

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

Anjali P

Amrita School of Business  
Amrita Vishwa Vidyapeetham  
Amrita University  
Coimbatore, India  
anjalipmenon06@gmail.com

BalasubramanianP

Amrita School of Business  
Amrita Vishwa Vidyapeetham  
Amrita University  
Coimbatore, India  
bala@amrita.edu

Lakshmi Yermal

Amrita School of Business  
Amrita Vishwa Vidyapeetham  
Amrita University  
Coimbatore, India  
yermal@gmail.com

**Abstract**— The Indian banking industry is playing an important role in the economy. In the past few years it is seen that the banks are showing more interest in Corporate Social Responsibility. According to the EU Commission (2002), integration of environmental and social concerns by the companies in the operation of the business and in their interactions with stakeholders voluntarily is called Corporate Social Responsibility. The main purpose of the study is to identify the impact of CSR spending on the financial performance of banks measured by earnings per share, return on assets, return on equity, price to earnings ratio, and price to book value. The study is focused mainly on 25 banks which includes both public and private sector banks. The methodology used in this study is panel data analysis. The results shows that ROE, ROA and EPS have a positive relation with CSR. CSR has a negative impact on Price to earnings and price to book value.

**Keywords:** CSR, financial performance, Indian banks, panel data analysis

## I. 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 (section 135, Companies Act 2013). In India there are many companies doing CSR activities from their inception. According to social enterprise CSR Asia's Asian Sustainability Ranking (ASR) 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. Through the financial products and services banks can have wider impact on socio-economic condition of the country.

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. Business expects returns for everything that it does. In case of CSR also researchers tried to connect it with the financial performance of the companies. Many studies are conducted to check the relation between corporate social responsibility and

the financial performance of the company. Some of the studies shows a positive relation and some shows negative relation.

## II. CONCEPTUAL MODEL

### A. Literature Review

The word CSR came in to use in the late 1960s and early 1970s. Reference [1] says the business should involve in solving the social problems even if it is not giving any financial benefits. Resources and time are limitations for companies to engage in CSR activities Reference [2]

According to Reference [3] the firm has responsibilities towards the environment in which it operates. The firm can create a good relation with its stakeholders when they involve in social activities.

A large portion of country's GDP growth is contributed by the banks. They are playing an important role in satisfying the needs of growing middle class, giving attention to the rural areas and contributing to the country's infrastructure building Reference [4]. In the year 2007 RBI directed banks to involve social activities in their operation and help the country in sustainable development.

From the study conducted by Reference [5] it is found that the Indian commercial banks are actively taking part in CSR activities. The study also shows that the public sector banks are more involved in CSR activities and the foreign banks are least involved.

According to Reference [6] in their study says that the banks are performing very well than in the past. They also started contributing to CSR activities. All the banks whether it is private, public or foreign banks, have taken corporate social responsibility as their priority. But most of the banks are not disclosing their spending amount on CSR in their reports.

Reference [7] in their paper says that there is an attempt initiated in the banking sector to make sure the socially responsible behavior of banks are in organized manner. 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 according to Reference [8]. Reference [9] says if company's reputation is affected by CSR then there are chances that it will affect the financial performance also.

Reference [10] says CSR planning has been done by globally competitive companies to sustain their competitive advantage. The companies are getting benefits by doing CSR activities and that is one of the reasons for engaging in such activities.

Corporate social responsibility may see as an indicating management skill by the stockholders, bondholders and stakeholders. Being socially responsible adds to a firm's reputation. A socially responsible firm can create an image of the firm's management and this helps the firm to exchange costly explicit claims for less costly implicit charges according to Reference [11].

### B. Hypothesis Development

From the literature reviews it is found that the common measures used for calculating the financial performance are return on equity, return on asset, price to book value, earnings per share, P/E ratio. Hypothesis for this study are:

1. H<sub>1</sub>: There is positive relation between CSR and ROE
2. H<sub>2</sub>: There is positive relation between CSR and ROA
3. H<sub>3</sub>: There is positive relation between CSR and EPS
4. H<sub>4</sub>: There is positive relation between CSR and Price to earnings
5. H<sub>5</sub>: There is positive relation between CSR and price to book value

#### Return on Equity

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

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

#### 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.

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

#### Price to earnings ratio

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

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

#### Price to Book Value

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

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

#### Earnings per Share

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

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

## III. METHODOLOGY

The study is based on secondary data of 25 banks for three years starting from 2013-14 to 2015-16.

### A. Data source

The data for this study is collected from the annual reports of the banks and from Capitaline database. The CSR spending, percentage of CSR spending on net profit, ROA, ROE, P/E, price to book value, EPS of 25 banks from the year 2013-14 to 2015-16 are collected. CSR spending and the percentage of CSR spending on the net profit is collected from the respective bank's annual report. The other variables are taken from the Capitaline database. 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.

### B. Sample Data

Table 1

| 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        |

The above table shows the sample data of CSR spending and percentage of CSR spending on the net profit of each bank from the year 2013-14 to 2015-16.

Table 2

| 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    |

The above table shows the sample data of the ROE and ROA of the banks for three years starting from 2013-14 to 2015-16.

Since the nature of the data is panel, the panel data analysis was used. Fixed effects and Random effects model

were performed on the data and Hausman test was used to find the better fitting model. After performing the Hausman test, the Random effects was shown to have a better fit on the data. The results are summarized below.

#### IV. RESULTS AND DISCUSSIONS

The results are listed below in the order of the hypothesis

Table 3.

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 | *** |

The results shows that the 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.

Table 4.

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  | **  |

CSR impacts the return on assets also (at 5% significance). When CSR increases ROA also increases. CSR is positively affecting return on assets.

Table 5.

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  |     |

From the results one more variable has a positive impact. When CSR spending increases the EPS also increases. CSR has a positive impact on the earnings per share.

Table 6.

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  |     |

Table 7.

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  |     |

The results shows that price to earnings and price to book value has a negative relation with CSR. However they are not significant.

Hypothesis 1, 2 and 3 were supported by the analysis. However hypothesis 4 and 5 were not supported and were also not statistically significant. So based on the results, return on equity, return on assets and earnings per share are positively affected by CSR.

#### V. CONCLUSION

All the banks which comes under the Companies Act 2013 are doing CSR activities. There are some banks that do CSR activities even if they doesn't comes under the act. From the annual reports it is found that all the banks are allocating 2% of their net profit towards CSR. But 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.

This paper examined the impact of CSR on return on equity, return on asset, price to book value, earnings per share, P/E ratio. By using panel data analysis and generating a random effects model, it was shown that not all of them were influenced by CSR. Only ROA, ROE and EPS were influenced which shows that the companies' key financials are will be affected if there is a change in CSR spending. However P/E and price to book ratios were not significant in the results which should be investigated further. An important sector such as banking could look at spending and allocating more towards CSR activities while future research can also examine the influence of CSR spending in other important sectors of the economy.

#### REFERENCES

- [1] Peter Arlow and Martin J. Gannon (1982). Social Responsiveness, Corporate Structure, and Economic Performance. *The Academy of Management Review*, Vol. 7, No. 2 (Apr., 1982), pp. 235-241
- [2] Zhi Tang, Clyde Eirikur Hull and Sandra Rothenberg (2012). How Corporate Social Responsibility Engagement Strategy Moderates the CSR–Financial Performance relationship. *Journal of Management Studies* - November 2012
- [3] Deepika Dhingra1 and Rama Mittal (2014). CSR Practices in Indian Banking Sector. *Global Journal of Finance and Management*. ISSN 0975-6477 Volume 6, Number 9 (2014), pp. 853-862
- [4] Sagar R. Dave, Rajesh Bhatt (2008). Incorporating Intangible Aspects In Performance Evaluation Of Indian Banks.
- [5] Eliza Sharma, Mukta Mani (2013). Corporate Social Responsibility: An Analysis of Indian Commercial Banks. *AIMA Journal of Management & Research*, February 2013, Volume 7, Issue 1/4, ISSN 0974 – 497
- [6] Namrata Singh, Rajlaxmi Srivastava, Rajni Rastogi (2013). CSR practices & CSR reporting in Indian Banking Sector. *International Journal of Scientific and Research Publications*, Volume 3, Issue 12, December 2013
- [7] Deepika Dhingra1 and Rama Mittal (2014). CSR Practices in Indian Banking Sector. *Global Journal of Finance and Management*. ISSN 0975-6477 Volume 6, Number 9 (2014), pp. 853-862.
- [8] George Balabanis, Hugh C. Phillips and Jonathan LyallBrown (1998). Corporate social responsibility and economic performance in the top British companies: are they linked?. *European Business Review* Volume 98 · Number 1 · 1998 · pp. 25–44.
- [9] Nigel Sarbutts (2003). Can SMEs “do” CSR? A practitioner’snview of the ways small- and medium-sized enterprises are able to manage reputation through corporate social responsibility. *Journal of Communication Management*, ISSN: 1363-254.

- [10] M. Shoukat Malik, Muhammad Nadeem (2014), Impact of corporate social responsibility on the financial performance of banks in Pakistan. *International Letters of Social and Humanistic Sciences ISSN: 2300-2697, Vol. 21, pp 9-19.*
- [11] Jean B. McGuire, Alison Sundgren and Thomas Schneeweis (1988), Corporate Social Responsibility and Firm Financial Performance. *Academy of Management Journal 1988, Vol. 31, No. 4, 854-872.*