents the summary of descriptive statistics. The mean is maximalin case of the size of the banks and minimal in case of ROA. The standard deviation in case CSRP is highest as the S.D. of CSRP is greater than the mean of CSRP. In all other cases, the S.D. is comparatively lower than the respective means which indicated lower variation in the data. In case of CSRP, CSRA and Size only, the data is positively skewed, i.e., it is uniformly distributed while in the rest of the variables, it is not uniformly distributed or are negatively skewed. In case of ROA, ROE, CSRP and CSRA, the distribution is leptokurtic. While in the case of CSRE, Age and size of the banks, the data distribution is platykurtic.

Table 2: Correlation Analysis

	ROA	ROE	CSRE	CSRP	CSRA	Age	Size
ROA	1						
ROE	.861**	1					
	.000						
CSRE	.524**	.491**	1				
	.000	.000					
CSRP	.121	.139	.454**	1			
	.336	.271	.000				
CSRA	.246*	.127	.043	-.130	1		
	.048	.314	.735	.303			
Age	-.522**	-.372**	-.716**	-.224	-.103	1	
	.000	.002	.000	.072	.414		
Size	.357**	.348**	.924**	.496**	-.088	-.768**	1
	.004	.005	.000	.000	.487	.000	

**Correlation is significant at the 0.01 level, *at the 0.05 level (2-tailed).
Source: compiled from data collected using IBM SPSS-23 Software.

Table 2 represents the summary result of correlation. If we consider the first financial performance variable, i.e., ROA, then, the correlation of CSRE and CSRA with ROA is significant at 5% and 1% significance level, respectively. But if we consider the second financial performance variable, i.e., ROE then, the correlation between CSRE and ROE is significant at 5% significance level. CSRE has a positive association with ROE while CSRP & CSRA have no association with ROE. If we consider the association of age and size with the financial performance variables then, we can see that there is a discernible negative correlation between the age and the financial performance variables. While, there is a discernible positive correlation between size and the financial performance variables.

Table 3: Model Summary: DV = ROA

Model 1	R	R Square	Adjusted R Square	Std. Error of the Estimate
a. Predictors: (Constant), Size, CSRA, CSRP, Age, CSRE	.726[a]	.528	.488	.569352

Table 4: ANOVA

Model 1	Sum of Squares	df	Mean Square	F	Sig.
Regression	21.362	5	4.272	13.180	.000[b]
Residual	19.126	59	.324		
Total	40.487	64			

a. Dependent Variable: ROA
b. Predictors: (Constant), Size, CSRA, CSRP, Age, CSRE

Table 5: Coefficients

Model 1	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.
(Constant)	18.531	4.621		4.010	.000
CSRE	.554	.107	1.285	5.177	.000
CSRP	.178	.318	.060	.559	.578
CSRA	.003	.015	.022	.228	.821
Age	-.591	.149	-.595	-3.955	.000
Size	-.917	.203	-1.315	-4.510	.000

a. Dependent Variable: ROA
Source: compiled from data collected using IBM SPSS-23 Software.

Table 3, 4 & 5 represents summary of regression result where ROA is the dependent variable. As per the Table 3, R-value is 72.6% that represents a high intensity of association between the CSR and ROA. The difference caused by independent variables in ROA is 52.8%. Table 4 represents the ANOVA summary, the *p*-value is less than 0.05. Thus for analysis purpose, the model is a good fit. Table 5 represents the summary of regression coefficients. The Null Hypothesis ($H_0 2$) is being rejected in the case of CSRE only as the *p*-value is less than 0.05. Thus, the CSR expenditure has an impact on ROA.While in the case of CSRP and CSRA, $H_0 2$ is being accepted as the p-value is greater than 0.05. Thus, the CSR performance and activities do not have any impact on ROA.

Table 6: Model Summary: DV = ROE

Model 2	R	R Square	Adjusted R Square	Std. Error of the Estimate
a. Predictors: (Constant), Size, CSRA, CSRP, Age, CSRE	.584[a]	.341	.285	8.940017

Table 7: ANOVA

Model 2	Sum of Squares	df	Mean Square	F	Sig.
Regression	2439.020	5	487.804	6.103	.000[b]
Residual	4715.511	59	79.924		
Total	7154.531	64			

a. Dependent Variable: ROE
b. Predictors: (Constant), Size, CSRA, CSRP, Age, CSRE

Table 8: Coefficients

Model 2	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.
(Constant)	141.003	72.556		1.943	.057
CSRE	6.727	1.680	1.174	4.005	.000
CSRP	.436	4.995	.011	.087	.931
CSRA	-.062	.238	-.030	-.259	.797
Age	-3.321	2.346	-.252	-1.415	.162
Size	-8.697	3.192	-.939	-2.725	.008

a. Dependent Variable: ROE
Source: compiled from data collected using IBM SPSS-23 Software.

Table 6, 7 & 8 represents summary of regression result where ROE is the dependent variable. As per the Table 6, the R-value is 58.4% that represents a high intensity of association between the CSR and ROE. The difference caused by the independent variables in ROE is 34.1%. Table 7 represents the ANOVA summary, the *p*-value is less than 0.05. Thus for the purpose of analysis, the model is a good fit. Table 8 represents the summary of regression coefficients. The null hypothesis ($H_0 2$) is being rejected in the case of CSRE only as the *p*-value is less than 0.05. Thus, the CSR expenditure has an impact on ROE. While in the case of CSRP and CSRA, $H_0 2$is being accepted as the p-value is greater than 0.05. Thus, the CSR performance and activities do not have any impact on ROE.

V. Testing of Hypothesis

$H_0 1$: There is no correlation between the CSR and private sector banks' financial performance in India.
Table 2 represents the summary result of correlation. In case of ROA, only CSRE and CSRA have an association with ROA as $H_0 1$ is being rejected as the p-value is smaller than 0.05. Further, it is a positive association as the correlation is positive. However, CSRP has no association with ROA as the null hypothesis ($H_0 1$) is being accepted as the *p*-value is more than 0.05. While in case of ROE, only CSRE has an association with ROE because the null hypothesis ($H_0 1$) is being rejected as the *p*-value is smaller than 0.05. While CSRP and CSRA have no association with ROE as the null hypothesis is being accepted as the p-value is greater than 0.05.

$H_0 2$: There is no significant effect of CSR on private sector banks' financial performance in India.
Table 5 represents the summary of regression coefficients. The null hypothesis ($H_0 2$) is being rejected in the case of CSRE only as the *p*-value is less than 0.05. Thus, the CSR expenditure has an impact on ROA. While in the case of CSRP and CSRA, $H_0 2$ is being accepted as the *p*-value is more than 0.05. Thus, the CSR performance and activities do not have any impact on ROA. Table 8 represents the summary of regression coefficients. The null hypothesis ($H_0 2$) is being rejected in the case of CSRE only as the *p*-value is less than 0.05. Thus, the CSR expenditure has an impact on ROE. While in the case of CSRP and CSRA, the null hypothesis ($H_0 2$) is being accepted as the *p*-value is more than 0.05. Thus, the CSR performance and activities do not have any impact on ROE.

VI. Conclusion

Business organizations contributing towards CSR activities is not a modern concept rather there are trends of such contribution towards CSR activities in the history as well. Business firms including the banking sector working in India also make contribution to a number of CSR activities benefitting the society at large. The Banking sector in India are in a cut-throat competition and they can most probably knock out their rivals by using the weapon of CSR. As more a firm spends towards CSR, the more responsible it becomes. And we know it very well that the stakeholders would like to build relationship with a firm only if it is trustworthy and socially responsible. In the present study however we found a number of Indian Private Sector Banks are not meeting the CSR mandate of spending 2% of the average of past three years of profit towards CSR. Moreover, in the present research we concluded that the CSR affects the financial performance of the Indian private sector banks to some extent. Thus, we can suggest that the banks should consider contribution towards CSR as their obligation rather a mere compulsion. Also, the government should play a crucial role in encouraging the Indian banks to spend towards the well-being of the society and environment at large. The current study would proof fruitful for all the banks, investors as well as government as India is on its way towards privatisation and in this context, the role of Indian private Sector Banks is significant. Moreover, by contributing towards CSR, the private banks can create trust and confidence in the mind of the investors.

The current research is also not exempted from certain limitations. In the present research, we have considered only a period of five financial years and similarly, we have considered only three CSR variables and two financial performance variables for our study which may be extended in future research concerning the same area.

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