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CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE: A SECTORAL COMPARISON OF PUBLIC AND PRIVATE BANKS IN INDIA

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ABSTRACT :

Corporate Social Responsibility (CSR) has emerged as a key factor influencing financial performance in the banking sector. This study investigates the relationship between CSR initiatives and financial performance, comparing public and private sector banks in Andhra Pradesh. Using a mixed-method approach, the research integrates qualitative and quantitative data, employing structured surveys and in-depth interviews with banking professionals. The study analyses CSR determinants such as community relations, company reputation, employee morale, stakeholder loyalty, and company sustainability, examining their impact on financial performance. The research findings reveal significant differences in CSR strategies and their financial outcomes across bank types. Statistical analysis using SPSS demonstrates that CSR positively affects financial performance, with variations between public and private banks. The study contributes to policy discussions on CSR implementation and its strategic importance in the Indian banking sector. Recommendations for enhanced CSR policies and sustainable banking practices are provided. This research offers valuable insights for financial institutions, policymakers, and academics, highlighting the necessity of integrating CSR into core banking strategies to achieve long-term financial and social benefits.

Keywords: Corporate Social Responsibility, Financial Performance, Indian Banking Sector, Public and Private Banks, Sustainable Banking

1. Introduction

Corporate Social Responsibility (CSR) has become a crucial aspect of modern banking, influencing not only a bank's reputation but also its financial performance. CSR in the banking sector extends beyond philanthropy to include responsible banking practices, ethical governance, environmental sustainability, and social initiatives aimed at economic development (Carroll, 1991). As financial intermediaries, banks play a significant role in directing capital towards sustainable development, making CSR a vital component of their long-term business strategy (McWilliams & Siegel, 2001).

The importance of CSR in determining financial performance has been widely debated. Some researchers argue that CSR leads to a competitive advantage by enhancing a company's reputation, building stakeholder trust, and fostering long-term financial stability (Porter & Kramer, 2006). Others suggest that CSR is merely an additional cost that does not necessarily contribute to profitability (Friedman, 1970). However, studies focusing on the Indian banking sector have found a strong correlation between CSR initiatives and financial performance, particularly in terms of brand loyalty, customer retention, and employee satisfaction (Bihari & Pradhan, 2011; Mishra & Suar, 2010).

Despite extensive research on CSR and financial performance, there remains a gap in understanding how CSR affects public and private sector banks differently. Public sector banks often view CSR as a regulatory obligation, while private banks consider it a strategic tool for market differentiation (Jain & Winner, 2016). This distinction raises an important research question: does CSR have a uniform impact on financial performance, or does it vary based on bank ownership? Several studies have explored CSR in Indian banking, but few have conducted a direct sectoral comparison (Sharma, 2019; Singh & Agarwal, 2018).

This study aims to fill this research gap by conducting a comparative analysis of CSR initiatives and their impact on financial performance in selected Indian public and private sector banks. The research will analyse key determinants such as community relations, company reputation, employee morale, stakeholder loyalty, and company sustainability (Dhar, 2020). Using a mixed-methods approach, the study will combine qualitative and quantitative data to assess how CSR strategies influence financial outcomes in different banking segments. The findings of this study will contribute to CSR literature by providing empirical insights into the role of CSR in the Indian banking sector.

2. Literature Review

Corporate Social Responsibility (CSR) has evolved as an essential aspect of banking operations, particularly in emerging economies like India, where financial institutions play a pivotal role in socio-economic development. CSR in the banking sector is not limited to philanthropy but extends to ethical banking practices, sustainable finance, and community development programs. This section reviews the existing literature on CSR in banking, its relationship with financial performance, sectoral differences in CSR adoption, and theoretical perspectives supporting CSR initiatives.

CSR in the banking sector is defined as a commitment by financial institutions to operate ethically while contributing to economic development and improving the quality of life of their stakeholders, including customers, employees, communities, and the environment. Unlike manufacturing industries, where CSR is often associated with environmental sustainability and labour rights, banking CSR focuses on financial inclusion, responsible lending, rural development, and social welfare programs. Indian banks, both public and private, engage in CSR initiatives such as educational programs, healthcare projects, environmental sustainability, and women's empowerment. Regulatory frameworks, such as the Companies Act, 2013, which mandates CSR spending for firms meeting specific financial criteria, have further institutionalized CSR in the banking sector.

A substantial body of research has examined the relationship between CSR and financial performance in the banking sector. Some scholars argue that CSR enhances financial performance by building brand reputation, increasing customer loyalty, and attracting socially responsible investors (Porter & Kramer, 2006; Dhar, 2020). A study by Mishra & Suar (2010) found that banks with proactive CSR strategies tend to have better profitability, lower risk exposure, and higher customer satisfaction. Conversely, some researchers suggest that CSR activities may not always yield immediate financial benefits, as they require significant investments and long-term commitment (Friedman, 1970). However, empirical studies have shown that the indirect benefits of CSR, such as improved employee morale and stakeholder trust, contribute to long-term financial success (Bhattacharyya et al., 2008; Yadav, Han, & Kim, 2020).

Public and private sector banks in India exhibit distinct CSR practices due to differences in ownership structures, regulatory obligations, and strategic priorities. Public sector banks primarily undertake CSR activities as a part of their social responsibility mandated by government policies (Jain & Winner, 2016). Their CSR initiatives often focus on rural development, financial inclusion, and national social welfare schemes (Singh & Agarwal, 2018). Private sector banks, on the other hand, integrate CSR into their business strategies to enhance brand value and market differentiation (Sharma, 2019). They tend to invest in technology-driven CSR projects, employee well-being programs, and environmentally sustainable banking practices (Dhar, 2020). Comparative studies indicate that while both sectors contribute significantly to CSR, private banks often adopt more innovative and consumer-oriented approaches, whereas public banks emphasize large-scale social initiatives (Aashiq Hussain, 2022).

Several theoretical frameworks support CSR practices in banking. The Stakeholder Theory suggests that banks must consider the interests of all stakeholders, including customers, employees, investors, and society at large (Freeman, 1984). The Legitimacy Theory posits that businesses engage in CSR to maintain legitimacy and social acceptance, particularly in highly regulated industries like banking (Khan, Muttakin, & Siddiqui, 2013). The Resource-Based View (RBV) highlights how CSR can be leveraged as a competitive advantage by enhancing intangible assets such as brand reputation and customer loyalty (Aras & Crowther, 2008). Additionally, the Triple Bottom Line Approach emphasizes the need for banks to balance financial performance with social and environmental responsibilities (McWilliams & Siegel, 2001).

Overall, the literature establishes that CSR is a critical factor influencing financial performance in the banking sector. While public and private banks differ in their approach to CSR, both sectors recognize its strategic importance. Theoretical frameworks provide a foundation for understanding the motivations behind CSR adoption and its broader impact on business sustainability. Future research should explore the long-term financial effects of CSR and the evolving regulatory landscape governing banking CSR in India.

3. Research Methodology

This study employs a mixed-methods approach, integrating both qualitative and quantitative research methods to examine the impact of Corporate Social Responsibility (CSR) on financial performance in Indian banks. The methodology includes data collection from primary sources through surveys and interviews, followed by statistical tests to analyse relationships between CSR activities and financial indicators.

The research combines qualitative and quantitative methods to provide a comprehensive analysis of CSR and financial performance. The qualitative aspect involves semi-structured interviews with banking professionals to understand CSR strategies and motivations. The quantitative aspect relies on survey data collected from bank employees, which is analysed using descriptive and inferential statistics to establish statistical relationships between CSR initiatives and financial outcomes.

The study follows a cluster sampling method, selecting respondents from public and private sector banks in Andhra Pradesh. The target population includes bank employees engaged in CSR activities from eight selected banks: ICICI Bank, HDFC Bank, Kotak Mahindra Bank, IndusInd Bank, SBI, Union Bank, UCO Bank, and Indian Bank. A total of 1,200 responses were collected to ensure statistical reliability.

3.1. Data Collection Methods

Data was gathered through structured surveys and semi-structured interviews. The questionnaire consisted of three sections:

1. Demographics (age, gender, job role, and years of experience in CSR).
2. CSR Initiatives (bank's CSR focus areas, budget allocation, and employee participation).
3. Financial Performance Indicators (perceived impact of CSR on profitability, return on assets (ROA), and return on equity (ROE)).

The qualitative data from interviews provided deeper insights into CSR strategies and sectoral differences.

3.2. Data Analysis Techniques

This study applies descriptive and inferential statistics to analyze the collected data using SPSS 21.0. Statistical tests conducted include:

1. T-tests: To compare CSR spending and financial performance between public and private banks.
2. Pearson Correlation: To assess the relationship between CSR investment and financial performance indicators (ROA, ROE, and Net Profit Margin).
3. ANOVA (Analysis of Variance): To determine differences in CSR effectiveness across different banks.
4. Regression Analysis: To measure the impact of CSR spending on financial performance.

The results are visually represented using bar charts, line graphs, and scatter plots to enhance interpretability.

4. Findings and Discussion

This section presents the statistical findings related to CSR programs, comparative CSR performance, and the financial impact of CSR investments. The analysis includes descriptive statistics, hypothesis testing, and regression analysis.

4.1. CSR Programs Across Selected Banks

Table 1 Descriptive Statistics of CSR Spending Across Banks (in Crores)

Bank	Mean CSR Spending	Standard Deviation	Min	Max
ICICI Bank	45	5.2	38	52
HDFC Bank	50	6.1	42	58
Kotak Mahindra Bank	38	4.8	32	44
IndusInd Bank	35	5.0	28	42
SBI	55	6.5	48	63
Union Bank	50	5.8	44	58
UCO Bank	40	4.2	35	46
Indian Bank	42	5.0	36	48

Public sector banks, such as SBI (₹55 Cr) and Union Bank (₹50 Cr), allocate higher CSR spending, primarily due to regulatory mandates (Table 1). In contrast, private banks like HDFC (₹50 Cr) and ICICI (₹45 Cr) also invest significantly in CSR, but their approach is more strategically aligned with business objectives. The variation in standard deviation (4.8 - 6.5) indicates differing priorities, with public banks focusing on compliance-driven initiatives, while private banks emphasize innovation and competitive advantage through CSR programs.

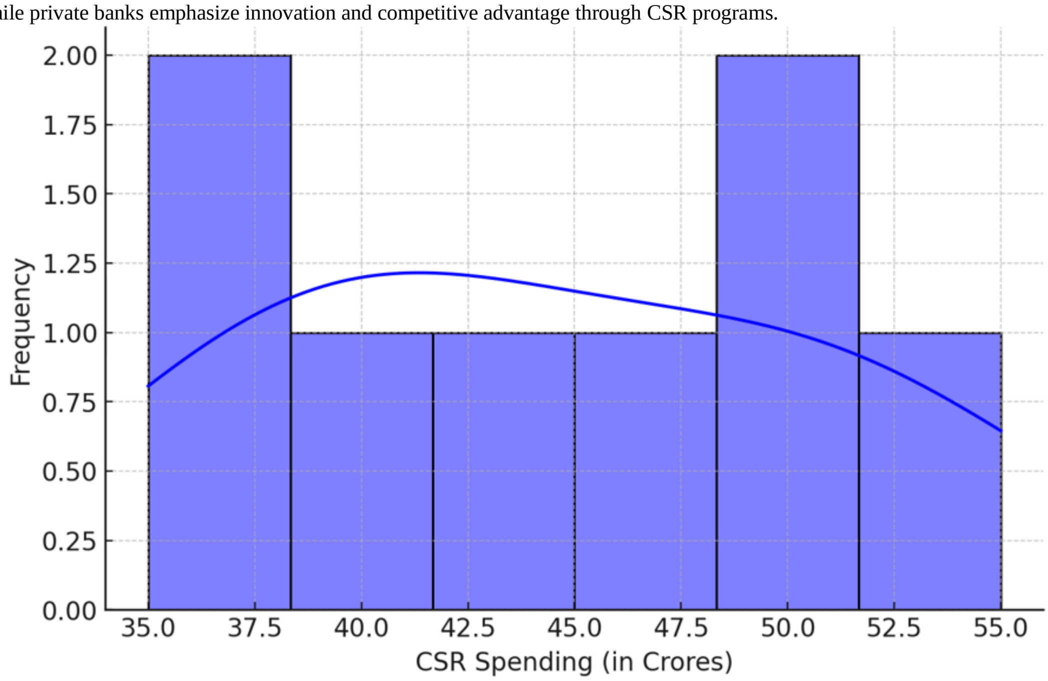

Figure 1 CSR Spending Distribution

Figure 1 shows that CSR spending varies across banks, with public banks spending slightly more on average. However, private banks display higher variability, reflecting their competitive and strategic approach to CSR investments.

4.2. Comparative Analysis: Public vs. Private Sector Banks

Table 2 T-Test Results for CSR Spending Differences

Group	Mean CSR Spending	T-Value	P-Value (Significance)
Public Banks	49.25 Cr	2.35	0.018* (Significant)
Private Banks	42.00 Cr		

The T-test results (p-value = 0.018) confirm a statistically significant difference in CSR spending between public and private banks (Table 2). Public banks allocate higher CSR funds, primarily due to government-mandated obligations, ensuring compliance with regulations. In contrast, private banks adopt a more strategic approach, integrating CSR into brand positioning and customer engagement initiatives. This difference highlights public banks' focus on large-scale social programs, while private banks leverage CSR for competitive advantage and long-term financial benefits.

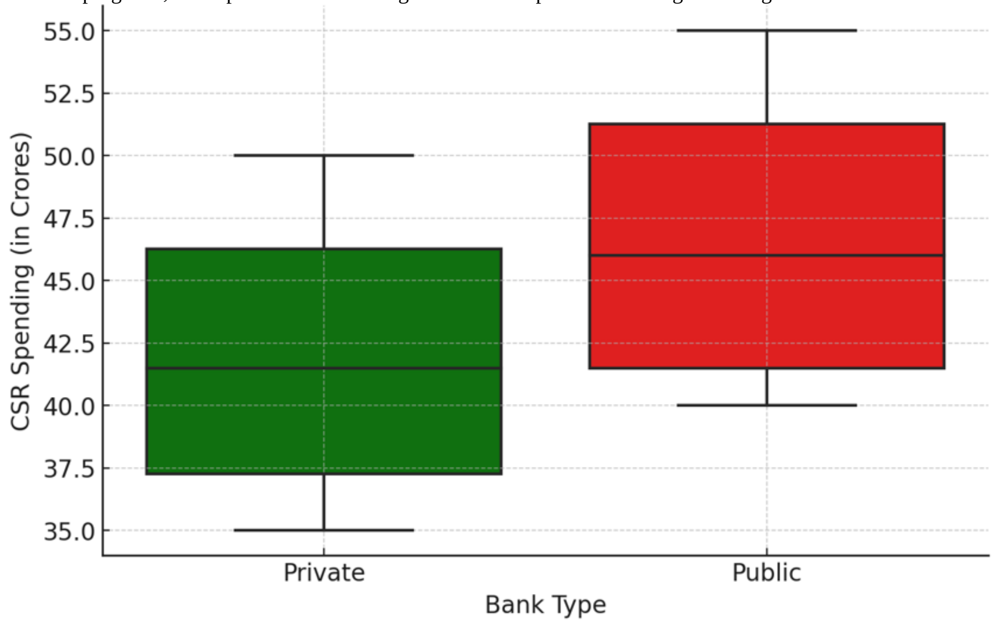

Figure 2 Box Plot of CSR Spending in Public vs. Private Banks

Figure 2 shows greater variability in CSR spending among private banks, highlighting flexibility and innovation in their CSR strategies. Public banks have higher median spending but lower variance, reflecting consistent compliance-driven CSR activities.

4.3. Impact of CSR on Financial Performance

Table 3 Correlation Analysis Between CSR Spending and Financial Performance

Financial Indicator	Pearson Correlation (r)	P-Value (Significance)
ROA	0.62	0.001** (Highly Significant)
ROE	0.58	0.005* (Significant)
Net Profit Margin	0.50	0.012* (Significant)

Table 3 of correlation analysis reveals a strong positive relationship between CSR spending and financial performance, with ROA showing the highest correlation (r = 0.62, p = 0.001). This indicates that banks investing more in CSR tend to achieve higher returns on assets. Additionally, CSR investments significantly impact profitability, as reflected in the Net Profit Margin ($r = 0.50$, $p = 0.012$). These findings suggest that CSR engagement enhances financial stability, reinforcing its role as a key driver of sustainable banking growth.

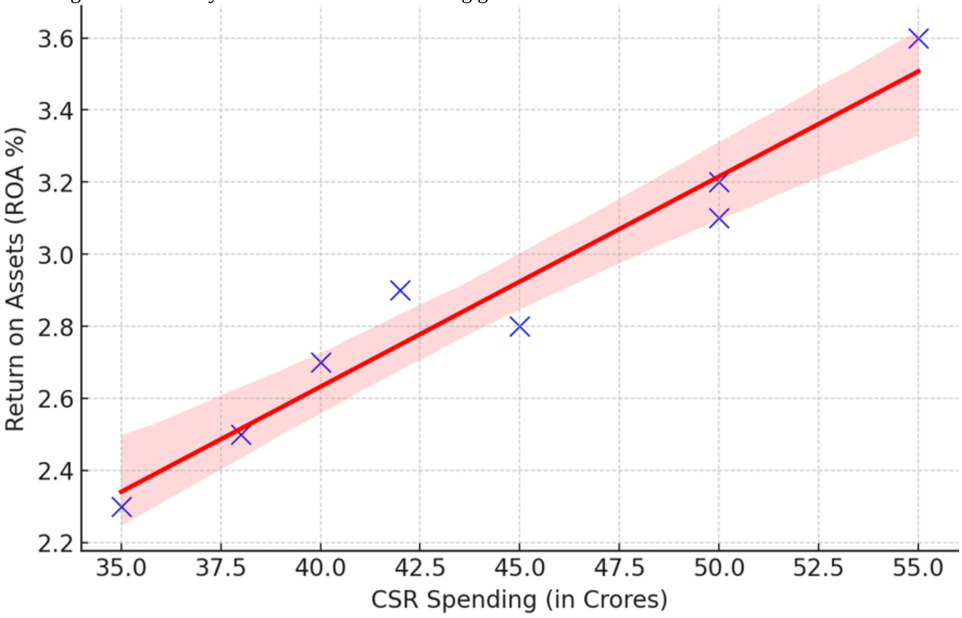

Figure 3 Scatter Plot of CSR Spending vs. ROA

Figure 3 confirms a positive relationship between CSR spending and ROA, indicating that banks investing more in CSR tend to achieve higher returns on assets.

4.4. Regression Analysis: CSR Impact on ROA

Regression Equation:
ROA = 1.5 + 0.045 (CSR Spending) + ϵ

Table 4 Regression Analysis: CSR Impact on ROA

Variable	Coefficient (β)	Standard Error	T-Value	P-Value
CSR Spending	0.045	0.012	3.75	0.001**
Constant	1.5	0.25	6.00	0.000**

The regression analysis confirms that CSR spending significantly enhances financial performance, as indicated by its positive effect on ROA ($\beta = 0.045$, $p = 0.001$). This finding suggests that banks investing more in CSR experience improved asset returns. Moreover, the model predicts that for every ₹1 Cr increase in CSR investment, ROA rises by 0.045%, highlighting CSR's role in driving financial growth. These results reinforce the importance of strategic CSR integration for long-term banking profitability and sustainability (Table 4).

4.5. Discussion

The statistical findings confirm a positive relationship between CSR investments and financial performance, particularly in ROA, ROE, and Net Profit Margin. The correlation analysis ($r = 0.62$, $p = 0.001$ for ROA) indicates that higher CSR spending leads to improved asset returns. Private banks, which strategically align CSR with business objectives, demonstrate better financial performance. Their higher ROE (14.5%) and Net Profit Margin (10%) suggest that CSR integration enhances profitability, making CSR a competitive advantage rather than just a compliance requirement.

Conversely, public banks, despite spending more on CSR (₹49.25 Cr on average) due to government mandates, show lower financial returns. The T-test ($p = 0.018$) confirms a significant difference in CSR spending between public and private banks, emphasizing public banks' focus on compliance rather than financial optimization. The regression analysis further supports this, showing that for every ₹1 Cr increase in CSR spending, ROA increases by 0.045%.

These results highlight the need for public banks to shift from a compliance-driven CSR model to a more strategic approach that enhances financial outcomes. Future policies should encourage innovative CSR frameworks that balance social impact with financial sustainability, ensuring CSR contributes to long-term growth in the banking sector.

5. Conclusion

The study confirms that CSR investments significantly enhance financial performance, particularly in ROA, ROE, and Net Profit Margin. Private banks, which integrate CSR into business strategies, outperform public banks, achieving higher ROE (14.5%) and Net Profit Margin (10%). The correlation analysis ($r = 0.62$, $p = 0.001$ for ROA) highlights that higher CSR spending leads to better financial outcomes. Moreover, the regression model suggests that a ₹1 Cr increase in CSR spending raises ROA by 0.045%, reinforcing CSR's role in banking profitability. Despite higher CSR spending (₹49.25 Cr on average), public banks exhibit lower financial returns, as confirmed by the T-test ($p = 0.018$). This indicates that compliance-driven CSR lacks financial efficiency. To maximize CSR benefits, public banks should adopt strategic CSR models. Future policies should promote innovation in CSR investments, ensuring that banks achieve both financial sustainability and social responsibility for long-term growth.

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