# Impact of CSR on Financial Performance: A Study on Banking Companies in India

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**Abstract**

CSR and financial performance has been studied by researches using different approaches. However, the conclusion remains elusive as there are studies projecting positive relationships as well as negative relationships. Therefore, this research is related to examine the effect of CSR contribution on the financial performance of selected banking companies in India using secondary data extending from 2014=15 to 2017-18. The study considers four financial performance measures, including Net Profit Margin, Return on Equity, Return on Total Assets, in addition to Return on Investment as dependent variables, while CSR contribution as control variable. To study the objectives and investigate the hypothesis different tools like Correlation analysis and Regression analysis have been employed.

**Key words:** CSR contribution, Financial Performance, Profitability Ratios, Banking Companies, Correlation, Regression

## Introduction

The concept Corporate Social Responsibility (CSR) is perhaps one of the most used and illusive concept in the management domain. This is partly because of the complex notions attached to the concept and partly due to ever expanding scope of its operations. In simple terms, it is a responsibility of corporate sector towards the society and the environment that expects the corporate to be accountable for its activities towards the society and sustainability. Notwithstanding the debate of Friedman vs. Freeman (Stockholder vs. stakeholder theorists), it has become a legal prescription in many countries. Genesis of CSR reveals that it has traversed through phases of philanthropy (Industrialist Andrew Carnegie, business magnate John D. Rockefeller etc.), ethics (social contract, environmental protections), strategy (brand promotion, business reputation) and legal prescriptions (Amendment and promulgation of legislations). In India, perhaps the social responsibility aspect is culturally imbibed from the days of ancient civilization. With passage of the new Companies Act, 2013, now it is mandatory for companies (net worth of Rs 500 crore or a turnover of Rs 1,000 crore or net profit of Rs 5 crore)to spend on CSR. The CSR activities needs to be carried out in the areas like poverty eradication, preventive health care, sanitation, education women empowerment, child development, environmental sustainability, rural development, slum area development, sports, disasters, etc. as mentioned in Schedule VII of the 2013 Act. The robust banking sector of India has (private as well as public) reported involvement in most of the above mentioned CSR activities. It is apt to provide a brief description about the banking sector of India.

The Indian banking system consists of 8 public sector banks, 22 private sector banks, 46 foreign banks, 53 regional rural banks, 1542 urban cooperative banks and 94384 rural cooperative banks as of September 2019. Reserve Bank of India (RBI), the central bank of India, is sufficiently capitalising and regulatingthe banking sector. As a result, the banking sector in India is thriving without much problems. Credit, market and liquidity risk studies have commended the resilient nature of Indian banking sector that have withstood the global downturn in the first decade of 21st century. The measures initiated in the recent past by RBI may go a long way in helping the restructuring of the domestic banking industry. Recent roll out of innovative banking models like payment banks and small finance banks may further strengthen the banking sector in India. The digital payments system in India that has evolved in the last decade and with India's Immediate Payment Service (IMPS), being the only system at level 5, is the Faster Payments Innovation Index (FPII). The growth of the industry is evident from the factors like growth of deposits at a CAGR of 11.11 per cent during FY07–19. Deposits as of Feb 2020, isRs 132.35 lakh crore (US$ 1,893.77 billion).In order to consolidate the sector further, Government has now reduced the number of Public Sector Banks to eight only. As the banking sector is a major sector in Indian economy and also a growing sector, this study envisioned to find out impact of CSR activities on the financial performance of this industry.

## Overview of the literature

There is plenty of literature available on corporate social responsibilities and banking sector in India. Mostly the studies are descriptive in nature focusing on the various activities carried out by the Indian banks (Kaur S., 2016; Dhingra D. and Mittal R., 2014).However, limited studies are carried out on the impact of CSR on financial performance. There exists few qualitative and quantitive studies on the said topic. The qualitative studies approached the topic from theoretical perspective. The quantitive studies approached the topic from various independent and dependent variables perspective and establish correlation among them. The empirical studies carried out by researchers provide mixed result about the relationship between CSR and financial performance.

One strand of studies concludes that there is strong positive relationship between CSR and financial performance of a company (Oeyono, Samy& Bampton, 2011;Bafna 2017;Abilasha. and Tyagi M. 2019). On the similar line Bird, et.al. (2007) concluded that significant investments on awide spectrum of CSR activities are rewarded in the market place. To Herremans,et. al. (1993)Good CSR reputation and higher reportedprofitability are strongly related.Yadav R. (2016) in his study in India found out that CSR has a positive impact on financial performance of private sector banks. Siddiq (2014) in his study also revealed a positive impact of CSR on financial performance.

There are studies which deny any significant relationship between CSR and financial performance (Aupperle, et. al. 1985; Zeribi-Benslimane, O. and Boussoura, E., 2007). Guidry & Patten (2010) examined the announcement of a sustainability report and its impact on financial performance measuring the stock price. They could not find any significant impact of CSR on financial performance of companies. However, there are few studies which revealed negative impact of CSR on financial performance of a company (Servaes & Tamayo, 2013). Literature review reveals that the different studies have produced conflicting results with regard to the relationship between CSR and financial performance. In order to ascertain the relationship, a modest attempt is made here to study the relationship in auto sector in India.

It is observed that the relationship between CSR activities and financial performance has been measured in various ways by the researchers using different variables. Pava & Krausz (1996) categorized financial variables into accounting-based measures, market-based measures, measures of risk, and other firmspecificcharacteristics. However, researchers mostly used accounting-based and market-based measures.

Literature review reveals that the different studies have produced conflicting results with regard to the relationship between CSR and financial performance. In order to ascertain the relationship, a modest attempt is made here to study the relationship in banking sector of India.

**Objectives of the study**

The objectives of the study are

- To study the CSR contribution of banking companies in India from 2014-15 to 2018-19.
- To measure the effect of CSR contribution on financial performance of banking companies in India from 2014-15 to 2018-19.

**Hypothesis of the study**

Keeping the objectives in view, the hypothesis framed for the study is

Ho: There is no significant association between CSR contribution and financial performanceBanking Companies in India.

**Methodology of the study**

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 2014-15 to 2017-18. The sampled banking companies considered for the study areAxis Bank, Yes Bank, Kotak Mahindra Bank, ICICI Bank, HDFC Bank, Indusind 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 bankingcompanies over a period of four years from 2014 -15 to 2017-18. The stated data have been retrieved from published financial statements as well as financial reports of sample banking companies from the websites from 2014-15 to 2017-18.

The study considers four financial efficiency measures, comprising Net Profit Margin (NPM), Return on Equity (ROE), Return on Total Assets (ROTA) and Return on Investment (ROI) as dependent variables, while CSR contribution as control variable.

The association of the planned study have been examined by means of the Statistical Package for Social Sciences (SPSS) in addition to MS excel 2010. 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 2014-15 to 2018-19**

Table-1 displays the CSR contributions of sample companies consider for the study period from 2014-15 to 2017. 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 2014-15 to 2017-18 which is the result of New Companies Act, 2013. However ICICI Bank has contributed maximum towards CSR activities of 1.82 average percentages from the profit. Whereas Kotak Mahindra Bank has contributed minimum towards CSR activities of 0.60 average percentages from the profit for the year 2014-15 to 2017-18.

**Table I. CSR contribution of selected banking companies in India from 2014-15 to 2018-19**

(Rs. In Crores)

| Sl. No. | Companies | Year | CSR CONTRIBUTION | | | Percentage Average |
|---|---|---|---|---|---|---|
| | | | CSR Spent | Average Profit | Percentage Contribution | |
| 1 | Axis Bank | 2014-15 | 123.22 | 6,688.67 | 1.84 | 1.58 |
| | | 2015-16 | 137.41 | 8,151.34 | 1.69 | |
| | | 2016-17 | 135.39 | 9,821.75 | 1.38 | |
| | | 2017-18 | 133.77 | 9,341.14 | 1.43 | |
| 2 | Yes Bank | 2014-15 | 29.52 | 2,387.00 | 1.24 | 1.30 |
| | | 2015-16 | 41.66 | 3,000.86 | 1.39 | |
| | | 2016-17 | 41.66 | 3,000.86 | 1.39 | |
| | | 2017-18 | 45.21 | 3,861.08 | 1.17 | |
| 3 | Kotak Mahindra Bank | 2014-15 | 11.98 | 1,959.79 | 0.61 | 0.66 |
| | | 2015-16 | 16.41 | 2,366.37 | 0.69 | |
| | | 2016-17 | 17.33 | 2,746.23 | 0.63 | |
| | | 2017-18 | 26.4 | 3,698.45 | 0.71 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 4 | ICICI Bank | 2014-15 | 155.54 | 8,578.96 | 1.81 | 1.82 |
| | | 2015-16 | 172.00 | 10,600.00 | 1.62 | |
| | | 2016-17 | 182.36 | 9,986.39 | 1.83 | |
| | | 2017-18 | 170.37 | 8,510.12 | 2.00 | |
| 5 | HDFC Bank | 2014-15 | 118.55 | 9,856.33 | 1.20 | 1.57 |
| | | 2015-16 | 127.28 | 12,400.00 | 1.03 | |
| | | 2016-17 | 305.42 | 15,199.60 | 2.01 | |
| | | 2017-18 | 374.54 | 18,246.45 | 2.05 | |
| 6 | Indusind Bank. | 2014-15 | 17.54 | 1,632.45 | 1.07 | 1.04 |
| | | 2015-16 | 27.32 | 2,137.65 | 1.28 | |
| | | 2016-17 | 33.81 | 2,763.58 | 1.22 | |
| | | 2017-18 | 20.47 | 3,508.33 | 0.58 | |
| 7 | Federal Bank | 2014-15 | 12.30 | 1,308.93 | 0.94 | 1.10 |
| | | 2015-16 | 12.30 | 1,308.93 | 0.94 | |
| | | 2016-17 | 15.42 | 1,150.89 | 1.34 | |
| | | 2017-18 | 14.01 | 1,194.22 | 1.17 | |

Source: Annual Reports of the Banks

**Analysis of correlation of CSR spent and financial performance ratio**

Correlation analysis which furnishes the relationship among CSR spent and financial performance ratios of sample banking companies in India from 2014-15 to 2018-19 have explained in Table-II.

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

| *Particulars* | *CSR* | NPM | ROE | ROTA | ROI |
|---|---|---|---|---|---|
| CSR | 1.0000 | | | | |
| NPM | -0.8370 | 1.0000 | | | |
| ROE | -0.9214 | 0.9837 | 1.0000 | | |
| ROTA | 0.8453 | -0.6355 | -0.7205 | 1.0000 | |
| ROI | -0.9293 | 0.8960 | 0.9444 | -0.6021 | 1.0000 |

Table II depicts that the correlation coefficient value of CSR contribution and financial ratios are -0.8370, -0.9214, 0.8453 and -0.9293 for NPM, ROE, ROTA and ROI respectively for the study period from 2018-15 to 2017-18. Thus, CSR contribution of sample banking companies ispositively correlated to ROTA and negatively correlated to NPM, ROE, and ROI.

**Regression analysis net profit margin and CSR contribution**

Table-III shows the regression result considering NPM as dependent variable with CSR contribution as independent variables. The goodness of fit significances of standard linear multiple regressions through NPM as the dependent variable and CSR contribution factors as predictors has provided the model result and model coefficients that is 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 |
| | 0.8370 | 0.7005 | 0.5508 | 7.3960 |
| *Goodness of Fit – ANOVA* | *SS* | *MS* | *F* | *Significance F* |
| | 255.8807 | 255.8807 | 4.6778 | 0.1630 |
| Regression Coefficients | | | | |
| *Particulars* | *Coefficients* | *Standard Error* | *t Stat* | *P-value* |
| Intercept | 159.6190 | 18.0627 | 8.8369 | 0.0126 |
| CSR | -0.0607 | 0.0281 | -2.1628 | 0.1630 |

The R Square 0.7005 designate that there is high deviation of 70.05% in NPM formulated by the CSR contribution involved in the model. The ANOVA result displays that there is a statistically insignificant association as the F value of 4.6778and a P-value >0.10. CSR contribution has a negative coefficient (-0.0607) and P value of 0.1630(more than 10%) indicates that there is a negative and statistically insignificant relationship between NPM and CSR contribution at 10% levels. Therefore, our null hypothesis (there is no significant association between CSR contribution and financial performance) is accepted.

**Regression analysis return on equity and CSR contribution**

Table-IV shows the regression result considering ROE as dependent variable with CSR contribution as independent variables. The goodness of fit significances of standard linear multiple regressions through ROE as the dependent variable and CSR contribution factors as predictors, the model result and model coefficients have shown in table-IV.

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

| | | | | |
|---|---|---|---|---|
| Model Summary | Multiple R | R Square | Adjusted R Square | Standard Error |
| | 0.9214 | 0.8490 | 0.7735 | 6.7655 |
| *Goodness of Fit – ANOVA* | *SS* | *MS* | *F* | *Significance F* |
| | 514.8152 | 514.8152 | 11.2475 | 0.0786 |
| Regression Coefficients | | | | |
| *Particulars* | *Coefficients* | *Standard Error* | *t Stat* | *P-value* |
| Intercept | 145.2043 | 16.5228 | 8.7881 | 0.0127 |
| CSR | -0.0861 | 0.0257 | -3.3537 | 0.0786 |

The R Square 0.8490 designate that there is high deviation of 84.90% in ROE formulated by the CSR contribution involved in the model. The ANOVA result displays that there is a statistically significant association as the F value of 11.2475 and a P-value < 0.10. CSR contribution has a negative coefficient (-0.0861) and P value of 0.0786 (less than 10%) indicates that there is a negative but statistically significant relationship between ROE and

CSR contribution at 10% levels. Therefore our null hypothesis (there is no significant association between CSR contribution and financial performance) is rejected.

**Regression analysis return on total assets and CSR contribution**

Table-V shows the regression result considering ROTA as dependent variable with CSR contribution as independent variables. The goodness of fit significances of standard linear multiple regressions through ROTA as the dependent variable and CSR contribution factors as predictors, the model result and model coefficients have shown in table-V.

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

| Model Summary | Multiple R | R Square | Adjusted R Square | Standard Error |
|---|---|---|---|---|
| | 0.8453 | 0.7145 | 0.5718 | 119.4472 |
| *Goodness of Fit – ANOVA* | *SS* | *MS* | *F* | *Significance F* |
| | 71426.8946 | 71426.8946 | 5.0062 | 0.1547 |
| Regression Coefficients | | | | |
| *Particulars* | *Coefficients* | *Standard Error* | *t Stat* | *P-value* |
| Intercept | 991.6402 | 291.7173 | 3.3993 | 0.0767 |
| CSR | 1.0144 | 0.4534 | 2.2375 | 0.1547 |

The R Square 0.7145 designate that there is high deviation 71.45% in ROTA formulated by the CSR contribution involved in the model. The ANOVA result displays that there is a statistically insignificant association as the F value of 5.0062 and a P-value > 0.10. CSR contribution has a positive coefficient (1.0144) and P value of 0.1547 (more than 10%) indicates that there is a positive but statistically insignificant relationship between ROTA and CSR contribution at 10% levels. Therefore our null hypothesis (there is no significant association between CSR contribution and financial performance) is accepted.

**Regression analysis return on investment and CSR contribution**

Table-VII shows the regression result considering ROI as dependent variable with CSR contribution as independent variables. The goodness of fit significances of standard linear multiple regressions through ROI as the dependent variable and CSR contribution factors as predictors, the model result and model coefficients have shown in table-VII.

**Table VII. Regression results for return on investment as dependent variable**

| Model Summary | Multiple R | R Square | Adjusted R Square | Standard Error |
|---|---|---|---|---|
| | 0.9293 | 0.8637 | 0.7955 | 2.1017 |
| *Goodness of Fit – ANOVA* | *SS* | *MS* | *F* | *Significance F* |
| | 55.9729 | 55.9729 | 12.6715 | 0.0707 |
| Regression Coefficients | | | | |
| *Particulars* | *Coefficients* | *Standard Error* | *t Stat* | *P-value* |
| Intercept | 97.3845 | 5.1329 | 18.9727 | 0.0028 |
| CSR | -0.0284 | 0.0080 | -3.5597 | 0.0707 |

The R Square 0.8637 designate that there is high deviation 86.37% in ROI formulated by the CSR contribution involved in the model. The ANOVA result displays that there is a statistically insignificant association as the F value of 12.6715 and a P-value < 0.10. CSR contribution has a negative coefficient (-0.0284) and P value of 0.0707(less than 10%) indicates that there is a negative but statistically significant relationship between ROI and CSR contribution at 10% levels. Therefore our null hypothesis (there is no significant association between CSR contribution and financial performance) is rejected.

**Conclusion**

This study has to examined the effect of CSR contribution on financial performance of banking companies in India from 2014-15 to 2018-19. The sample banking companies considered for the study are Axis Bank, Yes Bank, Kotak Mahindra Bank, ICICI Bank, HDFC Bank, Indusind Bank and Federal Bank.The study has considered four financial efficiency measures, comprising Net Profit Margin (NPM), Return on Equity (ROE), Return on Total Assets (ROTA), in addition to Return on Investment (ROI) as dependent variables, while CSR contribution as control 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 from study that the CSR contributions of sample banking companies considered for the study that none of the sample companies could able to maintain a recommended 2% of their average net profit towards CSR for the financial year 2014-15 to 2017-18. The correlation analysis reveals that CSR contribution of sample banking companies is positively correlated to ROTAand negatively correlated NPM, ROE, and ROI.From the regression analysis, it is revealed that NPM has negative and statistically insignificant relationship with CSR contribution while ROTA has positive but statistically insignificant relationship with CSR contributionat 10% levels of sample banking companies for the study period. Therefore our null hypothesis (there is no significant association between CSR contribution and financial performance) is accepted in the case of NPM and ROTA. On the other hand, regression analysis suggests that ROE and ROI have negative but statistically significant relationship with CSR contribution at 10% levels of sample bankingcompanies for the study period.Consequently our null hypothesis (there is no significant association between CSR contribution and financial performance) is rejected in the case of ROE and ROI. Thus 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.

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