Impact of Corporate Social Responsibility on Financial Performance- Study with Reference to Sbi and Axis Banks in India

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Abstract

Purpose- Corporate social responsibility (CSR) has taken an increased attention and importance in recent years especially in India for companies' act 2013 and its influence, as banking investors have given an increased priority to solve existing issues in their banking investment decision-making. The purpose of this paper is to empirically examine the impact of CSR on financial performance in terms of Net profit After Tax (NPA), Return on Assets (ROA), Return on Equity (ROE) and Earnings per Share (EPS).

Design/methodology/approach –This research is basically a descriptive in nature **.**Using CSR index factors and financial factors for the two banks in India. Cross sectional models are employed to identify the CSR activities of Axis bank and SBI bank in India through CSR index. Financial performances were tested by using the variables Net profit After Tax (NPA), Return on Assets (ROA), Return on Equity (ROE) and Earnings per Share (EPS).

Sample & Statistical tools techniques– In this study the sample of 4 year data from (2012-2016) of Axis and SBI have been taken. To find out the cause and effect relationship between CSR on financial performance of the banks correlation and Regression tools have employed.

Findings – The empirical results shows that the mixed relationship between CSR and Financial performance of Banks in India. The cross sectional CSR index explained that the banks in India have increased the level of CSR activities year by year and it is a sign of good improvement.

Key Words – Corporate Social Responsibility, financial performance banks, India, Net Profit After Tax (NPAT), Earnings Per Share (EPS), Return on Equity(ROE), Return on Assets (ROA)

INTRODUCTION

The term Corporate Social Responsibility (CSR) has been treated has a corporate issue. In the recent times, it has been noted that CSR has become a part of their corporate strategy. More than half of Fortune global 250 firms now provide regular statements exclusively discussing CSR, and approximately 10% of S&P 100 companies report in detail on CSR activities (Kotler and Lee 2004).The majority of the literature on the CSR takes a management perspective and it discusses how corporate can best respond to specific demand of largely external stakeholders, which CSR initiative enhance corporate performance, and what motivate the firm to become engaged in CSR (K. Basu and G. Palazzo 2008). The degree of the CSR level can display the performance of the company and also the level of CSR shows what kind of company this company is. It is clearly explained the CSR efforts of the company can be a powerful and positive force for social change and the multifaceted business returns (C.B. Bhattacharya et al., 2010). CSR carries out an organization about a customer's view create better perceived value and customer derive higher satisfaction from a product or service (Luo and Bhattacharya 2006)

SCOPE OF THE STUDY

1. The primary aim of this study is to analyze the corporate social responsibility level of the SBI and Axis banks in India.

2. The evaluation of CSR performance of SBI and Axis bank are held to using the method of content analysis of corporate social responsibility report.

3. Developed countries like UK and USA focus social responsibility more as compare to the developing countries. There is a lot of research on this topic in the developed countries and they conclude different results of CSR on the financial performance of companies. But there is a need this type of research in developing economy like India. A big gap can be observed in the literature as none of the studies tried to ascertain the relationship between corporate social performance and financial performance in case of banking industry especially in India

STATEMENT OF THE PROBLEM

The applicability of CSR standards, principles and indices is different in geographical, cultural, political, economic and environmental condition has been questioned (Roome & Dober 2009). Corporate Social responsibility always weak in developing countries of Asia but a strong in western countries due to institution standards and systems (chapple and Moon 2005). Weak standards of organizations' leads considerable challenges to firm for practicing corporate social responsibility in developing countries of Asia and it includes India (Belal 2001). Each organization is different in its implementation of CSR into strategies, business plans and practices. The size of the company and its operating industry, culture , stake holder demands, historical CSR engagement, level of diversification.

OBJECTIVES OF THE STUDY

Primary Objectives

1. To measure the level of CSR activities undertaken by Axis and SBI banks through CSR index and then data submit to cluster analysis.

2. To find out the relationship between corporate social responsibility and financial performance of SBI and Axis bank in India.

Secondary Objectives

1. To identify the level of CSR practices of Axis and SBI banks in India.

2. To identify the impact of CSR disclosure on banks' Net Profit after Tax.

3. To identify the impact of CSR disclosure on banks' Return on Assets.

4. To identify the impact of CSR disclosure on banks' Return on Equity.

5. To identify the impact of CSR disclosure on banks, Earnings per share

RESEARCH METHODOLOGY

Research

Research is an art of scientific investigation. Redmen and Mary define, research as a "Systematic effort to gain knowledge".

Research methodology is way to systematically solve the research problem. It is a plan of action for a research project and explains in detail how data are collected and analyzed.

Research design

The study is descriptive in its structure and the study seeks to measure dependent variables called corporate financial performance and Independent variable called corporate social responsibility.

Population

Banking industry in India and it is based on the secondary or archived data and banks that of large publicly traded.

Sample size determination criteria

1. Banks in India must be listed on any of the stock exchanges in India.
2. A specific sample of firms will have limited to examination of public financial and social records of the selected firms.

3. The study is conclusive in type of quantitative in nature. Data has planned to gather using a banks CSR reports and sustainability reports, banks annual reports, banks Business Responsibility reports, research available and conducted by industry associations and publications, Published studies and articles and banks websites.

REVIEW OF LITERATURE

Corporate Social Responsibility

4. **Friedman 2006,** argued that there is only one social responsibility of business is to use the corporate or business resources and engage in activities like increase the organization's profits so long as it stays within the rules of the game, which is to say engages in open and free competition without deception or fraud.

5. This taught is from one side it's fully spoke about the CSR for organization shareholders or a stockholders or an owners. The view of Friedman's taught neglected the points about other external and internal stakeholders of an organization. Another school of CSR taught explained and concentrated about all stakeholders in an organization.

6. **Carroll 1996** model explained the CSR by describing four dimensions. These include economic, legal, ethical and philanthropic undertakings.

7. **Nigel Sarbutts 2003** explored the way of doing CSR by small and medium sized enterprises. The study depicted that a structured approach to managing corporate reputation and profit maximization of SME's through CSR. SME's always struggle for more reputation and minimizing risk. Large companies have lot of for implementing CSR activities but SME's it is not possible. It can be a barrier for SME's to stay in a market. SME's take care about imparting information about proper utilization of resources and doing well for businesses, SME's can minimize their risk and manage CSR.

8. **Robbin and Coulter 2007** explained the social responsibility of management need to goes beyond profit maximization and also include the policies like protecting and improving the social welfare of its stakeholders and the environment in which the firm carries out these kind of responsibilities to the society that allow the firm formation through various laws and regulations and support them through purchasing the firm's products and services.

DATA ANANYSIS PART – I

Table Evaluation criteria in the management of CSR of Axis Bank.

| CRITERION	2012-13	2013-14	2014-15	2015-16
Appointment of CSR representatives (A1)	70	70	80	85
Determination of a scope of authority, strategies and objectives of CSR (A2)	80	80	85	90
Documents and records about CSR (A3)	70	70	80	90
System of improvements (A4)	75	80	88	93
Audits and evaluation system (A5)	77	82	87	90
A=(A1+A2+A3+A4+A5)/5	**74**	**76**	**84**	**90**
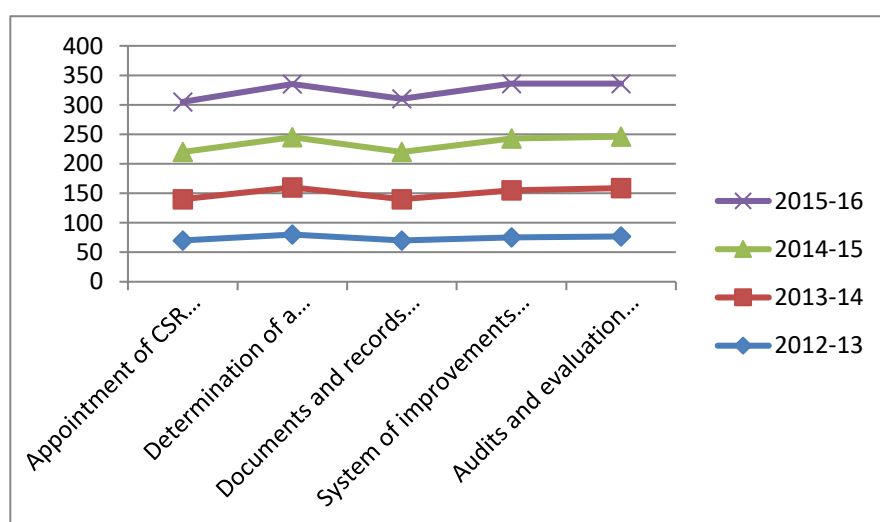
Interpretation:

From the above table it is infer that within Management of CSR of Axis Bank is comparatively increased year by year but in the year 2015-2016 it reached highest level. Time series chart indicated that the system of improvement of CSR criteria level has done very well in the year 2015-2016.

Evaluation criteria in the area of direct economic effects on a community of Axis Bank:

| Criterion	2012-13	2013-14	2014-15	2015-16
Direct economic results (B1)	78	80	84	88
Approaches to employees selection (B2)	72	75	82	86
Approaches to suppliers selection (B3)	80	85	88	92
B=(B1+B2+B3)/3	**77**	**80**	**85**	**89**

9.   CHART NO: 4.2
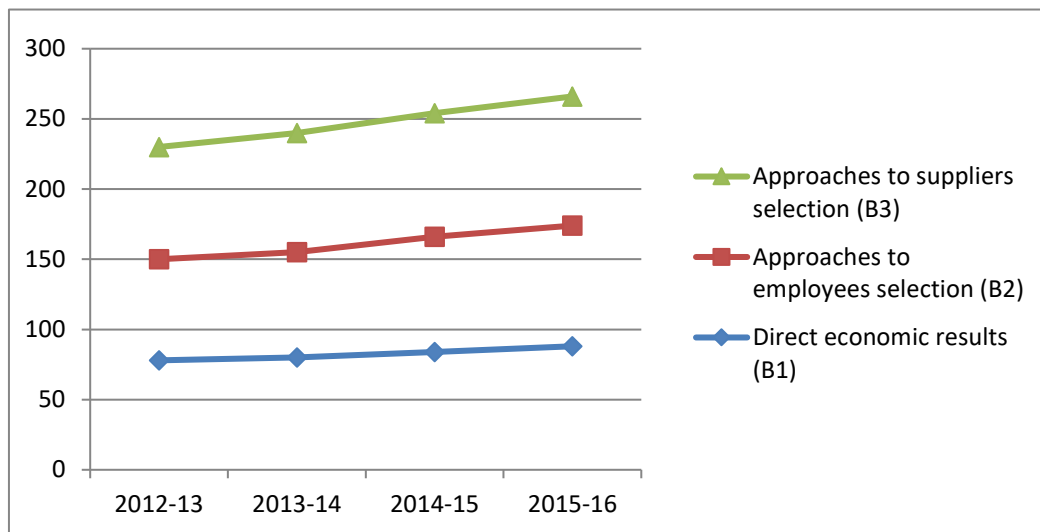
Interpretation:

From the above table it is infer that direct economic effects on a community of Axis Bank is comparatively increased year by year but in the year 2015-2016 it reached highest level. Time series chart indicated that the Approaches to suppliers selection of CSR criteria level has done very well in the year 2015-2016.

Evaluation criteria in the area of indirect economic effects on the community of Axis Bank

Criterion	2012-2013	2013-14	2014-15	2015-16
Effects of investment on a public benefit (C1)	70	70	78	84
Effect on the development of employment (C2)	78	80	80	88
Effect on a dissemination of education & promotion of education (C3)	80	82	86	90
C=(C1+C2+C3)/3	**76**	**77**	**81**	**87**

CHART NO: 4.3
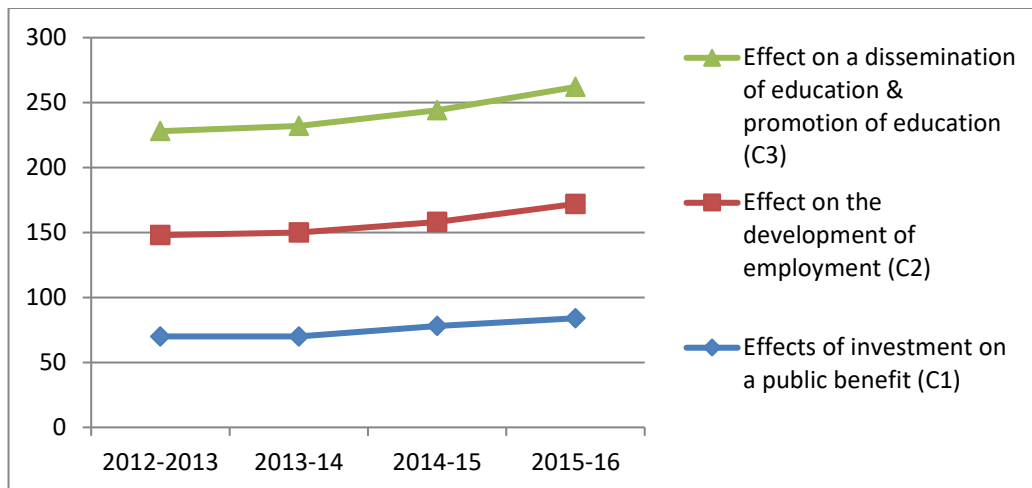
Interpretation: From the above table it is infer that within indirect economic effects on the community of Axis Bank is comparatively increased year by year but in the year 2015-2016 it reached highest level. Time series chart indicated that the Effect on a dissemination of education & promotion of education of CSR criteria level has done very well in the year 2015-2016.

ANOVA[b]

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	.097	1	.097	12.147	.073[a]
Residual	.016	2	.008		
Total	.113	3			

a. Predictors: (Constant), Corporate Social Responsibility

b. Dependent Variable: Return on Assets

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	5.927	1.517		3.907	.060
Corporate Social Responsibility	-.058	.017	-.927	-3.485	.073

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.927	1.517		3.907	.060
	Corporate Social Responsibility	-.058	.017	-.927	-3.485	.073

a. Dependent Variable: Return on Assets

Result

P=0.073

P>0.05Since P value is greater than 0.05 at 5% level of significance. Null hypothesis is accepted. Therefore there is no supported relationship between CSR and Return on Assets of SBI bank.

FINDINGS:

1) Management of CSR of Axis Bank is comparatively increased year by year but in the year 2015-2016 it reached highest level. Time series chart indicated that the system of improvement of CSR criteria level has done very well in the year 2015-2016.

Management of CSR of SBI is comparatively increased year by year but in the year 2015-2016 it reached highest level. Time series chart indicated that the Appointment of CSR representative of CSR criteria level has done very well in the year 2015-2016.

2) Direct economic effects on a community of Axis Bank are comparatively increased year by year but in the year 2015-2016 it reached highest level. Time series chart indicated that the Approaches to supplier's selection of CSR criteria level have done very well in the year 2015-2016.

Direct economic effects on a community of SBI are comparatively increased year by year but in the year 2015-2016 it reached highest level. Time series chart indicated that the Approaches to suppliers' selection of CSR criteria level have done very well in the year 2015-2016.

LIMITATIONS OF THE STUDY

❖ The study has focused only two banks in India which means the results are biased and only applicable to the banking sector.

❖ The study has taken data only for four years (2012-2016) due to data availability.

❖ The accuracy of findings is limited by the accuracy of statistical tools used for analysis.

CONCLUSION

The analysis of the leading banks show the both the banks are contributing for CSR practices is comparatively good in recent years but this is not yet satisfactory as per the companies' act 2013 requirements. From analysis, it is obvious that after introduction of the new Company Act 2013, banks have positively contributed and participated in the CSR practices.

The Public Sector bank – SBI has higher contribution compare to Private Sector bank – Axis bank. But it has also been noticed that out of the total contribution toward CSR practices majority proportion emphases on education, community and social policy, so it is suggested to allow the CSR contribution pie to be cut into more pieces and the good will extended among more beneficiaries. A lot many efforts are required towards CSR practices and banks must accept their responsibility in more justifiable manner. It is concluded with the suggestion that banks should set CSR practices and policy as an integrated part of their operations and activities.

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