



# IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF INDIAN BANKS

**Ms. Priyanka**

*Assistant Professor, Department of Management, KCC Institute of Legal and Higher Education, Greater Noida, UP*

## ABSTRACT

The definition of corporate social responsibility (CSR) has undergone significant revisions. Small gifts to ground-breaking social welfare programmes are only a few examples of CSR initiatives, which vary from firm to corporation depending on resources and objectives. CSR compliance has not only pounded on the doors of business houses in industrialized nations, but also in emerging economies like India. The myth of profit-making has been filtered with the passage of the Companies Act of 2013, and the focus is now on fostering trust between society and corporations. This research paper makes an effort to pinpoint modifications made to the CSR idea as well as the methods and developments in its application in India. The study makes use of secondary data and aims to concentrate on patterns in activity observations.

**KEYWORDS-** Corporate social Responsibility, Public sector undertaking, MNC, Indian Bank

## INTRODUCTION

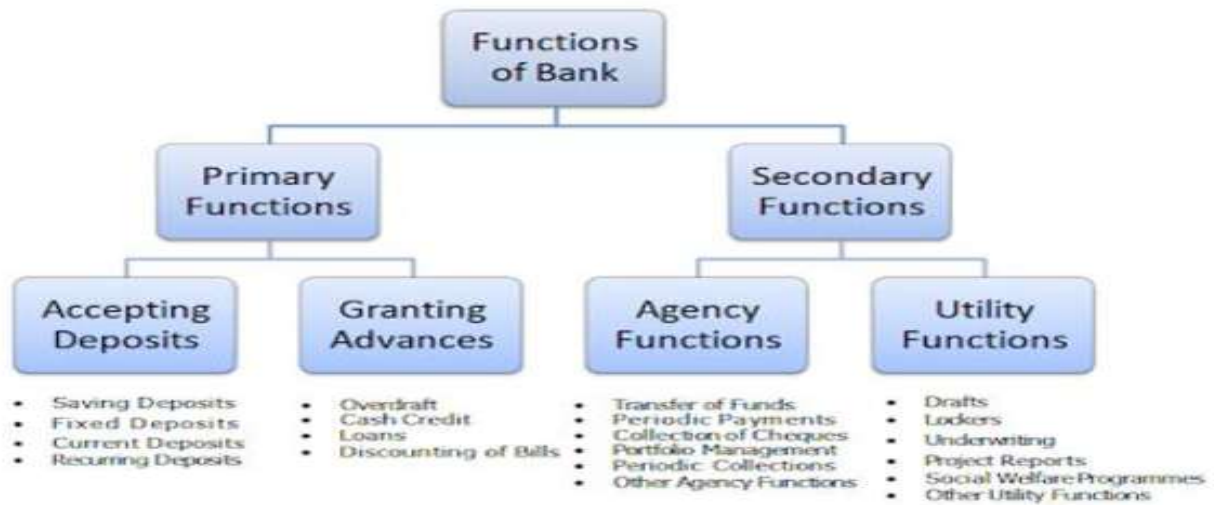
CSR is a concept that encourages businesses to voluntarily incorporate social and environmental issues into their daily operations and interactions with its stakeholders (Commission of the European Communities, 2001). According to the definition provided by the European Commission, corporate social responsibility (CSR) is concept whereby corporations incorporate social and environmental issues in their daily operations and in their contact with shareholders on a voluntary basis. Corporate social responsibility (CSR) is the term used to describe a company self-imposed obligation to society in areas including the environment, the economy, the welfare of its employees, and business ethics. Many businesses utilise internal CSR rules as a kind of moral compass to help shape how ethically they should be conducting business. Positive CSR initiatives might also have financial advantages.

### Corporate Social Responsibility: Benefits and Drawbacks

The concept of “corporate social responsibility” or CSR, has long been significant in society. The phrase refers to a company’s accountability for its actions and procedures to society and its shareholders. Ethics is defined as a business strategy that aims to maximise profits while identifying the consequences of the company’s operations on the environment. Overall, this value proposition enables a firm to be accountable to stakeholders who are influenced by its actions and procedures, such as investors and the social system. When a company adopts a strategy like this, it is showing that it is committed to upholding moral values and the practice of honouring society, individuals, and the environment. The organization is required to monitor its adherence to the CSR policy positions and to document this with the same zeal as it contributes its financial statements.

## Banking System in India

### Functions of Bank



### Principal function of Banks

The main duties of a banks are also referred to as banking duties. They are a bank's primary duties. Below is an explanation of these banks' main roles.

#### Taking Deposits

Public deposits are received by the bank. These deposits may be of a variety of sorts, including:-

#### Savings Accounts

These kinds of deposits encourage people to save money.

- Low interest rates are prevalent.
- It is currently around 4% p.a. Deposit withdrawals are permitted, however they are subject to limitations.
- The account is appropriate for wage and salary earners. Both a single name and a combined name may be used to open this account.

#### Fixed Deposits

- A one-time deposit of a lump sum amount is made for a certain time. A higher rate of interest is given, which fluctuates depending on the deposit duration.
- Before the time period has passed, withdrawals are not permitted. Those who have extra money invest it in fixed deposits.

#### Current Deposits

- Businessmen manage accounts of this kind. Withdrawals are completely permitted. There is no interest paid.
- There are, in reality, service fees. The overdraft facility may be used by account holders.

#### Recurring Deposits

- Petty traders and people on salaries manage this type of account.
- Periodically, a specific amount of money is placed into the bank.
- Only when a specific amount of time has passed are withdrawals permitted. The interest rate is increased.

## 2. Making Loan and Advance Decisions

The bank provides loans to the general population and company owners. The interest rate charged exceeds the rate it pays on deposits. Its profit is the spread between the interest rates (loan rate and deposit rate).

### Secondary functions for the bank

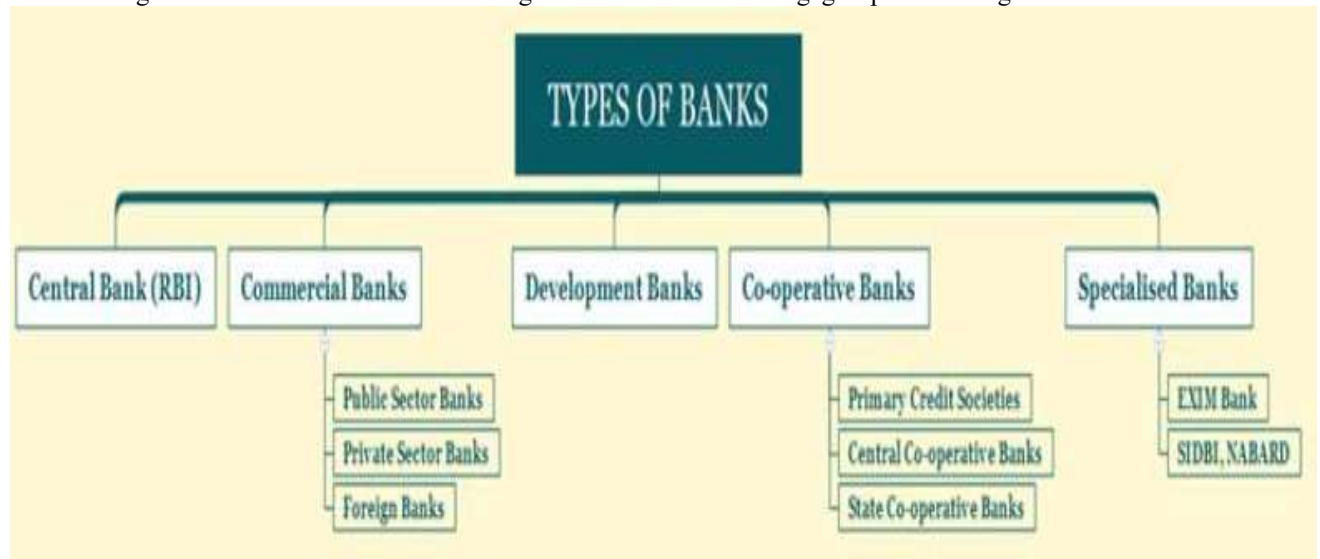
Banks carry out a variety of auxiliary services in addition to their basic duties of receiving deposits and disbursing loans. These are listed below:

- Issuing traveller's checks, letters of credit, etc.
- Offering safe deposit vaults or lockers for the safe custody of valuables, crucial documents, and securities
- Offering customers the ability to conduct foreign exchange transactions.
- Transferring money via demand draught, pay order, or check from one bank branch to another, as well as from one account to another.

### Types of Banks

In order to address the financial needs of diverse groups of people involved in agriculture, business, professions, etc., numerous types of banks operate in our nation.

The banking institutions in India can be categorised into the following groups according to their function.



### Central Bank

- A bank that has been given the responsibility of directing and controlling a nation's financial system is referred to as that nation's central bank.
- A bank of this type does not serve the general public. It essentially serves as the government's banker, keeping track of all other banks' deposit accounts and providing cash advances when necessary.
- When other banks experience any issues, the Central Bank offers assistance. Consequently, it is referred to as the banker's bank.
- The central bank of our nation is the Reserve Bank of India. The Central Bank keeps track of government income and outlays under many headings.
- It also makes decisions about interest rates of bank deposits and bank loans as well as provides the government with advice on monetary and credit policies.
- The central bank also sets exchange rates for foreign currencies. Issuing currency notes and controlling their circulation in the nation via various strategies is another crucial duty of the Central Bank. Only the Central Bank has the authority to issue money.

### Commercial banks

- Commercial banks are financial institutions that accept deposits and provide consumers with quick loans and advances.
- Commercial banks provide medium- and long-term loans to businesses in addition to short-term loans.
- These days, several commercial banks also offer long-term home loans to private citizens.

### Types of Commercial bank

Public sector banks, private sector banks, and foreign banks are the three categories of commercial banks.

### Public sector banks

Public sector banks are those in which the Indian government or reserve bank holds the majority of the shares. State Bank of India, Corporation Bank, Bank of Boroda, and Dena Bank are a few examples of public sector banks.



### Private Sector Banks

In the case of private sector banks, private persons hold the bulk of the bank's stock. These banks are listed as limited liability companies. The Jammu and Kashmir Bank Ltd., the Bank of Rajasthan Ltd., the Development Credit Bank Ltd., the Vysya Bank, etc. are a few examples.

### Foreign Banks

Although these banks are incorporated and have their corporate headquarters in another nation, their branches are located here. Hong Kong and Shanghai Banking Corporation (HSBC), Citibank, American Express Bank, Standard & Chartered Bank, and others are a few of the foreign banks that do business in our nation. Since the financial sector reforms of 1991, there are more foreign banks functioning in our nation.

### Development Banks

- For the purchase of machinery and equipment, the use of cutting-edge technology, or for development and modernization, businesses frequently need medium- and long-term financing.
- In the event that the public undersubscribes for an issue, they also adopt alternative development measures including purchasing shares and debentures issued by corporations.
- Indian development banks include the Industrial Finance Corporation of India and State Financial Corporations .

### Co-operative Banks

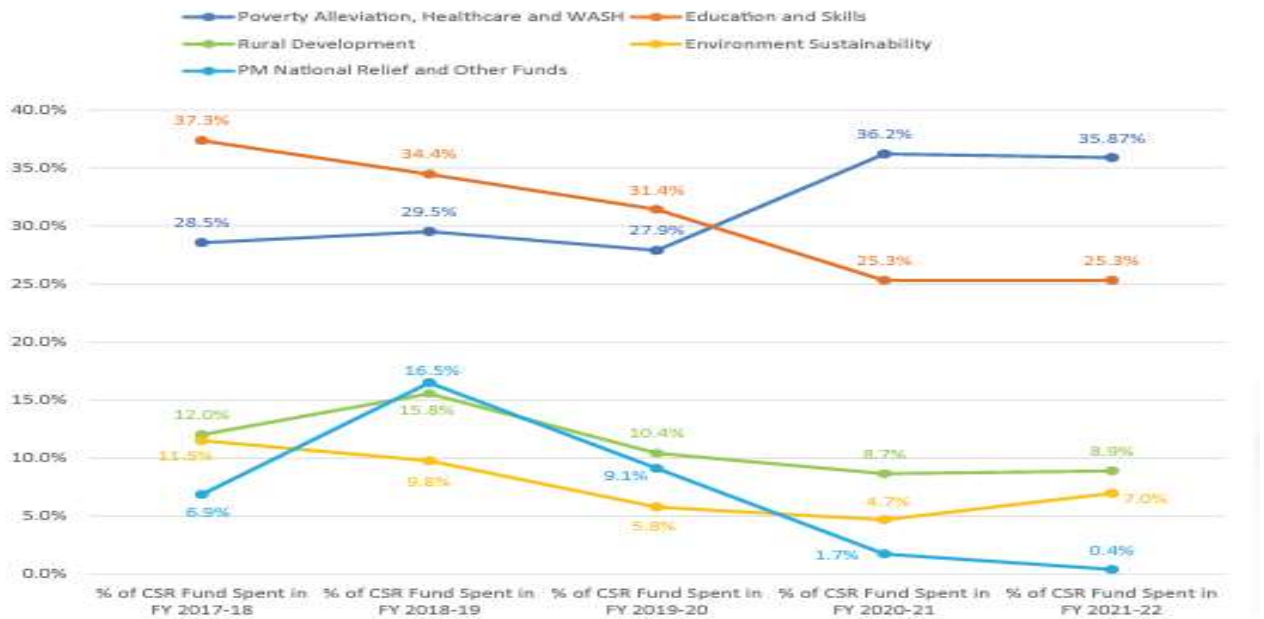
- People who come together to jointly serve their common interest often form a co-operative society under the Co-operative Societies Act.
- When a co-operative society engages itself in banking business it is called a Co-operative Bank.
- The society has to obtain a license from the Reserve Bank of India before starting banking business.
- Any co-operative bank as a society is to function under the overall supervision of the Registrar, Co-operative Societies of the State.
- As regards banking business, the society must follow the guidelines set and issued by the Reserve Bank of India.
- Under the Co-operative Societies Act, people frequently form co-operative societies when they band together to cooperatively serve their shared interests.
- A co-operative bank is what is created when a cooperative society conducts banking activities.
- Before beginning its banking operations, the society must get a license from the Reserve Bank of India.
- Any co-operative bank must operate as a society under the general control of the State Registrar for Co-operative Societies.
- The society must abide by the rules established and communicated by the Reserve Bank of India with relation to banking activities.

### Objectives of the Study

The detailed objectives are follows

- (1) To assess the financial performance of selected Indian banks.
- (2) To determine the influence of corporate social responsibility on selected Indian banks' financial performance.
- (3) To identify the characteristics that encourages banks to participate in CSR activities at selected Indian banks.
- (4) To examine the perceptions of selected Indian banks' managers/CEOs/branch managers towards CSR.
- (6) To give suggestions measures to improve CSR activities.

**Trend Study of the Proportion of Total CSR Funds Allotted to Major Thematic Topics During the Last Five Years.**



Source- [www.indiacsrsummit.in](http://www.indiacsrsummit.in)

The study will be fully based on secondary data which will be collected from Reserve Bank of India data of Handbook of Indian Economy.

We have used Two Banks data for this research which are:

1. Axis Bank Limited
2. Bandhan Bank Limited

For the analyzing the data the Simple Regression Analysis technique used for analyzing the impact on dependent variables of several independent variables.

$$y=f(X_s)$$

y = Depended variable (CSR)

X<sub>s</sub> = explanatory variables or independent variables  
(Financial performance Net Profit)

By confining our research so far to the population of Y values corresponding to the fixed X<sub>s</sub> our task is now to estimate the population regression function for the sample

information. Suppose the sample of n sets observation are available the observations are assumed to satisfy the simple liner regression model and so we can write

$$y = \beta_1 + \beta_2 X_i + \mu_i$$

y = Depended variable (CSR)

X<sub>i</sub> = explanatory variables or independent variable ( Financial performance Net Profit)

$\beta_1$  and  $\beta_2$ = parameters or slope of coefficients.

$\mu_i$ = residual or error terms

The one-way ANOVA compares the means between the groups you are interested in and determines whether any of those means are statistically significantly different from each other. Specifically, it tests the null hypothesis:

$$H_0: \mu_1 = \mu_2 = \mu_3 = \dots = \mu_k$$

where  $\mu$  = group mean and  $k$  = number of groups. If, however, the one-way ANOVA returns a statistically significant result, we accept the alternative hypothesis ( $H_A$ ), which is that there are at least two group means that are statistically significantly different from each other.

At this point, it is important to realize that the one-way ANOVA is an **omnibus** test statistic and cannot tell you which specific groups were statistically significantly different from each other, only that at least two groups were.



To determine which specific groups differed from each other, you need to use a **post hoc test**. Post hoc tests are described later in this guide.

Table 1.1

Axis Bank Limited						
ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.852	1	.152	1.887	.000
	Residual	1.210	11	.081		
	Total	2.362	12			
a. Dependent Variable: CSR						
b. Predictors: (Constant), Financial Performance Net Profit						

Table no. 1.1 which analyses variance between CSR of Axis Bank Limited and Financial Performance Net Profit from 2015 to 2024 the value of P ( $P < 0.05$ ) that this regression is significant Net Profit is taken as independent variable. This test is calculated at 5% degree of freedom.

Table 1.2

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.834	.812	.793	.28398	1.237

a. Predictors: (Constant), Financial Performance Net Profit

b. Dependent Variable: CSR

Table No. 1.2 shows correlation  $R = 0.834$  of the significant predictors i.e. Financial Performance Net Profit as we analyse this table we see from the model, that the Net Profit influenced the productivity of Axis Bank Limited which explains 83% variability in the Net Profit. The  $R^2$  Explain 81% variation i.e. productivity is one of the major factors that influenced the Financial Performance Net Profit. The Adjusted  $R^2$  also reported that the independent variable i.e. CSR explain 79% variation in the total Financial Performance Net Profit. Durbin- Watson test is 1.237 which means this is a very positive autocorrelation in between. From this analysis it is clear that CSR in this case contribute to Financial Performance Net Profit.

Table 1.3

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.470	.073		47.752	.000
	Net Profit	.955	.000	.4	1.374	.000

Dependent Variable: CSR

Table No. 1.3 examines the B value of the independent variable which is positively related and the regression coefficient of CSR is 0.995 The sample regression equation is as follows

$$Y = 3.470 + 0.955X$$

this equation says that if one-unit change takes place in the CSR than the Financial Performance Net Profit will change 0.995 times. So there is correlation between CSR and Financial Performance Net Profit.

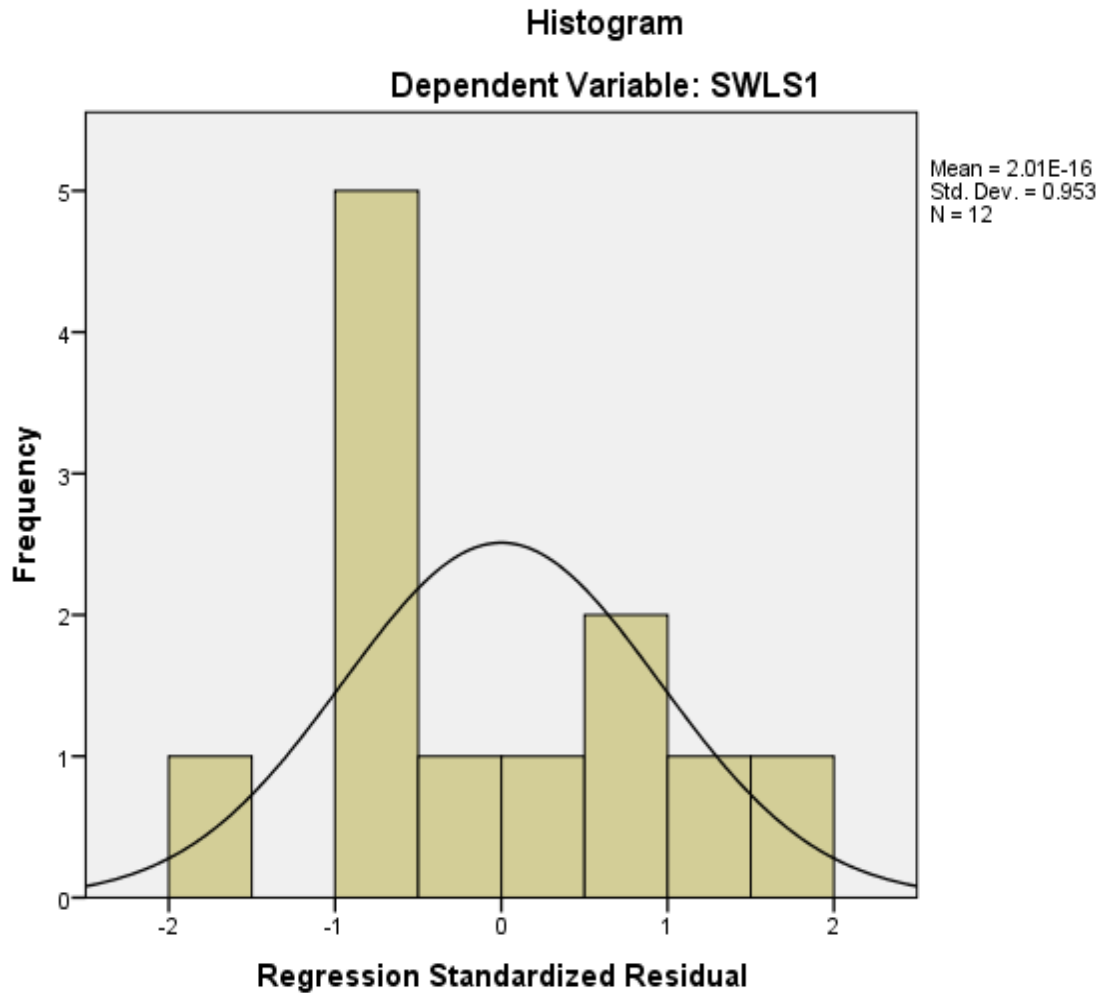


Figure 1

This Chart of normal distribution values of all variables the negative side of histograms show long tail, which is negatively skewed result. On the Histogram chart all the data is not on the diagonal line which is deviation. The points which close to the diagonal line, it shows less deviation. Histogram of shows that the data points are almost on the diagonal and deviation is negligible.

**Normal P-P Plot of Regression Standardized Residual**

**Dependent Variable: SWLS1**

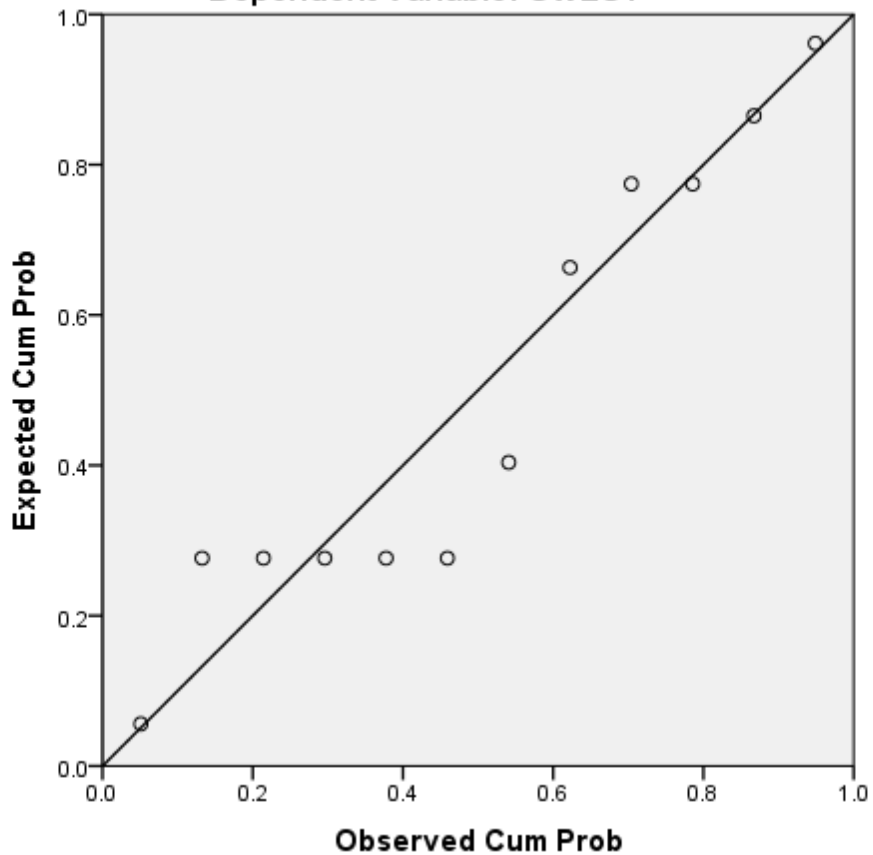


Figure 2

Figure 2 shows the scatter diagram and represent true population regression line the regression line in this diagram known as the simple regression line.it can be positive or negative the sign depending on the sign of the term of numerator, in our case it is positive and significantly measures the covariation .

**Bandhan Bank Limited**

**Table 1.4**

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.982	1	.189	1.776	.000
	Residual	1.762	11	.083		
	Total	2.744	12			
a. Dependent Variable: CSR						
b. Predictors: (Constant), Financial Performance Net Profit						

Table no. 1.4 which analyses variance between CSR of Bandhan Bank Ltd and Financial Performance Net Profit from 2010 to 2021 the value of P ( $P < 0.05$ ) that this regression is significant Net Profit is taken as independent variable. This test is calculated at 5% degree of freedom.



**Table 1.5**  
**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.859	.823	.803	.26587	1.5840

a. Predictors: (Constant), Financial Performance Net Profit

b. Dependent Variable: CSR

Table No. 1.5 shows correlation R= 0.859 of the significant predictors i.e. Financial Performance Net Profit as we analyze this table we see from the model, that the Net Profit influenced the CSR of Bandhan Bank Limited which explains 85% variability in the Net Profit. The R<sup>2</sup> Explain 82% variation i.e. CSR is one of the major factors that influenced the Financial Performance Net Profit. The Adjusted R<sup>2</sup> also reported that the independent variable i.e. CSR explain 80% variation in the total Financial Performance Net Profit. Durbin- Watson test is 1.5840 which means this is a very positive autocorrelation in between. From this analysis it is clear that CSR in this case contribute to Financial Performance Net Profit.

**Table 1.6**  
**Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.338	.083		41.514	.000
	Net Profit	.982	.000	.4	1.874	.000

Table No. 1.6 examines the B value of the independent variable which is positively related and the regression coefficient of CSR is 0.982 The sample regression equation is as follows

$$Y = 4.338 + 0.982X$$

this equation says that if one-unit change takes place in the CSR than the Financial Performance Net Profit will change 0.982 times. So there is correlation between CSR and Financial Performance Net Profit.

## CONCLUSION

The following is an explanation provided by the World Business Council for Sustainable Development (WBCSD) in their 2001 definition of corporate social responsibility (CSR): The dedication of business to sustainable economic development while collaborating with employees, their families, as well as the other communities. It's important to note that no country other than India was the first to compel CSR for the corporate sector in the nation. To make this happen, the Companies Act of 2013 (the "Act") was amended in April 2014. Businesses are now permitted to invest a specific percentage of their revenues in education, poverty, hunger, and gender equality in order to comply with the CSR mandates.

## SUGGESTIONS

The following recommendations are made for the areas that require further focus by the banks based on the study's findings as well as some broad observations from respondents.

- As creating a profit is seen as one of an organisation's economic obligations, banks need to focus more on managing their NPAs. Only a successful business can effectively fulfil its social obligations.
- Banks should promote moral and responsible behaviour among their employees both during and after work hours.
- To raise staff understanding of the banks' CSR policies on charitable giving, banks should set up programmes and internal training initiatives.
- Banks are required to put procedures in place to assist family members in the event of an employee's death, permanent injury, or incapacity. This is an element of the bank's social responsibility to its staff.
- Employee support is essential for the effective implementation of a CSR initiative. Banks should take into account any comments made by staff members about CSR-related issues. As they are closer to the community and more cognizant of its requirements than upper management, employees must be permitted to actively participate in field operations.



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