



---

MEASURING THE IMPACT OF CORPORATE SOCIAL PERFORMANCE ON THE  
FINANCIAL PERFORMANCE OF INDIAN COMMERCIAL BANKS

*Priyanka*

*Assistant professor (commerce)*

*D. N. College, Hisar,*

*priyanka221187@rediffmail.com*

---

*Abstract*

*Study aims to identify the factors/dimensions of corporate social performance and to measure the impact of each of the dimensions on the financial performance of the Indian commercial banks. Researcher has made use of secondary data to measure the financial performance of the banks and primary data to measure the corporate social performance of the banks. Sample size of the study was 450 employees from a sample of 15 banks which consist five from public sector, five from private sector and five from foreign banks. Researcher has used factor analysis and stepwise regression analysis in the study. It was found from the study that there are mainly five dimensions of corporate social performance of banks namely; society welfare, rural development, employee welfare, environmental responsibility, and educational development. Out of these five dimensions of corporate social performance only four dimensions were found to have a significant impact on the financial performance except educational development. Financial performance of the Indian commercial bank was found to have a positive relationship with the corporate social performance.*

*Keywords: Commercial banks, Public Banks, Private Banks, corporate social responsibility, and Financial Performance.*

**I. INTRODUCTION**

Banks plays crucial role in the financial system of the country. They take the funds from the surplus units of the economy which is mainly the household section and provides these funds to the deficit unit of the economy which is mainly the business houses. Thus, bank plays the role of trustee as they keep the funds of the general public, they play the role of financial intermediary as they are responsible for the supply of funds in the economic system, and they work as an agent also as banks makes various payments on behalf of its customers. All these functions of the banks help in generating both the interest and non-interest income to the banks. Banks being service organizations, their products are intangible in nature and the success of banks depends on the quality of the services provided by its employees. Thus, banks have to



face huge competition in selling the products which are almost similar, or with slight difference from the competitor banks.

In such a competitive scenario, banks have no option but to put continuous efforts to tap the unreachable market, to expand its market share, in order to increase its customer data base. Increased customer data base will provide the business to banks in the form of saving accounts, or other banking services. The best way to expand the market share, or to reach to untapped market is to do CSR activities. Due to the nature of the banking operations it is very easy for the banks to attract its customers by getting involve in the CSR activities. CSR activities will not only help in fulfilling the responsibility of the banks towards the society or local community but also helps in getting interact with the potential customers who can give huge business to the banks. Financial inclusion is one of the very important example of CSR activity and it also enables the banks to reach to the untapped market. Similarly; the banking correspondents, mobile banking branches, financial literacy centres, adoption of villages all comes under CSR activities of the bank, but actually these activities give chance to banks to interacts with the general public and increase its customer data base.

Thus, overall it can be said that CSR is one of the important area which is very sensitive, needs investment but will also generate huge profits and business for banks in long run. Keeping in view the importance of the CSR in the banking sector, current study is an attempt to identify the dimensions of the corporate social performance of the Indian commercial banks.

## **II. REVIEW OF LITERATURE**

There is a huge literature available on the corporate social responsibility. There are two approaches which are generally used for corporate social responsibility. One is traditional approach which considers corporate social responsibility as an expense for the business and it is neither the objective of the business nor it increases the wealth of the business (Barnett & Saloman, 2012). According to the traditional approach, businesses are meant to earn profits not to do charity. CSR activities may divert the business from its real objectives that is to earn profit and maximize the wealth of the shareholders (Beurden & Gossling, 2016). Thus, researchers have given arguments against the corporate social responsibility. As per the modern approach, corporate social responsibility is a long term investment, which of course decrease the share of the profits in present but enables a business to earn huge profits in future (Carnevale & Millington, 2016). Studies after 1990s have focused on showing the importance of corporate social responsibility for the business. Corporate social responsibility is similar to other long term investments of the business which gives return for long term period (Jo, Kim and Park, 2014).

Corporate social responsibility is an important factor which helps the business to increase its profits by the way of establishing its positive image in the market, and increasing its scope of



operations in the market (Lu et al., 2014). CSR activities of business help in creating awareness among the customers about the organization and present it as a responsible organization. Organizations which show responsible behavior towards the society, internal and external stakeholders, generally face less criticism and customers get easily attracted towards these organizations (Tran, 2014). CSR has become more important for the service sector as there is a huge competition in the service sector and due to the nature of the products of these organizations. Services are intangible in nature, and generally it's very difficult to differentiate the services from competitors. Thus, CSR is used as a weapon by the companies to capture the market share, to establish a positive image in the market, and to attract the customers by showing responsible behavior (Laidroo&Sokolova, 2015).

Various studies have been conducted to measure the impact of corporate social responsibility on the different aspects of the banks such as; corporate image, profitability, liquidity or the financial performance. Researchers (Barnett & Solomon, 2016, Islam, 2012) have proved that corporate social responsibility is a way to attach to the potential customers of the business. Corporate social responsibility enables the organizations to build or establish itself as a corporate brand in the market (Ofori et al., 2014). Generally, the banks are involved in the activities such as; rural development, community welfare, farmers' welfare, financial education, etc. (Raihan et al., 2015). Social responsibility activities of banks towards its employees will help in increasing the employee satisfaction, retaining talented and skilled employees with the bank for long term, reducing the grievances from employees, reducing work place stress among employees, helps in creating a balance between work and personal life, increasing their engagement towards the work, organizational commitment among employees and achieving the organizational objective in the best possible manner (Mallin et al., 2014). Satisfied employees provides best services to the customers and that helps in increasing the customer satisfaction through better service quality. All these lead to better performance of the banks and higher level of profits (Okwemba et al., 2014). Socially responsible behavior of banks towards the society, helps in creating the awareness among the society or community about the bank and its products (Malik & Nadeem, 2014).

Researchers have conducted various studies to establish a positive relation between financial performance and CSR activities of the banks. (Ackermann et al., 2011) have found a positive and significant relationship between Return on assets and the corporate social performance of the banks. While some researchers have found negative or no significant relationship between Return on assets and the corporate social performance. Researchers (Giannarakis&Theotokas, 2011; Chaomvilailuk& Butcher, 2013; Ahmed et al., 2012) have also measured the impact of CSR activities on the NPA of the banks, stock market share, ROE and the growth in the profits of the banks. It was found that CSR activities of a bank significantly affect the growth of bank in longitudinal studies. Rogosic (2014) has found that ROE is not a good indicator for measuring the impact of the CSR activities of the bank.



Thus, overall it can be said that there are huge studies to measure the link between financial performance of banks and the CSR activities of the banks. But, there is a lack of literature where the researchers have identified the various dimensions of the corporate social performance or measured the impact of each of the dimension separately on the financial performance. Researchers have taken CSP as a standalone variable while in actual it depends on various dimensions; thus it is very important to measure the impact of each of the dimension of CSR on the financial performance of the banks. Now a day not only banks but all the organizations have shown efforts to conduct CSR activities on regular basis. Thus, it becomes important to know that which dimension of CSR is having significant impact on the different aspects of the banks. Current study will try to bridge the gap of literature review.

### **III. OBJECTIVES OF THE STUDY**

Research aims to accomplish the following objectives:

- To find out the dimensions of corporate social performance of Indian commercial banks.
- To measure the impact of corporate social performance of Indian commercial banks on the financial performance.

### **IV. RESEARCH METHODOLOGY**

In the current study researcher has measured the performance of the banks from two perspectives. First is from financial perspective and secondly, from the social perspective which is also known as corporate social responsibility. In order to measure the financial performance of the banks researcher has used the secondary data collected from the annual reports of the banks for last three years from 2014-17. While corporate social performance of Indian commercial banks has been measured using the primary data. Employees' opinions towards the corporate social performance of the banks have been recorded with the help of a well-designed questionnaire. Researcher has taken total fifteen banks in the sample based on the size of the banks. Top five banks from each of three categories of the banks have been selected. The area of the study was Haryana. Researcher has visited minimum two branches of each of the fifteen banks and collected data from 450 employees which consists 30 employees of each bank. Data has been collected by the researcher in person only. The period of the data collection was January 2017 to May 2017. Following hypothesis has been formulated and established with the help of current study:

H<sub>01</sub>: There is no significant impact of corporate social performance of Indian commercial banks on the financial performance



In order to examine the impact of corporate social performance of Indian commercial banks on the financial performance researcher has used the stepwise multiple regression analysis. Financial performance is represented by a proxy variable which indicates the profitability of the bank i.e. Return on Assets. Factor analysis has been used to identify the various dimensions of corporate social performance.

## V. ANALYSIS AND FINDINGS

Researcher has measured the reliability of the questionnaire using Cronbach Alpha. The value of Cronbach Alpha was found 0.896, which is above 0.70 thus it is acceptable and a good value. It shows that the questionnaire is reliable and can be used for further data analysis.

**Results of Factor Analysis:** Factor analysis has been used to identify the dimensions of corporate social performance of the banks. Bartlett's Test and KMO test has been applied before applying the factor analysis on primary data to know the fitness and adequacy of the data and set of variables. Results of Bartlett's Test and KMO test has been given in table 1 in detail.

**Table 1:** KMO Test and Bartlett Test

S. No.	Description	Value	Acceptability
1	KMO test	0.896	Sample size is adequate and the value is acceptable
2	Results of Bartlett's Test		
	Chi-Square (DF = 376 )	923.65	0.002 (Significant at 99 percent confidence level)

**Interpretation:** Table 1 depicts the value of KMO test which is found to be 0.896 close to 1 thus, it can be said that it is good value. It shows the overall adequacy of the sample size and set of variables used in the study. Similarly; the value of Bartlett's Test is found significant at 99 percent confidence level. Thus, it can be said that data is fit for applying factor analysis. Table 2 and 3 shows the factor loadings for each of the statement along with the factors using Varimax rotation method, and Principal Component Analysis.



Table 2: Percentage of Explained Variance

S. No.	Particulars	Explained Variance	No of Items
Factor 1	Society Welfare	28.34	9
Factor 2	Rural Development	22.17	7
Factor 3	Employee Welfare	19.49	6
Factor 4	Environmental Responsibility	13.85	5
Factor 5	Educational Development	9.48	5
Overall Explained Variance		93.33	32

**Interpretation:** Table 2 depicts the variance explained by the factors. Total five factors have been extracted from the factor analysis which represents the corporate social performance of the Indian commercial banks. These factors are namely; society welfare, rural development, employee welfare, environmental responsibility, and educational development. Total variance caused by these five factors was 93.33 percent. Highest percentage of variance i.e. 28.34 percent was caused by first factor to the corporate social performance of the Indian commercial banks, while the least percentage of variance i.e. 9.48 percent was caused by fifth factor i.e. educational development.

Table 3: Factors Loadings

S. No.	Description	Factor Loadings
Society Welfare		
1	Conducting campaigns against social evils	0.912
2	Free medical camps, Eyescheckup or blood donation camps	0.901
3	Donation for social causes	0.878
4	Loans to women entrepreneurs	0.868
5	Vocational training centres	0.818
6	Support to sports	0.767



7	Free meal facility in schools or hospitals	0.766
8	Financial literacy centres	0.752
9	Awareness campaigns for AIDS/Cancer or severe diseases	0.749
Rural Development		
10	Loans for agriculture	0.781
11	Kisan credit cards	0.767
12	Loans for purchase of seeds	0.766
13	Loans to self-help groups	0.752
14	Micro financing	0.749
15	Kisan consultancy centres	0.689
16	Adoption of village under CSR initiatives	0.625
Employee Welfare		
17	Medical benefits during job and after retirement	0.601
18	Child care facilities for women employees	0.898
19	Sexual harassment policy	0.891
20	Annual day celebration for employees	0.807
21	School for employees' wards	0.788
22	Township for employees	0.786
Environmental Responsibility		
23	Loans for eco-friendly projects	0.783
24	Adoption of wild animals	0.716
25	Saving electricity by using LED lights	0.705
26	No loans for ozone depleting projects	0.698
27	No to hard copy for accounts statements	0.645



Educational Development		
28	Variety of Educational Loans	0.589
29	Subsidized interest rates on education loan	0.532
30	Scholarship for meritorious students/orphans/disabled students	0.712
31	Donation to educational institutions	0.701
32	Donating Water coolers, Fans, tube lights, solar systems or other equipment	0.698

**Interpretation:** It can be interpreted from table 3 that there are total five dimensions of corporate social performance of the Indian commercial banks. First dimension was society welfare which includes total nine statements and all the statements were related to the welfare of the society such as; conducting campaigns against social evils, free medical camps. Eye checkup or blood donation camps, Donation for social causes, Loans to women entrepreneurs, Vocational training centres etc. Second dimension of corporate social performance was found to be rural development which includes total seven statements which are related to the welfare of farmers, rural people and self-help groups. Third dimension of corporate social performance was found to be employee welfare which includes total six statements and all are related to the welfare of employees, in terms of medical benefits, child care facilities, residential facilities for employees and their family members. Fourth dimension of corporate social performance was found to be environmental responsibility which includes total five statements and all are related to the protection of natural environment and wild life. Last and fifth dimension of corporate social performance was found to be educational development which includes total five statements and all are related to the education loans, subsidized interest rates on education loan, donation to schools, and scholarships to students. Thus, overall it can be said that corporate social performance of the Indian commercial banks can be successfully represented by five dimensions namely; society welfare, rural development, employee welfare, environmental responsibility, and educational development.

### Relationship between Financial and Corporate Social Performance

Researcher has used the stepwise regression analysis to examine the impact of corporate social performance over the financial performance of Indian commercial banks. ROA has been used as dependent variable which indicates the financial performance of the Indian commercial banks while all the five extracted dimensions have been considered as independent variables in the study. Results of the stepwise regression analysis have been given in detail in the following section.





Table 4: Results of Regression

Regression Model	Value of R	Value of R <sup>2</sup>	Std. Error	Change Statistics			
				Change in R <sup>2</sup>	F-value	df	p-value
1	0.662 <sup>a</sup>	0.438	1.005	0.438	372.034	449	0.000
2	0.761 <sup>b</sup>	0.579	0.682	0.141	558.421	448	0.000
3	0.819 <sup>c</sup>	0.671	0.588	0.092	165.864	447	0.000
4	0.857	0.734	0.516	0.064	141.653	446	0.000

a. Independent Variables: (Constant), Society welfare

b. Independent Variables: (Constant), Society welfare, rural development

c. Independent Variables: (Constant), Society welfare, rural development, employee welfare

d. Independent Variables: (Constant), Society welfare, rural development, employee welfare, environmental responsibility

**Interpretation:** It can be interpreted from the table 4 that four significant models have been emerged which shows the relationship between dependent and independent variables in the current study. First regression model shows the relationship between Society welfare and financial performance. The value of R and R-square is 0.662 and 0.438 respectively. The value of R-square get increased with the addition of some more independent variables in the regression model. Second regression model includes the two independent variables namely; Society welfare, and rural development. The value of r-square changes from 0.439 to 0.579 after adding the variable rural development, which shows that the relationship of Society welfare with financial performance get more stronger if we add the independent variable rural development in the regression model. Regression model 3 indicates that the change in r-square increase from 0.579 to 0.671 if we add one more independent variable which is employee welfare in the regression model. Thus a significant change can be seen in the relationship of dependent and independent variables. Similarly, the regression model 4 and 5 indicates that the value of R-square further get changed if we add two more independent variable in the regression model which is environmental responsibility and educational development. The value of R-square increases from 0.671 to 0.734 by adding environmental responsibility in the model. Thus, the last model seems to be most significant model for measuring the impact of corporate social performance on the financial performance of Indian commercial banks. It can be indicated from the value of R-square that the 73 percent of the total variation caused by independent variable in the value of dependent variable and rest 27 percent is due to chance/unknown other factors. Therefore, it can be said that out of five dimensions only four were found to have significant impact on the financial performance of the Indian commercial banks.



**Table 5:** Anova Results

Regression Model	Sum of Squares	Degree of Freedom	Mean Square value	Value of F	p-value
1 Regression	375.702	1	375.702	372.034	.000
Residual	480.693	449	1.010		
Total	856.395	450			
2 Regression	635.450	2	317.725	683.063	.000
Residual	220.945	448	.465		
Total	856.395	450			
3 Regression	692.723	3	230.908	668.715	.000
Residual	163.672	447	.345		
Total	856.395	450			
4 Regression	730.443	4	182.611	685.774	.000
Residual	125.952	446	.266		
Total	856.395	450			

**Interpretation:** Anova results were given in table 5 clearly shows that four regression models are significant. F-value for all the four regression models has been found significant at 99 percent confidence level. Thus, null hypothesis is rejected in the study which states that there is no relationship between Society welfare, rural development, employee welfare, environmental responsibility and financial performance of the Indian commercial banks.

**Table 6:** Value of Regression Coefficients

Regression Model	Coeff. (Unstandardized)		Coeff. (Standardized)	t-value	p-value	
	B	S.E.	Beta Value			
1	(Constant)	.572	.240	6.560	.000	
	Society welfare	.528	.069	.662	19.288	.000
2	(Constant)	.778	.241	23.965	.000	
	Society welfare	.248	.047	.622	26.632	.000
	Rural development	.535	.065	.552	23.631	.000
3	(Constant)	.710	.220	30.504	.000	
	Society welfare	.409	.044	.503	22.702	.000
	Rural development	.327	.058	.477	22.788	.000



	Employee Welfare	.767	.060	.297	12.879	.000
4	(Constant)	.121	.227		35.833	.000
	Society welfare	.820	.040	.459	23.166	.000
	Rural development	.229	.052	.442	23.731	.000
	Employee Welfare	.730	.052	.282	13.930	.000
	Environmental Responsibility	.558	.047	.220	11.902	.000

**Interpretation:** Table 6 depicts the results of regression coefficients along with the t-value and p-value for all the four regression models. The t-values are found to be significant for all the independent variables in all the four regression models. In the current study all the four variables used as independent variables were found to be significantly related to the financial performance of Indian commercial banks. Financial performance of Indian commercial banks was found to have a positive relationship with the all four dimensions of corporate social performance. Thus, it can be said that high corporate social performance reflects through superior performance of banks and low corporate social performance reflects in the poor performance of the banks.

## VI. CONCLUSION

It can be concluded from the study that corporate social performance of the Indian commercial banks can be successfully represented by five dimensions namely; society welfare, rural development, employee welfare, environmental responsibility, and educational development. Out of these five dimensions of corporate social performance only four dimensions have positive and significant relationship with the financial performance except educational development. Financial performance of banks was found to be positively related with all the dimensions of corporate social performance in Indian commercial banks. It indicates that any increase in any of the dimension of corporate social performance will lead to increase in the financial performance of the Indian commercial banks. Thus, it can be said that higher corporate social performance will lead to higher financial performance of the banks.

## VII. LIMITATIONS AND FUTURE SCOPE

The study was limited to the commercial banks of India which can also be extended to the regional rural banks and cooperative banks. The sample size of the study was 450 employees of



the 15 banks which is very less in comparison to the total number of employees working in the banks and total commercial banks functioning in India. In future, the size of the sample may be extended. Researcher has used the Return on Asset as proxy variable to measure the financial performance of the banks, while other indicators can also be used such as; Return on Equity, or Net performing assets.

### VIII. MANAGERIAL IMPLICATIONS

The study is useful for the bankers to understand the impact of corporate social performance over the financial performance in banks. Study also highlighted the four major areas of the CSR where the banks need to focus to improve their financial performance. Banks should focus on welfare of society, employees, farmers, women entrepreneurs, self-help groups, micro and small enterprises. CSR may cause as an expenses in short run but in long run of the business it always gives profits.

### REFERENCES

- [1] Ackermann, F., Eden, C, "Strategic Management of Stakeholders: Theory and Practice", *Long Range Planning*, Vol. 44, 2011, pp. 179-196.
- [2] Ahmed, S.U., Islam, Z., Hasan, I, "Corporate social responsibility and financial performance linkage", *Journal of Organizational Management*, 1(1), 2012, pp.14-21.
- [3] Barnett, M.L., Salomon, R.M., "Does it pay to be really good? Addressing the shape of the relationship between social and financial performance", *Strategic Management Journal*, Vol.33, No. 11, 2012, pp. 1304-1320.
- [4] Barnett, M.L., Salomon, R.M., "Beyond dichotomy: The curvilinear relationship between social responsibility and financial performance", *Strategic Management Journal*, Vol. 27, 2016, pp. 1101-1122
- [5] Beurden, P., Gossling, T., "The Worth of Values - A Literature Review on the Relation Between Corporate Social and Financial Performance", *Journal of Business Ethics*, Vol.82, No. 2, 2016, pp. 407-424
- [6] Brammer, S., Millington, A., "Does it pay to be different? An analysis of the relationship between corporate social and financial performance", *Strategic Management Journal*, Vol. 29, No. 12, 2016, pp. 1325-1343
- [7] Carnevale, C. Mazzuca, M., "Sustainability report and bank valuation: evidence from European stock markets", *Business Ethics: A European Review*, Vol. 23, No. 1, 2014, pp. 69-90
- [8] Chomvilailuk, R., Butcher, B., "The effect of CSR knowledge on customer liking, across cultures", *International Journal of Bank Marketing*, Vol.31, No.2, 2013, pp.98-114



- [9] Giannarakis, G., Theotokas, I., "The effect of financial crisis in corporate social responsibility performance", *International Journal of Marketing Studies*, Vol. 3, No. 1, 2011, pp. 12-14.
- [10] Islam, K.Z., "Corporate Social Responsibility (CSR) and Issue to Corporate Financial Performance (CFP): An Empirical Evidence on Dhaka Stock Exchange (DSE) Listed Banking Companies in Bangladesh", *European Journal of Business and Management*, Vol.4, No.11, 2012, pp. 18-26
- [11] Jo, H., Kim, H., Park, K., "Corporate environmental responsibility and firm performance in the financial services sector", *Journal of Business Ethics*, Vol.131, No.2, 2014, pp.1-28.
- [12] Laidroo, L., Sokolova, M., "International banks' CSR disclosures after the 2008 crisis", *Baltic Journal of Management*, Vol.10, No.3, 2015, pp.270 - 294
- [13] Lu, W., Chau, K.W., Wang, H., Pan, W., "A decade's debate on the nexus between corporate social and corporate financial performance: a critical review of empirical studies 2002-2011", *Journal of Cleaner Production*, Vol.79, 2014, pp. 195-206
- [14] Malik, M. S., Nadeem, M., "Impact of corporate social responsibility on the financial performance of banks in Pakistan", *International Letters of Social and Humanistic Sciences*, Vol.21, 2014, pp. 9-19
- [15] Mallin, C., Farag, H., Ow-Yong, K., "Corporate social responsibility and financial performance in Islamic banks", *Journal of Economic Behaviour & Organization*, Vol.103, 2014, pp. 21-38
- [16] Ofori, D.F., Nyuur, R.B., S Darko, M.D., "Corporate social responsibility and financial performance: fact or fiction? A look at Ghanaian banks: original research", *Acta Commercii*, Vol.14, No.1, 2014, pp. 1-11
- [17] Okwemba, E.M, Chitiavi, M.S., Egessa, R. Douglas, M., Musiega, M.G., "Effect of Corporate Social Responsibility on Organisation Performance; Banking Industry Kenya, Kakamega County", *International Journal of Business and Management Invention*, Vol.3, No.4, 2014, pp. 37-51
- [18] Raihan, M.Z., Bakar, R., Islam, M.A., "Impact of Corporate Social Responsibility (CSR) Expenditures on Financial Performance of Islami Bank Bangladesh Ltd", *The Social Sciences*, Vol.10, No.2, 2015, pp. 171-177.
- [19] Rogosic, A., "Corporate social responsibility reporting of the banks in Bosnia and Herzegovina, Croatia and Montenegro", *Theoretical and Applied Economics*, Vol.21, No.9, 2014, pp. 71-82
- [20] Tran, Y., "CSR in banking sector, A Literature Review and New Research Directions", *International Journal of Economics, Commerce and Management*, Vol.2, No.1, 2014, pp. 1-22