IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Impact of CSR on Financial Performance of Commercial Banks

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Abstract

Commercial banks make a significant contribution to the Indian economy. Indian economic development in general and financial institutions, in particular, have made tremendous changes in the recent past. The Government of India and RBI insisted banks undertake Corporate Social Responsibility (CSR) and Corporate Governance practices for sustainable development. CSR is the self-governance mandatory practice followed by certain commercial banks in the corporate world and playing an outstanding role to bring out the relationship between banking sectors and society.

The key objective of the present study is to analyze the impact of CSR expenses on the financial performance of leading commercial bank SBI in India. Further, the study explores the impact of CSR on financial performance measures like Net profit, ROA, ROE, and EPS. To assess the impact of CSR on the financial performance of commercial banks correlation and regression statistical tools have been used. The study reveals that the CSR expenditure and financial performance of commercial banks are correlated but have no positive impact on their financial performance.

Keywords: CSR, Commercial banks, Financial performance, Return on Equity (ROE), Return on Assets (ROA) and Earning per Share (EPS)

I Introduction

CSR is a developing concept in India. India is the first country in the world, which introduced mandatory CSR requirements as per the Companies Act 2013. The Act mandates the companies in India to spend funds on the social and environmental welfare of the people to achieve sustainable development. The Act is changing the trends in CSR practices from time to time. The companies eligible under the amendment Companies Act 2017, required to spend 2% of their average net profit as CSR expenses towards society. This applies to all organizations including public sector enterprises, which have at least a turnover of Rs.1,000 crore or a net profit of 5 crores or a net worth of Rs.500 crore mandatory to disclose in the annual report in the form of Corporate Social Responsibility Report.

II Overview of CSR

The term responsibility denotes obligation. Corporate Social Responsibility refers to the voluntary and statutory obligation of business towards society. CSR is a strategic initiative that adds value and boosts morale for the betterment of society and the environment. The task of CSR is to build the relationship between organizations and society. Organizations have set standards for ethical behavior in the form of CSR practices for their peers, competition, and industry for sustainability and community welfare.

Marrwijk (2003) defines “CSR is the ultimate solution which resolves degradation in the environment, poverty gap on the international level, and social exclusion. To achieve competitive advantage all organizations try to represent their business does not stand for profits, but they add some value to society with their activities”. According to the European Commission defines the CSR is responsible for its impact on society. World Business Council for Sustainable Development defines “CSR is continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. In the words of Carroll Buchholtz, (2000:35) CSR is defined as “The social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that the society has of the organization at a given point of time”.

The banking sector has shown significant growth during a few years. Despite making significant improvements in financial viability, profitability, and competitiveness, there are some concerns that banks have required to ensure socially responsible behavior in a more organized manner. RBI (2011) insisted banks pay special attention to social and environmental welfare aspects in their operations to achieve sustainable development.

CSR has become a vital part of banking operations. The performance of banking should be judged beyond the financial parameters. Commercial banks are required to examine not only financial performance but also to examine CSR performance. In light of this scenario, the present study is focused on the impact of CSR on the financial performance of the State Bank of India (SBI).

III Need for the Study

From the literature review, it has been found that there is a positive relationship between CSR and Financial performance. CSR is changing concept and the bank’s contribution to CSR is relatively less. It has been observed that most of the public sector banks do not follow CSR practices as per the companies act and their investment towards CSR is negligible. SBI is a leading bank in India, has a key role in the financing infrastructure sector, and promotes financial inclusion. But it has faced challenges over the last few years. An issue like CSR has become the most important challenge to make a measurable impact on the lives of economically, physically, and socially challenged communities of the country. In light of this scenario, the examination of CSR practices followed by the bank and its impact on financial performance indicators has become essential.

IV Review of Literature

Ramdeep Mann (2015) in his study CSR and financial performance of banks portrays that except few banks in the public sector banks others do not follow CSR practices as compared to private banks. The study found a negative relationship between CSR variables and ROA and ROE. Bushra Khan (2017) conducted a study to highlight the CSR impact on the financial performance of Islamic and Conventional banks using Regression and Robust analysis and found a positive correlation between independent variable CSR and Dependent variables like ROA and EPS. Hence, the study concluded that there is a positive relationship between CSR and Financial performance. Sundas Memon (2019) tried to examine the empirical relations between CSR and financial performance of two Pakistani banks covering the period from 2004 to 2017 by using descriptive, correlation, and multiple regression analysis and found that the financial performance of sample banks measured by ROA, EPS and PAT had a significant and positive impact on CSR. Rajnish Yadav (2016) carried out research intending to analyze the impact of CSR on the financial performance of selected public and private banks. The research revealed that in public sector banks CSR impact on profit is insignificant but in private sector banks, the impact of CSR on profit is positively significant. Shafat Maqbool (2017) concluded that integration of CSR with business operations facilitates social and financial targets easier and resulting in better financial performance. Sarwar Uddin Ahmed et al. (2012) concluded that CSR and financial performance of banking sectors linkage are unjustified.

V Objectives of the Study

1. To evaluate the impact of CSR on Net profit.
2. To evaluate the impact of CSR on ROA.
3. To evaluate the impact of CSR on EPS.
4. To evaluate the impact of CSR on ROE.

VI Hypothesis

H_1: There is a positive impact of CSR on Net Profit.

H_2: There is a positive impact of CSR on ROA.

H_3: There is a positive impact of CSR on EPS

H_4: There is a positive impact of CSR on ROE

VII Research Methodology

The study is based on secondary data that has been collected from various secondary sources. The study design was measured through the dependent variable and independent variable. Four dependent variables of financial performance are chosen i.e. Net Profit, ROA, EPS, and ROE which are depending on the independent variable i.e. CSR expenditure of SBI.

CSR expenditure was calculated from the Annual report and Sustainability reports of SBI from 2015 to 2020. The data has been analyzed with the help of SPSS version 17.0. T-test, Co-relation, and Regression statistical tools were applied to achieve the objectives. R represents a correlation between the variables. R^2 is the measure was used to test the significance of the regression model in explaining the relationship between the financial performance of the bank and CSR. Generally, R^2 value of more than 0.7 is considered significant. The P-value indicates to predict whether a relationship is statistically significant. A P-value of less than .05 indicates a regression model is significant.

The regression model is represented as follows:

Y= Ao + Ai Xi

Y= Dependent Variable (Net Profit, ROA, EPS and ROE)

Ao = intercept term

Ai= Slope

Xi= Independent Variable (CSR)

The confidence level for the present study has been considered 95%.

VII Analysis and Interpretation

A. Impact of CSR on Net Profit

Table 1: CSR Expenditure and Net Profit of SBI

(Amount in crores)

Year	CSR Expenditure	Net Profit
2015	115.30	13,102
2016	143.92	9,951
2017	109.82	10,484
2018	15.36	-6,548
2019	6.24	862
2020	27.47	14,488

Source: SBI Annual reports

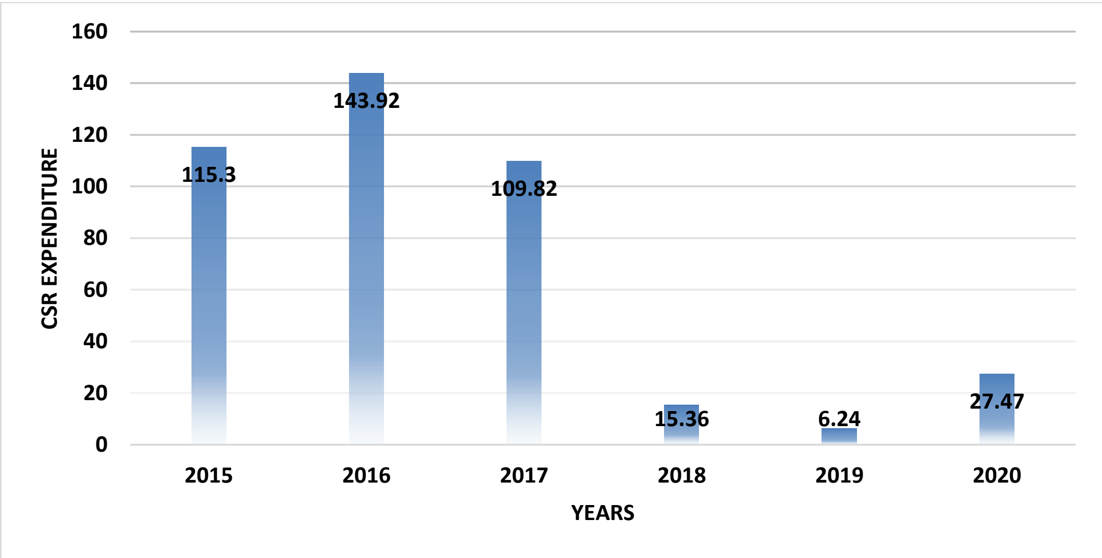

Figure 1shows CSR expenses spent during the year from 2015 to 2020

Table 1.1:Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.589[a]	.347	.184	7396.815	.347	2.129	1	4	.218

Predictors: (Constant), CSR Expenditure

Table 1.1 represents R and R^2 values. The R-value refers to the simple correlation between Net profit and CSR is 0.589, which indicates a positive correlation. R^2 indicates the amount of variance dependent variable (Net Profit) explained by the independent variable (CSR). The result shows that R^2 34.7%, which is considerably low.

Table: 1.2 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.165E8	1	1.165E8	2.129	.218[a]
	Residual	2.189E8	4	5.471E7		
	Total	3.354E8	5			

a. Predictors: (Constant), CSR Expenditure

b. Dependent Variable: Net Profit

The ANOVA table indicates a significant relationship between the variables. Generally, P-value is less than 0.05 indicates regression is significant. The result indicates that the regression model did not predict the dependent variable significantly.

Table:1.3 Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1444.150	4889.909		.295	.782
	CSR Expenditure	80.539	55.192	.589	1.459	.218

a. Dependent Variable: Net Profit

The above table shows the information to predict Net Profit from CSR and also determine whether CSR contribute statistically to the model.

Regression Equation: Net Profit= 1444.15+80.539(CSR)

Testing Hypothesis and Interpretation: P-value is 0.218, which is greater than 0.05. Therefore, the Null Hypothesis is accepted. The study concluded that the impact of CSR on the net profit of banks is insignificant.

B. Impact of CSR on Return on Asset (ROA)

Table 2: CSR Expenditure and ROA of SBI

Year	CSR Expenditure (Crores)	ROA
2015	115.30	0.63
2016	143.92	0.42
2017	109.82	0.388
2018	15.36	-0.18
2019	6.24	0.02
2020	27.47	0.36

Source: SBI Annual reports

Table:2.1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	df1	df2	Sig. F Change
1	.775[a]	.600	.500	.20948	.600	6.006	1	4	.070

a. Predictors: (Constant), CSR expenditure

Table 2.1 represents R and R^2 values. The simple correlation between ROA and CSR is 0.775, which reveals a positive correlation. The R^2 indicates how much amount of variation in ROA can be explained by CSR expenditure. In this case, R^2 is 60%, which is low.

Table:2.2 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.264	1	.264	6.006	.070[a]
	Residual	.176	4	.044		
	Total	.439	5			

a. Predictors: (Constant), CSR Expenditure

b. Dependent Variable: Return On Asset

The table predicts how well the regression equation fits the data. The result shows that the regression model did not predict the dependent variable (ROA) significantly because the p-value is .070.

Table:2.3 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.006	.138		.044	.967
	CSR Expenditure	.004	.002	.775	2.451	.070

a. Dependent Variable: Return On Asset

Linear Regression was calculated to predict the ROA from CSR. A regression equation was found insignificant. $F(1,4)=6.006$, $p=0.070$ with R^2 60%.

Regression Equation: ROA= .006 + .004(CSR)

Testing Hypothesis and Interpretation: P-value is more than .05. Therefore, the Null hypothesis has not been rejected. It was found that there is no positive impact of CSR on ROA.

C. Impact of CSR on Earning Per Share (EPS)

Table 3: CSR Expenditure and EPS of SBI

Year	CSR Expenditure (Crores)	EPS
2015	115.30	17.55
2016	143.92	12.98
2017	109.82	13.43
2018	15.36	-7.62
2019	6.24	0.97
2020	27.47	16.23

Source: SBI Annual reports

Table 3.1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.657[a]	.431	.289	8.44616	.431	3.030	1	4	.157

Predictors: (Constant), CSR

It is evident from the above table that the simple correlation between EPS and CSR is 0.657, which indicates a positive correlation. The result of the regression suggested that the dependent variable EPS explained 43.1% of the variance, which is considerably low.

Table 3.2 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	216.160	1	216.160	3.030	.157[a]
	Residual	285.351	4	71.338		
	Total	501.511	5			

a. Predictors: (Constant), CSR Expenditure

b. Dependent Variable: Earning Per Share

The result indicates that the regression model did not predict the dependent variable i.e. EPS significantly because the p-value is 0.157 is more than 0.05.

Table 3.3 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.279	5.584		.229	.830
	CSR Expenditure	.110	.063	.657	1.741	.157

a. Dependent Variable: Earning Per Share

Linear Regression was calculated to predict the EPS from CSR. A regression equation was found insignificant. Regression Equation:
EPS=1.279+.110(CSR)
F(1,4)=3.030, p=.157
Testing Hypothesis and Interpretation: P-value is .157, which is greater than .05. Therefore, the Null Hypothesis is accepted. From the analysis, it is found that the impact of CSR on EPS is not significant.

D. Impact of CSR on Return on Equity (ROE)

Table 4: CSR Expenditure and ROE of SBI

Year	CSR Expenditure (Crores)	ROE
2015	115.30	10.26
2016	143.92	6.89
2017	109.82	6.69
2018	15.36	-3.37
2019	6.24	0.39
2020	27.47	6.95

Source: SBI Annual reports

Table 4.1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.733[a]	.537	.421	3.85508	.537	4.640	1	4	.098

a. Predictors: (Constant), CSR expenditure

Table 4.2 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	68.961	1	68.961	4.640	.098[a]
	Residual	59.447	4	14.862		
	Total	128.408	5			

a. Predictors: (Constant), CSR Expenditure
b. Dependent Variable: Return On Equity

Table 4.3 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.317	2.549		.124	.907
	CSR Expenditure	.062	.029	.733	2.154	.098

a. Dependent Variable: Return On Equity

Linear Regression was calculated to predict the dependent variable (ROE) based on the independent variable (CSR) and also determine whether CSR contribute statistically significant to the model. A regression was found insignificant with b=.733, t (4) =0.12. p= .098, with an R^2 =.537

Regression equation: ROE=.317+.062(CSR)

Testing Hypothesis and Interpretation: P-value is more than .05. Therefore, the Null hypothesis is accepted. It was found that CSR has no positive impact on the ROE of SBI.

Conclusion

CSR expenditure helps people in society to grow and benefit from this, which in turn creates a positive effect on the wellbeing and development of the country. From the empirical analysis, it can be concluded that SBI's contribution towards CSR has shown a decreasing trend from year to year. It has been observed that among commercial banks, some public sector banks do not comply with the provisions CSR practices and their investment in spending CSR is inconsistent. The results show that the impact of CSR on SBI financial performance indicators such as Net profit, ROA, EPS, and ROE is insignificant. The indicators of financial performance are not comprehensive measures and reflect only a part of the performance of SBI, but collectively SBI has been actively involved in CSR activities and has spent 1% of its profits on CSR activities over the years. Commercial banks must take CSR as a voluntary initiative rather than mandatory legislation and should create awareness among employees on environmental and social risk issues. Banks required to modify their socially responsible behavior through integrating voluntary strategic efforts to uplift the underprivileged sections of the society.

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