

The Impact of CSR Spending on the Financial Performance of Indian Banks

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Introduction

The Companies Act 2013 made CSR mandate for the companies having a turnover of 1000 crore or more, or net worth more than 500 crores or more and those companies which has a net profit of five crore or more should contribute two percentage of its net profit towards corporate social responsibility

- According to social enterprise CSR Asia's Asian Sustainability Ranking India is ranked fourth among the Asian countries that are paying importance towards Corporate Social Responsibility.

- The worth of Indian banking industry is Rs.81 trillion.

- Involving in social activities can encourage business to act ethically. By doing CSR activities business can contribute to the society and make some difference

Public image, brand value, reputation etc. can be positively affected by helping the society.

Literature Review

- Indian commercial banks are actively taking part in CSR activities
- The public sector banks are more involved in CSR activities and the foreign banks are least involved
- Banks are performing very well than in the past and they also started contributing to CSR activities
- Poverty eradication, financial inclusion, health and medical care, education, self-employment training, rural area development, financial literacy training etc. are some of the areas where banks are concentrated
- CSR enhances corporate image and hence improve financial performance, which drives companies to engage in CSR

Research Question

How CSR spending is impacting the financial performance of Indian banks?

Hypothesis

- H_1 : There is positive relation between CSR and ROE
- H_2 : There is positive relation between CSR and ROA
- H_3 : There is positive relation between CSR and EPS
- H_4 : There is positive relation between CSR and Price to earnings
- H_5 : There is positive relation between CSR and price to book value

Methodology

Data source

- Annual reports
 - CSR spending, percentage of CSR spending on net profit
- Capitaline database
 - ROA, ROE, P/E, price to book value, EPS

Out of 25 banks 6 banks incurred a loss in the financial year 2015-16. But they have contributed to CSR activities. For these 6 banks the percentage of CSR spending on net profit is taken as negative

Sample Data

BANKS	CSR (in crores)					
	2015-16	% of profit	2014-15	% of profit	2013-14	% of profit
Indian Bank	2.96	0.42	1.18	0.12	2.42	0.21
IndusInd Bank	27.32	1.27	17.53	1.07	12.69	0.9
Jammu and Kashmir Bank	28.48	2.08	13.74	0.92	9.69	0.82
Karnataka Bank Ltd	6.06	1.27	2.04	0.68	1.67	0.53

BANKS	ROE			ROA		
	2015-16	2014-15	2013-14	2015-16	2014-15	2013-14
Indian Bank	5.41	8.25	10.31	0.22	0.25	0.24
IndusInd Bank	16.59	18.98	17.53	0.29	0.34	0.3
Jammu and Kashmir Bank	6.64	8.6	22.34	0.22	0.21	0.2
Karnataka Bank Ltd	11.73	14.02	10.53	0.25	0.28	0.22

Construct

Return on Equity: Return on equity tells the profit created by the company with the money invested by shareholders.

$$ROE = \text{Net Income}/\text{Shareholder's Equity}$$

Return on Asset: The efficiency of management in using its assets to generate earnings can be understood by ROA. It shows the relation between profitability and total assets.

$$ROA = \text{Net Income}/\text{Total Assets}$$

Price to earnings ratio: The relation between company's share price and the earnings per share is P/E ratio.

$$P/E = \text{Market Value per Share}/\text{EPS}$$

Price to Book Value: Comparison of the company's stock value to its book value is Price to Book ratio

$$P/B = \text{Stock Price}/(\text{Total Assets} - \text{Intangible Assets and Liabilities})$$

Earnings per Share: The portion of profit given to each outstanding share is EPS. It is a sign of company's profitability.

$$EPS = \text{Total Earnings Available For Shareholders}/\text{Number of Shares}$$

Results

Dependent variable: ROE

	Coefficient	Std. Error	t-ratio	p-value	
Const	1.3143	2.51756	0.5221	0.6033	
CSR	1.29684	0.093603	13.8547	<0.0001 ***	

Dependent variable: ROA

	Coefficient	Std. Error	t-ratio	p-value	
const	4.53652	1.29379	3.5064	0.0008 ***	
CSR	0.119225	0.0481033	2.4785	0.0156 **	

Dependent variable: EPS

	Coefficient	Std. Error	t-ratio	p-value	
Const	24.416	8.9486	2.7285	0.0080 ***	
CSR	0.172478	0.332248	0.5191	0.6053	

Dependent variable: PE

	Coefficient	Std. Error	t-ratio	p-value	
Const	11.704	2.13031	5.4940	<0.0001 ***	
CSR	-0.0978971	0.0792049	-1.2360	0.2206	

Dependent variable: PB

	Coefficient	Std. Error	t-ratio	p-value	
Const	1.26835	0.343374	3.6938	0.0004 ***	
CSR	-0.00413321	0.0127667	-0.3238	0.7471	

- CSR has an impact on the return on equity (at 5% significance). When CSR increases ROE also increases and vice versa. ROE is positively affected by CSR.
- CSR impacts the return on assets also (at 5% significance). When CSR increases ROA also increases. CSR is positively affecting return on assets.
- When CSR spending increases the EPS also increases. CSR has a positive impact on the earnings per share.
- price to earnings and price to book value has a negative relation with CSR. However they are not significant.
- based on the results, return on equity, return on assets and earnings per share are positively affected by CSR.

Conclusion

There are some banks that do CSR activities even if they doesn't comes under the act.

All the banks are allocating 2% of their net profit towards CSR

most of the banks are not utilizing the full amount allocated towards CSR

There are banks that doesn't disclose their spending on CSR activities.

An important sector such as banking could look at spending and allocating more towards CSR activities