

**CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL
PERFORMANCE – A STUDY OF 10 PRIVATE BANKS IN INDIA**

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Abstract

By Corporate Social Responsibility, it is meant the responsibility of the corporate to the society in which they exist. As the corporations exist in Society, they are obligated to give back to the society. Corporate Social responsibility is a voluntary gesture in many developed and developing nations of the world, barring India, wherein it is mandated by Sec135 of the Companies Amendment Act 2013. This study focused on the linkage between Corporate Social Responsibility and Financial performance in Banking sector. For the purpose of analysing the relationship between Corporate Social Responsibility and Financial performance, the researcher had chosen top 10 private banks in India. The data has been collected from the published and audited sources namely the Annual reports of the companies for the period 2014-2019 – 5 years. Correlation analysis was performed using SPSS package. It is found that Corporate Social Responsibility measured in relation to CSR expenditure and performance of Company measured based on Return on Asset, Return on equity which are accounting measures and Earnings Per Share which is a market measure are not connected or correlated. The performance of banks do not relate to activities relating to CSR

Key words: Corporate Social Responsibility, Financial Performance, Banking, Accounting Measures, Market measures

Introduction

The quote by Milton Friedman “The business of business is business” is being widely debated today and emphasis is laid on companies to contribute to the society and become a good business citizen. Corporate Social Responsibility here after referred as “CSR needs to be integrated with the important activities of the business (Sharma, 2011)”. CSR means giving back to society. “CSR refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” Bowen (1953). According to (Dahlsrud 2008), “CSR is the concept that integrates Social and environmental concerns into business operations and their integration with their stakeholders on a voluntary basis” This is the most widely used definition proposed by Commission of the European Communities.

There is long history of CSR activities in India dating back to the pre independence era which has been depicted in the following table

Phase	Period	What was considered as CSR
I	1850-1914	<ul style="list-style-type: none">• Charity by princely states
II	1914-1947	<ul style="list-style-type: none">• Support to freedom struggle
III	1947-1960	<ul style="list-style-type: none">• Supporting new states and also involved launching rural initiatives with regards to basic necessities.
IV	1960-1990	<ul style="list-style-type: none">• Establishment of Corporate Trusts• Diverse Priorities to specially focus and fund cause of social interest

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V	1991-2013	<ul style="list-style-type: none"> • Setting up of family trusts, NGOs and launch of National Voluntary Guidelines (NVG) • Making the corporates accountable for CSR activities
VI	2013 – till date	<p>CSR made mandatory by Sec 135 of the Company Act 2013 for companies with</p> <ul style="list-style-type: none"> • Turnover of more than Rs One thousand crores, • Net worth greater than Rs Five Hundred crores and • Net Profit of Rs Five crores or more <p>Set Aside 2% of their average Net profits of the past three years towards CSR activities</p>

Source: Self Compiled

Banking Sector accounts for 7.7% of the Indian GDP and being important sector needs to be explored with respect to linkage amongst CSR and Financial Performance. The problem being analysed here is reviewing the linkage between the CSR and the Performance from Financial perspective of top 10 banks in India listed as per Market Capitalisation on BSE as on 13th September 2019. The paper aims on single Industry i.e. Banking Industry to probe the assertion that CSR can lead to long term growth of the firm. The main objective of this paper is to analyse the relationship amongst Corporate Social Responsibility and Financial Performance of the top 10 private banks in India.

Relationship between CSR and Financial Performance in Banking sector

Studies made across the world have investigated the connection between CSR and CFP. Four types of association have been established in corporates namely – negative, positive, mixed and no relationship.

Mangantar, M. (2019), In their study conducted on banking Industry in Indonesia concluded that corporate social responsibility does not have any significant effect on financial performance as measured by the Return on Assets (ROA). It was further found from the study that financial performance and financial performance do not significantly have effect on each other. Yet another finding from the paper is that social responsibility and governance have a positive association with financial performance. CSR does not have any positive relationship with financial performance, as well as Good Corporate Governance does not have any positive relationship with financial performance. The research paper concluded that the financial performance is not affected by the Corporate social responsibility in the banking sector of Indonesia.

Sindhu, M. I., & et al (2017) carried a study on Banking Sector in Pakistan and found that corporate social responsibility significantly influences performance financially which is to certain extent intervened by satisfaction of customers, corporate goodwill, and competitive advantage. The study was conducted by taking responses from 405 bank employees. It was also further suggested that an increment in CSR activities will lead to enhanced financial performance by implicitly targeting the intangible assets like satisfaction of customers, goodwill of the company and competitive gain.

Soana, M. (2011) from their study on Italian Banking Industry found out that Corporate Social Responsibility has no significant statistical link with Corporate Financial Performance. It was

as well quoted in the study that investing in CSR activities by the banks does not lead to financial improvement.

Saxena, M., & et al (2012) undertook a study on 14 banks for the period 2006-07 to 2010-11 found that there still seems to be a weak support for a link among Corporate Social Responsibility and financial performance. The results also indicated that two variables – Profits net of taxes and earning per share had an insignificant influence of Corporate Social Responsibility on them.

After a review of literatures on CSR in banks, it can be asserted that the relationship between Financial Performance and Corporate Social Responsibility is less researched in India and there is still a scope for understanding the link amongst the two variables i.e. CSR in terms of expenditure and Financial performance in measures of accounting and market based.

Theoretical Model

The theoretical framework is based on the constructs used for the study namely the CSR and CFP. CSR has been taken as independent variable and is measured from two perspectives namely the CSR spendings of the company and the CSR score which is self - designed by the researcher based on content analysis which is undertaken by scrutinising the Annual Reports and Sustainability Reports of the company.

“Of the nineteen studies reviewed by Soana, which used content analysis, one (Bowman and Haire 1975) study showed the existence of a mixed relationship between CSP and CFP, two (Ingram and Frazier 1983; Meznar et al. 1994) studies proved of a negative relationship, 10 studies (Belkaoui 1976; Fry and Hock 1976; Bowman 1978; Ingram 1978; Preston 1978; Anderson and Frankle 1980; Freedman and Stagliano 1991; Blacconiere and Patten 1994; Blacconiere and Northcut 1997; Verschoor 1998) showed a positive relationship and six (Abbott and Monsen 1979; Jaggi and Freedman 1982; Freedman and Jaggi 1986; Cowen et al. 1987; Patten 1990; Patten 1991) studies found no relationship between the two variables. To these analyses, could be added the results of Holman et al. (1990), who established the absence of a statistically significant link between social performance and corporate risk”. Soana M (2011)

The CFP variable is taken as dependent variable and has been measured by using performance measures based on accounting aspects and performance measures based on Market. Accounting based methods include ROA - Return on Assets ratio, ROE - return on equity and ROS – Return on Sales. The market related performance measures include – PER -Price earnings ratio, EPS- Earnings per Share.

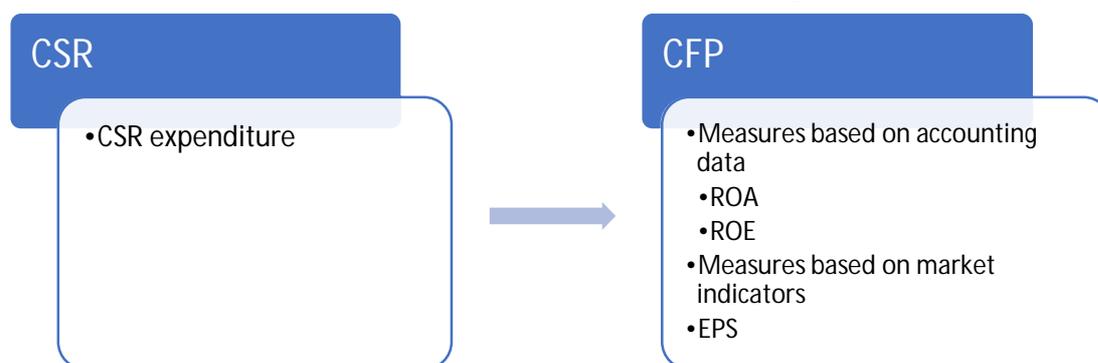
Table showing the variables used in the literature for analysing the impact of Corporate Social responsibility and Financial Performance

Variables
Performance measures based on Accounting ratios

ROA	Return on Assets	Usman, A. B. & Amran, N. A. B. (2015), Chen, H. & Wang, X. (2011), Dinsmore, M. A. (2014), Choi J. Kwak, Y. & Choe, C. (2010), Asanai Thuravatikul et al (2017), Kabir R., & Thai H. M. (2017), Simionescu, L. N., & Gherghina, S. C. (2014). Soana, M. (2011), Mangantar, M. (2019)
ROE	Return on Equity	Saleh, M., Zulkifli, N., & Muhamad, R. (2011)., Choi, J., Kwak, Y., & Choe, C. (2010), Asanai Thuravatikul et al (2017), Kabir, R., & Thai, H. M. (2017), Simionescu, L. N. & Gherghina, S. C. (2014), Masum, M et al (2019), Soana, M. (2011)
ROS	Return on Sales.	Saleh, M., Zulkifli, N., & Muhamad, R. (2011), Chen, H., & Wang, X. (2011), Simionescu, L. N. & Gherghina, S. C. (2014).
Performance measures based on market indicators		
PER	Price Earnings Ratio	Simionescu, L. N. & Gherghina, S. C. (2014)
EPS	Earnings per Share	Simionescu, L. N., &Gherghina, S. C. (2014), Saxena, M., & Kohli, A. S. (2012)
CSR Measurements		
CSRS	CSR Scores	Content Analysis (Studies mentioned above)
CSRE	CSR expenditure	Geetika & Akanksha Shukla. (2017)

Source: Self Compiled based on prior literature

This Study uses CSR Expenditure as a measure for CSR and ROE, ROA and EPS has been used as a measure for Financial Performance. The theoretical model can be depicted in the form of the following diagram



Research Methodology

The literature review suggests that the Corporate Social Responsibility in terms of CSR expense and the Financial Performance of banking companies with special reference to India is not much researched and the linkage between the two has not been conclusively established. Hence the researchers have made an attempt to study the linkage between CSR and the financial performance of the top 10 private banks listed as per BSE market capitalisation as per data collected on 13th Sep 2019 and the sampling method employed here is the convenient sampling technique as data has been conveniently collected choosing top 10 banks listed in BSE. Secondary published data has been collected from the audited Annual Reports of the banks and the Bank Responsibility Reports from the bank's official websites for the period of 2014-19.

The intention of this study is to examine the correlation amongst Corporate Social Responsibility and Banks' Financial Performance among the top 10 private banks in India. On the basis of the above objectives, the following research questions have been framed.

- Does Corporate Social Responsibility expenditure have an influence on the financial performance?
 - H0: Corporate Social Responsibility expenditure and Financial Performance are independent of each other.
 - H1: Corporate Social Responsibility expenditure and Financial Performance are not independent of one another.

For the above hypothesis, the researcher used Correlation analysis to depict the association between the two variables.

The sub hypothesis formulated for retaining or rejecting the Null Hypothesis: H0 are

H0a: There exist no association among CSR expenditure and Return on Equity (ROE)

H0b: There exist no association amongst CSR expenditure and Return on Assets (ROA)

H0c: There exist no association amongst CSR expenditure and Earnings Per Share (EPS)

The tool used for the study is Correlation Analysis and same has been executed using IBM SPSS Statistics 20. The significance level used for the tests is 5% which is accepted universally in all social science researches and as a result the confidence level for retaining or rejecting the null hypothesis has been taken at 95% as a result attempt has been made to minimise the Type II error that may creep into the research.

Analysis & Discussion

Table No 1: Relationship amongst Corporate Social responsibility expenditure with Return on Asset (ROA)

Banks	p values	Pearson's Correlation
HDFC Bank	0.354	-0.534
Kotak Mahindra Bank	0.982	-0.014
ICICI	0.315	0.570
Axis Bank	0.456	-0.442
IndusInd Bank	0.022	-0.930
Bandhan Bank	0.365	0.523

IDFC Bank	0.814	-0.147
Yes Bank	0.311	-0.575
Federal Bank	0.278	-0.606
RBL bank	0.003	0.980

Source: Self Compiled from IBM SPSS Statistics 20 output

From the above table it can be found that the p values for the Correlation analysis is greater than the 0.05 (significance level) in respect of 8 out of 10 banks listed above, thus retaining the null hypothesis H0a and concluding that there is no linkage between the expense relating to Social Responsibility of Corporates' and the accounting measure of Financial performance namely the Return on Asset in respect of 8 banks out of 10 banks listed above (Nizamuddin, M. (2018)). However, in respect of IndusInd Bank and RBL bank, the p values are lesser than the significance value 0.05 and hence establishing a linkage between expenditure regarding Social Responsibility of corporates and Financial Performance. With regards to IndusInd Bank, it could be stated that there is high degree of negative association between CSR expenditure and Financial Performance as measured by Return on Assets and with respect to RBL Bank, there is high degree of positive correlation between the two variables.

Table No: 2-Relationship of Corporate Social responsibility expenditure with Return on Equity (ROE)

Banks	p values	Pearson's Correlation
HDFC Bank	0.073	-0.843
Kotak Mahindra Bank	0.915	-0.067
ICICI	0.230	0.656
Axis Bank	0.492	-0.411
IndusInd Bank	0.018	-0.939
Bandhan Bank	0.826	-0.174
IDFC Bank	0.497	-0.503
Yes Bank	0.283	-0.602
Federal Bank	0.395	-0.496
RBL bank	0.003	0.983

Source: Self Compiled from IBM SPSS Statistics 20 output

Another measure of Financial performance from accounting measure is Return on Equity. it can be found that the p values for the above Correlation analysis is higher than the 0.05 - significance level in respect of 8 out of 10 banks listed above, thus retaining the null hypothesis H0b. It can be concluded that there is no association amongst the Corporate Social Responsibility expenditure and the accounting measure of Financial performance namely the Return on Equity in respect of 8 banks out of 10 banks listed above which accounts for 80% of the banks studied. However in respect of IndusInd Bank and RBL Bank, there is an association between the variables as proven in study conducted by Kabir R., & Thai H. M. (2017)

Table No 3-Relationship of Corporate Social responsibility expenditure with Market indicator - Earnings Per Share (EPS)

Banks	p values	Pearson's Correlation
HDFC Bank	0.002	0.986
Kotak Mahindra Bank	0.018	0.939
ICICI	0.119	0.780
Axis Bank	0.690	-0.246
IndusInD Bank	0.504	0.401
Bandhan Bank	0.048	0.882
IDFC Bank	0.187	0.701
Yes Bank	0.063	-0.851
Federal Bank	0.933	0.053
RBL bank	0.003	0.980

Source: Self Compiled from IBM SPSS Statistics 20 output

The third Hypothesis H0c was to check the association amongst the Corporate Social responsibility expenditure and the market-based measure of Financial Performance namely the Earnings Per Share (EPS). From the above values it can be inferred that the p values of 6 out of 10 banks is more than the 0.05, significance value selected for the study and hence the Null hypothesis H0c is retained and it could be concluded that the variables Corporate Social responsibility and market-based indicator Earnings Per Share are not associated with one another, which even the previous studies support. This accounts for 60% of the banks under study. However, it can be stated from the above analysis that relationship between Corporate Social Responsibility and the Earnings Per Share still exists in respect of 4 banks namely HDFC Bank Ltd, Kotak Mahindra Bank, Bandhan Bank and RBL Bank. Also, all the four banks show a greater degree of positive correlation between the two variables.

Conclusion

Banks have been contributing towards the society through many avenues like rural development, promotion of education, healthcare and hygiene, financial literacy and inclusion, women empowerment and others. The aim of this paper is to analyse the association between CSR in relation to the CSR expense and the Financial performance in relation to Return On Equity, Return On Asset and Earnings Per Share. The CSR activities, expenditure and reporting has been increasing over the years. Previous literatures revealed divergent association findings. The results of the previous studies showed mixed relationships ranging from positive, negative, no relation and mixed relations. Consistent with previous literature, it is found that there is no linkage amongst the Corporate Social Responsibility expenditure and the accounting measure of Financial performance namely the Return on Equity and Return on Asset in 80% of the banks in the study and Earnings per Share in 60% of the banks. (Manisha Saxena & A S Kohli 2017)

Limitations & Scope for Future Research

This study is based only on 10 listed banks which are larger and actively participate in BSE and thus the results cannot be generalised because it lacks the smaller banks. The researcher has restricted only to ROE and ROA as accounting measures of Financial Performance and only EPS as the measure from market point of view. However, the literature suggests other variables like ROS, Net Profit, Price Earnings ratio, Tobin's Q and value-added measures which have not been included in the study. There is also a scope for comparative study among different sectors in the country.

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