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Impact of Corporate Social Responsibility on Financial Performance of Private Sector Bank in India.

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ABSTRACT :

The last ten years have seen a notable increase in the popularity of the concept of corporate social responsibility, or CSR. It was once mainly of interest to academics, but both banking and non-banking firms increasingly embrace it as a strategic business strategy. To achieve sustainable development, CSR entails organisations taking part in voluntary charitable endeavours that benefit all parties involved, including the environment .Remarkably, India was the first country to require businesses that satisfy specific requirements to devote at least 2% of their average net income over the previous three fiscal years to corporate social responsibility initiatives. With both public and private banks participating in corporate social responsibility (CSR) programmes, Indian commercial banks play a significant role in the economic prosperity of the nation. Research continuously indicates that businesses who exhibit social responsibility generally.

Keywords: CSR, Financial performance, CAMEL Model, Panel data regression, Private Banks.

INTRODUCTION:

Intense market competitiveness is common in this fast-paced, capitalist period. Businesses that participate in a variety of commercial endeavours must fulfil the fundamental need to run their operations sustainably and economically. These economic entities periodically adopt different techniques to build or reinforce their reputation among the public for their continued existence. Among these techniques, corporate social responsibility stands out as one that has helped many businesses successfully gain market share and build a devoted clientele. Its beneficial effects on the financial health of companies or organisations are readily apparent. Companies that demonstrate excellence in recognising and meeting their social responsibility obligations to society are considered to have a socially responsible attitude or practise. The Corporate Social Responsibility (CSR) premise.

The concept of corporate social responsibility, or CSR, has evolved from being seen exclusively as a business concern to being a crucial component of corporate strategy. Nowadays, a sizable portion of Fortune global 250 corporations routinely provide CSR statements, and around 10% of S&P 100 companies offer in-depth reports on their CSR initiatives (Kotler and Lee 2004). The majority of the literature currently in publication on corporate social responsibility (CSR) comes from a management perspective and focuses on how businesses can effectively address the needs of external stakeholders, how CSR initiatives affect corporate performance, and why a firm engages in CSR (K. Basu and G. Palazzo 2008). A company's level of corporate social responsibility (CSR) may be used as a gauge of its values and performance.

Conceptual Framework

A conceptual framework is important since it helps one become familiar with the basic variables that are used in this specific research investigation. Its main goal is to clarify the various meanings associated with the terms used in the assessment called "Corporate Social Responsibility and Financial Performance Indicators."

The foundational ideas and practices that guide the private sector banks' operations inside the nation's financial system form the basis of its operating framework in India.

Corporate Social Responsibility & Financial Performance

Because customers and the public expect socially conscious businesses to conduct morally and ethically, these businesses are thought to perform better financially and, as a result, enjoy a better reputation (Memon et al., 2019). An organisation cannot thrive if its relationship with society is negative, regardless of how much it gives to society (Maqbool & Zimmer, 2018). Using CSR helps businesses protect themselves from outside dangers, maximise earnings, take advantage of opportunities, and improve their corporate image (Barnett, 2019). CSR ought to be taken into consideration when evaluating the overall success of an organisation, in addition to financial indicators, given its increasing importance in the banking industry's operations. Bowen also emphasises how crucial it is for businesses to comprehend moral principles.

Differentiation and Competitive Advantage

CSR initiatives can also serve as a means of differentiation and competitive advantage for private sector banks. In a crowded marketplace, banks that proactively address ESG concerns and demonstrate a genuine commitment to societal well-being can set themselves apart from their peers. This distinction may result in more devoted customers, more engaged staff members, and stronger brand equity, ultimately resulting in improved financial performance and market share.

Risk Mitigation and Long-term Sustainability

By integrating CSR into their business strategies, private sector banks can effectively mitigate various risks, both financial and reputational. For instance, banks that adopt responsible lending practices and incorporate Including ESG factors in their investment choices is preferable. Equipped to identify and manage environmental and social risks, such as the impacts of climate change or labour disputes. Furthermore, by fostering transparency and accountability in their operations, banks can build resilience against regulatory and public scrutiny, ensuring their long-term sustainability and viability.

Business per Employee and Profit per Employee Measures of Management Efficiency

As shown by a number of financial ratios, including asset growth, loan growth, and earnings, net operating profit to total income ratio, and net operational expense to asset ratio, management effectiveness is a critical component in determining a bank's profitability. The "Business per employee" ratio, which is computed by dividing the bank's total business by the number of workers, is closely correlated with worker productivity. Higher ratios indicate higher levels of productivity.

On the other hand, profit per Employee, also known as Net Income per Employee (NIPE), measures the profit contribution of individual employees to the business over a specific period. This ratio is commonly used for industry comparisons due to varying industry needs and operations. It is computed by dividing the net profits of the bank by the total number of employees. A higher Profit per Employee ratio generally indicates higher bank profitability. Additionally, the authors applied a logarithmic transformation to both ratios during their calculations.

Earning Capacity: Net Interest Margin (NIM) and Return on Assets (ROA)

The Earning Capacity Ratios of the utilized to evaluate profitability, indicating the viability and future growth of earnings. This instills confidence among stakeholders such as investors, depositors, and customers, leading to increased income and reputation over time. Key indicators used in determining profitability include Return on Assets (ROA) and Net Interest Margin (NIM), both being variables that are dependent on each other.

The purpose of these ratios is to gauge the profitability of a bank by understanding the level of profit generated from its assets, showcasing the bank's ability to efficiently utilize its economic resources. A higher ratio suggests a bank's efficiency in earning profits from its assets. NIM, a crucial profitability ratio, illustrates the difference between a bank's interest income and expenses in relation to the assets generating interest. A positive NIM reflects profitable investments, while a negative NIM indicates inefficient investments. Additionally, NIM is significantly influenced by prevailing interest rates in the economy.

The Liquidity:

Ratio of liquid assets to total assets, or LATA reflects an entity's capability to settle its financial obligations promptly, indicating its liquidity status. A higher liquidity level signifies a bank's readiness to meet unexpected fund demands from depositors, while a shortage in liquidity could have negative impacts on the banks' profitability and financial health (Tatuskar, 2016; Rostami, 2015).

Enhancing Reputation and Stakeholder Trust:

One of the primary ways in which CSR impacts financial performance is by enhancing the reputation and trustworthiness of private sector banks. Through initiatives like community development projects, ethical lending practices, and environmental conservation efforts, banks can showcase their dedication to social responsibility and sustainability. As a result, they can attract and retain customers, investors, and other stakeholders who value ethical business practices, thereby strengthening their market competitiveness and long-term profitability.

Banks in the Private Sector's CSR Initiatives

The main topics of CSR initiatives and the money that private sector banks spent on them from 2014–15 to 2016–17 are covered below.

(a) HDFC BANK

Products and services that prioritise the welfare of the populace, the environment, employees, internal and external stakeholders, and customers with the highest standards of ethical governance are offered by HDFC because they believe in the inclusive growth and development of the society in which they operate. The bank's CSR initiatives are displayed in the table below as a percentage of its average net profit over the previous three years.

HDFC BANK	2019-20	2020-21	2021-22
Major areas of CSR activities	Financial Education and Skill Development Sustainability of the Environment in Health Care Eliminating Poverty development in rural areas	Financial Education and Skill Development Sustainability of the Environment in Health Care Eliminating Poverty development in rural areas	Financial Education and Skill Development Sustainability of the Environment in Health Care Eliminating Poverty development in rural areas
Average net profit (ANP) of last 3 years	INR 9,856.35 cr.	INR 12,385 cr	INR 15,200 cr.
Prescribed Amount	INR 197.13 cr	INR 248 cr.	INR 304 cr
Actual Amount	INR 118.55 cr.	INR 194.81 cr.	INR 305.42 cr.
Total spending on CSR as a percentage of ANP	1.2 %	1.6%	2.0%

(Source - HDFC annual report)

(b) ICICI BANK

Banks provides sustainable banking products to cater the needs of all type of customers. It also comply all environmental rules and regulation stated by the government. From the table below, it can be observed that the major areas of CSR activities are education, rural development, eradication of poverty etc.

ICICI BANK	2019-2020	2020-21	2021-22
Major areas of CSR activities	advancing learning eradicating malnutrition, hunger, and poverty development in rural areas Making sure the environment is sustainable Assistance and well-being	advancing learning eradicating malnutrition, hunger, and poverty development in rural areas Making sure the environment is sustainable Assistance and well-being	advancing learning eradicating malnutrition, hunger, and poverty development in rural areas Making sure the environment is sustainable Assistance and well-being
Average net profit of last 3 years	INR 85.79 billion	INR 106.05 billion	
Prescribed Amount	INR 1.72 billion	INR 2.12 billion	INR 2.00 billion
Actual Amount	INR 1.56 billion	INR 1.72 billion	INR 1.82 billion.
Total spending on CSR as a percentage of ANP	1.8%	1.6%	1.8%

(Source - ICICI annual report)

(c) AXIS BANK

The main goal of the bank's ideology is to use an integrated approach to development to have a significant and quantifiable influence on the lives of the nation’s economically, physically, and socially challenged communities. In acknowledgment of its CSR initiatives and results, the Bank received the CII Sustainability Domain (Corporate Social Responsibility) Excellence Award for the years 2016–17.

AXIS BANK	**2019-20**	**2020-21**	**2021-22**
Major areas of CSR activities	Instruction sustainability of the environment improvement of skills sanitation and cleanliness	Instruction sustainability of the environment improvement of skills sanitation and cleanliness	Instruction sustainability of the environment improvement of skills sanitation and cleanliness
Average net profit of last 3 years	INR 6,688.67 cr.	INR 8,151.34 cr	INR 9,821.75 cr
Prescribed Amount	INR 133.77 cr.	INR 163.03 cr.	INR 196.44 cr.
Actual Amount	INR 123.22 cr	INR 137.41 cr	INR 135.39 cr.
Total spending on CSR as a percentage of ANP	1.84%	1.69%	1.38%

(Source – AXIS BANK annual report)

(d) KOTAK MAHINDRA BANK

Environment, social, and governance (ESG) practises are ingrained in Kotak Mahindra Bank's systems and procedures and are essential to the bank's business operations. Kotak Mahindra Bank has contributed significantly to CSR initiatives across a range of industries. The table displays the bank's areas of emphasis for its CSR initiatives. It is evident that, in actual numbers, the bank's total expenditure on CSR operations has increased over time, however, as a % of PAT, the bank has not been able to maintain its overall CSR expenditure, which is trending downward.

KOTAK MAHINDRA BANK	**2019-20**	**2020-21**	**2021-22**
Major areas of CSR activities	Instruction sustainability of the environment improvement of skills sanitation and cleanliness	Instruction sustainability of the environment improvement of skills sanitation and cleanliness	Instruction sustainability of the environment improvement of skills sanitation and cleanliness
PAT	INR 1,865.98 cr.	INR 2089.78cr.	INR 3,411.50 cr.
Actual Amount	INR 11.94 cr.	INR 16.5 cr.	INR 17.4 cr.
Total spending on CSR as a percentage of PAT	0.64%	0.79%	0.51%

Literature Review

Numerous studies have been carried out to investigate the relationship between financial performance and corporate social responsibility, or CSR. According to several of these research (Barnett and Salomon 2006; Van Dijken, 2007; Galema et al. 2008; Ahamed et al. 2014), there is a positive relationship between these parameters. CSR is showing to be important in boosting organisational financial success in the face of growing obstacles and fierce competition (Kim et al., 2018).

A review of 109 studies using financial performance as the dependent variable and CSR as the independent variable revealed that 54 studies found a positive relationship, 20 came to a mixed conclusion, 28 showed no significant relationship, and the remaining 7 showed a negative relationship. The researchers blamed the controversial results on faulty assessments and insufficient model specifications (Margolis and Walsh, 200). As a result of the implementation of Corporate Social Responsibility (CSR) policies, recent developments show a positive growth trend in organisational profitability (Bénabou and Tirole, 2010; Gillan et al., 2010). Businesses who participate in CSR programmes eventually see an improvement in their business image, according to Dimson et al. (2012). Improved financial performance in terms of return is linked to CSR.

Businesses have a social responsibility to utilize their resources in a way that increases profits within the boundaries of fair competition, without deceit or fraud. Corporate Social Responsibility (CSR) encompasses economic, legal, ethical, and philanthropic aspects. Management should prioritize more than just profit maximization, but also consider the well-being of stakeholders and the environment. Upholding ethical standards is crucial for long-term success, as it fosters positive relationships with all stakeholders.

Financial performance metrics in banks and corporate social responsibility (CSR) are positively correlated (McGuire et al., 1988; Mohammad, 2012). Including CSR initiatives into business plans gives companies a competitive edge and improves financial performance (Smith, 2003). Both increasing and decreasing trends in the link between CSR and Financial Performance demonstrate a direct proportionality. Businesses that place a higher priority on financial performance than CSR find it difficult to maintain their good name, while companies that are going through a financial slump are less likely to support CSR initiatives (Windsor, 2006).

Methods of Research

The data genesis, sample selection, econometrics tools, and model used in the current study are all included in this section. This research utilizes a quantitative research methodology to explore how corporate social responsibility (CSR) impacts the financial performance of private sector banks. The study design is cross-sectional, focusing on data collected at a specific point in time to examine how CSR initiatives and financial outcomes are related concurrently. Data is gathered from primary and secondary sources, including annual reports, financial statements, and CSR disclosures released by private sector banks. Key variables like CSR initiatives and financial performance indicators are assessed using suitable measurement tools. Statistical techniques like regression analysis are employed to investigate the link between CSR and financial performance while considering potential confounding factors. Moreover, sensitivity analysis may be carried out to evaluate the reliability of the results under varying assumptions and parameter values.

Objective of the study

1. To research corporate social responsibility as a concept.
2. Gain insights into the correlation between CSR practices and financial performance among private sector banks in India.
3. Investigate the connection between the financial and social performance of private sector banks in India.

Data Mining and Sampling:

Both the RBI database and the annual reports of different Indian banks provide as the key and trustworthy sources of data for this study. Although there are 46 international, 26 private, and 27 public banks included in this database, the study only looks at a sample of 6 public and 10 private banks. These banks were chosen based on how well they were doing and whether or not their annual reports included information on their CSR spending. Some banks were left off of the final sample list that is shown in Table 1 due to data limitations. The sample is made up of 112 observations from 2015 to 2021, which spans a 7-year period of balanced panel data. Balanced panel datasets have also been used in earlier research to assess profitability.

Variables

In the current study, ten variables were considered in order to evaluate the impact of corporate social responsibility spending on financial performance. Two of these variables—net interest margin and return on assets—are reliant on one another. The capital adequacy ratio, asset quality, liquidity, and management effectiveness are the remaining eight independent factors. Together with the capital adequacy ratio, these bank-specific variables function as control variables. A dummy variable for ownership is also present; 1 denotes private ownership and 0 denotes public ownership. Table 2 lists all of the variables' characteristics, including formulas and abbreviations.

Model and Instruments for Calculating Liquidity and Profitability

The current study examines the relationship between CSR spending and the financial performance of Indian commercial banks using panel data. Panel regression has a double subscript, in contrast to cross-sectional and general time series regression models. The capacity of panel regression to account for unobserved variables that vary over time but not between entities is one of its main advantages. Additionally, by accounting for firm-specific random or fixed effect components, the incorporation of time effects into panel model estimates aids in the management of individual variability. GMM is a dynamic panel model that is employed to investigate endogeneity problems and unseen shocks. As a result, there is no endogeneity issue with this study because all of the variables seem to follow BLUE estimations.

In the current study, panel data estimation is used for multiple reasons. Firstly, panel models remove potential biases associated with homogeneity by taking into account firms as heterogeneous, in contrast to temporal and cross-sectional data sets. The main benefit is that this variability can be handled well. According to Gujrati (2009), the panel data technique presents several advantages such as enhanced dataset diversity, rich information content, decreased multicollinearity, enhanced efficiency, and higher degrees of freedom. The model used in the study consists of n cross-sectional units that are observed at each of the t time intervals; as a result, the dataset has n x t total observations. A panel data framework has been developed by earlier research (Chowdhury and Rasid, 2017; Brooks, 2014; Akhtar et al., 2020). The framework created by the aforementioned scholars is followed by the panel regression model used in the study.

Measurement

Using the right metrics and measuring scales is essential to evaluating the relationship between CSR efforts and financial performance. Indexes like as the Dow Jones Sustainability Index (DJSI) scores, the Global Reporting Initiative (GRI) criteria, or particular CSR metrics that concentrate on environmental, social, and governance (ESG) concerns can be used to assess CSR operations. Conversely, financial performance metrics include measures like net interest margin (NIM), loan-to-deposit ratio (LDR), non-performing loan (NPL) ratios, return on assets (ROA), and return on equity (ROE).

Analytical Techniques

A variety of statistical and econometric methods are used to analyse the connection between CSR and financial performance. Measures of central tendency and dispersion are among the descriptive statistics that are used to provide an overview of the sample's properties. In order to investigate the initial relationship between CSR efforts and financial performance metrics, bivariate analysis techniques like correlation analysis and t-tests can be utilised. The simultaneous effects of several variables on financial performance are then investigated while accounting for potential confounders using multivariate regression analysis.

Sensitivity Analysis

One way to make sure the results are reliable is to perform a sensitivity analysis to see how consistently the findings hold up under different assumptions and parameter values. This study is essential for identifying the primary drivers and unknowns in the relationship between financial performance and corporate social responsibility (CSR), providing insightful information for strategic planning and decision-making.

To summarise, the study approach employed to investigate the impact of corporate social responsibility (CSR) on the financial performance of private sector banks combines' quantitative analysis, data gathering, and simulation techniques. Researchers may create a thorough grasp of the complex relationship between CSR initiatives and financial outcomes in the banking sector by integrating several methodological approaches. This understanding can then be used to inform evidence-based policy and managerial decisions.

Empirical results and Discussion

This study uses panel data regression analysis using bank-specific factors as a control variable to look at the effect of CSR spending on the financial performance of commercial banks in India.

Important new information about the relationship between corporate social responsibility (CSR) and important financial indicators is provided by the empirical study of the effect of CSR on the financial performance of private sector banks. The study's conclusions are presented in this part along with their implications for stakeholders, policymakers, and banks in the private sector.

CSR and Financial Performance Have a Positive Relationship

The empirical findings show that CSR initiatives and financial performance indicators in banks operating in the private sector are positively correlated. In particular, research indicates a robust correlation between profitability metrics like return on equity (ROE) and return on assets (ROA) and CSR performance. Banks that follow socially conscious policies typically have greater profitability levels, indicating that CSR efforts have a favourable impact on the bottom line.

The data also shows that private sector banks with strong CSR initiatives have better risk management procedures and are more resilient to shocks from the outside world. Through the integration of environmental, social, and governance (ESG) standards into their decision-making procedures, financial institutions can recognise and address possible hazards, thereby preserving their enduring financial stability and longevity.

Positive Relationship between CSR and private sector bank

CSR has become a key focus for private sector banks due to the rising acknowledgment of the significance of social and environmental sustainability in addition to financial performance. This segment delves into the beneficial link between CSR efforts and private sector banks, emphasizing essential mechanisms, empirical proof, and outcomes for stakeholders.

Mechanisms and Pathways

Several mechanisms and pathways through which CSR influences financial performance in private sector banks are identified. First, CSR initiatives contribute to enhancing stakeholder trust, loyalty, and reputation, leading to increased customer retention, stronger brand equity, and higher market share. By aligning their business practices with societal values and expectations, banks can build stronger relationships with customers, investors, employees, and regulators, ultimately driving financial success.

Challenges and Considerations

Even while there is a generally positive correlation between CSR and financial performance, the empirical study raises a number of issues and concerns .One challenge involves the measurement and evaluation of CSR activities and financial performance metrics. Many existing studies rely on subjective or self-reported measures of CSR, making it difficult to compare across banks and industries. Additionally, the choice of financial performance indicators may differ depending on the research context, leading to inconsistencies in the results.

Another consideration is the potential trade-offs and conflicts between CSR objectives and financial goals. While CSR initiatives can bring long-term benefits to private sector banks, they may also come with short-term costs and sacrifices. Balancing the interests of multiple stakeholders and aligning CSR efforts with core business objectives require strategic planning and resource allocation.

Policy Implications

The empirical findings hold significant implications for policymakers, regulators, and industry stakeholders. Recognizing the positive impact of CSR on financial performance, policymakers may contemplate incentivizing and promoting responsible business practices within the banking sector through regulatory frameworks, tax incentives, and support programs.

Furthermore, regulators can play a vital role in promoting greater transparency and accountability in CSR reporting and disclosure practices, ensuring that private sector banks adhere to the highest standards of corporate governance and sustainability.

CONCLUSION

The study's findings suggest that 74% of changes Return on Assets (ROA) can explained by the selected independent variables, while 70% of variations in Net Interest Margin (NIM) are influenced by these independent factors. Banks that engage in Corporate Social Responsibility (CSR) tend to achieve higher profits from their assets. A stronger ROA signifies improved financial performance for banks, benefiting stakeholders with higher returns. Recent studies indicate that integrating CSR practices into business operations leads to significant financial gains as customers and stakeholders appreciate organizations driving societal growth. Notably, a positive correlation exists between CSR efforts and ROA, supported by Dewi et al (2014) and Hastalona (2020). Furthermore, having sufficient capital to cover unforeseen losses and maintaining good liquidity positively impacts ROA. Likewise, spending on CSR enhances Net Interest Margin by bolstering net interest income on interest-bearing assets. While CSR spending alone does not solely drive improved ROA and NIM, banks should consider it alongside other variables for enhanced financial performance. This positive relationship between CSR and financial outcomes aligns with Freeman and Evan's (1990) assertion that social responsibility can create a competitive advantage for banks and elevate their financial performance.

The study's findings reveal the intricate connection between corporate social responsibility (CSR) initiatives and the financial performance of private sector banks. Utilizing MATLAB simulation, it was illustrated that CSR activities significantly impact profitability, liquidity, and risk management within financial performance.

The outcomes suggest that well-planned CSR programs can boost the reputation and trustworthiness of private sector banks, resulting in increased customer loyalty and improved financial results. Additionally, by building stronger relationships with stakeholders and aligning with societal values, banks can reduce risks and strengthen resilience in volatile market conditions.

Nevertheless, it is crucial to acknowledge that the effectiveness of CSR initiatives may differ based on contextual factors like industry dynamics and regulatory environments. Hence, private sector banks should customize their CSR strategies to address the specific needs of stakeholders while aligning with overall business goals.

In conclusion, this study emphasizes the significance of integrating CSR into the operational framework of private sector banks to achieve sustainable financial performance and contribute to societal well-being. Further research and longitudinal studies are necessary to enhance our comprehension of the long-term impacts of CSR practices in the banking sector.

The research findings provide valuable insights into the impact of CSR initiatives on the performance and resilience of private sector banks in today's competitive environment.

One of the main conclusions drawn from this study is the strong positive correlation between CSR efforts and financial performance metrics. By actively participating in CSR activities, private sector banks can enhance their reputation, build trust with stakeholders, and differentiate themselves in the market. As a result, they can improve customer loyalty, reduce operational risks, and increase profitability in the long run.

Furthermore, the simulation results emphasize the importance of integrating CSR into the core business strategy of private sector banks, rather than treating it as a mere philanthropic endeavour. It is crucial to align CSR initiatives with organizational objectives to maximize the benefits and ensure sustainable outcomes. Banks that effectively integrate CSR into their operations not only generate financial returns but also create shared value for society, contributing to overall economic development and well-being.

Moreover, the study highlights the role of CSR in risk management within the banking sector. By proactively addressing environmental, social, and governance (ESG) issues, banks can mitigate reputational risks, regulatory compliance risks, and operational risks. This proactive approach not only safeguards the bank's financial interests but also enhances its resilience in the face of external shocks and disruptions.

Additionally, the findings suggest that CSR can drive innovation and efficiency within private sector banks. Through CSR initiatives, banks are encouraged to explore new business models, products, and services that align with sustainable development goals. This not only creates value for stakeholders but also enhances the bank's competitiveness in the marketplace.

Overall, the research underscores the importance of CSR in shaping the performance and resilience of private sector banks. By actively engaging in CSR activities and integrating them into their core business strategy, banks can reap numerous benefits, including improved financial performance, enhanced reputation, and increased resilience in the face of challenges.

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