



IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON THE FINANCIAL PERFORMANCE OF 4 MAJOR PUBLIC SECTOR BANKS IN INDIA

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ABSTRACT

As we know India is the fastest-growing economy but socio-economic problems like illiteracy, Poverty, and lack of health care are still Ubiquitous and the government has limited resources to tackle these challenges. It is only possible through donations and charity events etc. As one of the important shloka (quote) from the Rigveda says "A businessman should benefit from the business like a honey-bee which suckles honey from the flower without affecting its charm and beauty". Many Corporations in India are involved in CSR programs in diverse areas. Through this research, we try to find the relationship between Corporate Social Responsibility and the Financial Performance of Public Sector Banks. Financial Performance means various Financial Parameters such as EPS, ROA, ROE, etc. In this research, we also endeavour to express the CSR score card which shows the comparative analysis of the sectoral contribution of CSR funds but we took only 4 Public Sector Banks out of 12 for comprehensible research.

KEYWORDS: CSR, RBI, SBI, PNB, ROE, ROA, EPS.

HISTORY

The concept of Corporate Social Responsibility is not new in India. It emerged from Vedic Period when history was not properly recorded but the king had an obligation towards the society by building places of Worship, Education, wells, and Inns. Similarly, Islam had a law called Zakat which means a Portion of earnings must be shared with the poor in the form of a donation. However, in Sikhism Dasvandh term is used where one-tenth or 10% of Income is to be donated in the form of seva. In the 19th Century Industrial Families such as Tata, Godrej, Singhania, Bajaj, Modi, and Birla were strongly inclined towards economic as well as social considerations. Thereafter the idea of trusteeship was popularised by Mahatma Gandhi where the wealthy people would be the trustee of the trust that looked after the welfare of the people in general. In the last twenty years, we can see the triangular relationship between companies, the state, and the society.

INTRODUCTION OF CSR

Corporate Social Responsibility is defined as the ethical behaviour of the company towards society. Today no firm can act independently regardless interest of the general Public. According to the **World Business Council for Sustainable Development**, "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and the society at large". India is the first country to have CSR as a mandate wherein the companies qualifying specific criteria are required to spend 2% of their average net profits of the last three preceding financial years. These specific criteria are mentioned under section 135 of the Companies Act 2013. Which is applicable to all Companies during the Immediately Preceding Financial Year.

Table-1: Legal Conditions for Corporate Social Responsibility in India

Companies having Turn Over of	1000 Crore or More
Net Profit	5 Crore or More
Net Worth	500 Crore or More

(Source: Companies Act 2013)

LITERATURE REVIEW

(Garg, Nidhi 2021) Those who suggested a negative relationship said that Spending on Society leads to an additional economic burden on firms on the other hand spending on social welfare leads to enhanced goodwill, provides superiority among competitors, increases customer involvement, and improves productivity and quality, etc **Rajput, N., Batra, G., & Pathak, R. (2012)** In their study tried to understand the

relationship between CSR and financial performance in the Indian context. CSR indexes (www.karmayog.org) and financial performance (annual reports) measures were taken to allow the estimation of regression analysis conducted to examine the relationship between CSR and financial performance. **Bedi, H.S. (2009)** in the paper "Financial Performance and Social Responsibility: Indian Scenario" examined 37 Indian firms. The correlation between financial performance and corporate social expenditure showed a strong



positive relationship between the two. **Iqbal, N. et.al (2012)** investigated the impact of CSR on the financial performance of several firms in Pakistan. For this purpose, 156 Karachi Stock Exchange-listed companies were chosen for two years, 2010 and 2011. The financial performance indicators were debt-equity ratio, ROA, ROE, etc.

Batra and Bahri (2018) conducted a study on 20 BSE-listed banks to study the impact of financial indicators on their CSR expenditure using correlation and multiple regressions and found that Profit after taxes (PAT) positively affects CSR. This implies that the increase in profits leads to a simultaneous rise in CSR too. It was concluded that the Indian banks perceive CSR to be a medium for not only promoting the goodwill of the banks but also helping in fetching increased customer satisfaction, and loyalty on the part of investors and fostering financial growth. **Akanbi and Ofoegbu (2012)** examined the influence of CSR on the organizational performance of the United Bank for Africa in Lagos. They used t-test, regression, Pearson correlation, and ANOVA to conduct the particular study. The study revealed that there was a positive relationship between various dimensions of CSR and organizational performance.

AIMS & OBJECTIVES OF THE STUDY

- (a) To analyse the impact of CSR expenditure on the financial performance of 4 Major public sector banks in India.
- (b) To compute the CSR score for the Analysis.

CSR INDIAN BANK’S PERSPECTIVE

A Large Portion of the Country’s GDP growth is contributed by the Banks. They are playing a crucial role to caters the need of the middle class, focusing on rural areas and contributing to the country’s Infrastructure Building. Section 135 of the Companies Act 2013 applies to all companies which are registered under this act but it is not applicable to banks because they follow the Banking Regulation Act, 1949. In the year 2007 Reserve Bank of India directed the banks to Involve in Social activities and help our country to achieve sustainable development by contributing 1% of the published net profit for the previous year. In the case of loss-making Banks, they can make donations Totalling 5 Lakh rupees in the financial year. Such spending on donations by banks is voluntary in nature subject to Board approval. The study found that Public, Private, and Foreign Banks are actively part of CSR but some banks are not disclosed their spending amount in reports. Where the highest contribution is made by the public sector banks and the lowest by foreign banks.

IMPACT OF CSR ON THE FINANCIAL PERFORMANCE OF THE 4 MAJOR PUBLIC SECTOR BANKS IN INDIA

Several studies have been made in the past to study the relationship between the two variables, but the results are still confusing. Some studies are showing positive relationships whereas some were showing negative relationships. Some other studies revealed an inconclusive relationship between the two variables. Although every relationship has a strong base.

Table-2: Net Profit / Net Loss (In Crore.)

S.no	Name of Banks	F.Y 2019-20	F.Y 2020-21	F.Y 2021-22
1.	State Bank of India	14488	20410	31676
2.	Punjab National Bank	336	2022	3457
3.	Canara Bank	(2236)	2558	5678
4.	Indian Bank	3944.82	3005	753

(Source: Annual Reports of Public Sector Banks)

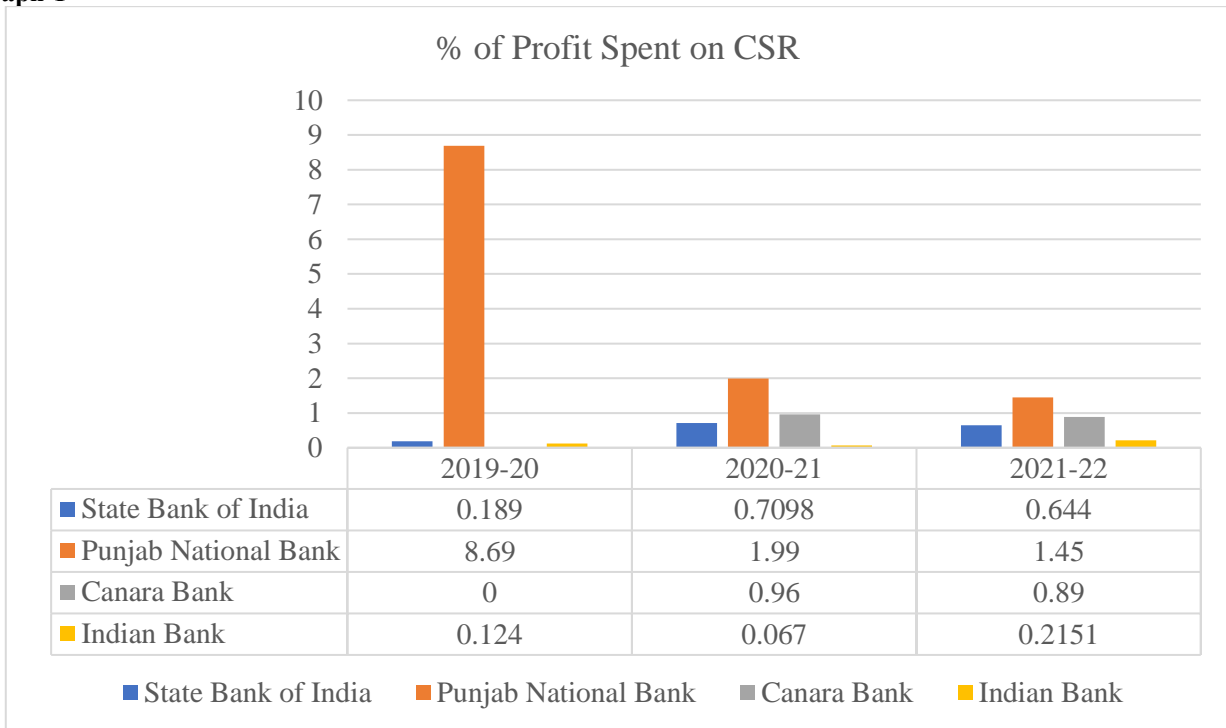
Table-3: Bank Wise Funds Allocated to CSR (In Crore.)

S.no	Name of Banks	F.Y 2019-20	F.Y 2020-21	F.Y 2021-22
1.	State Bank of India	27.47	144.88	204.10
2.	Punjab National Bank	29.21	40.38	50.19
3.	Canara Bank	20.49	24.70	50.96
4.	Indian Bank	4.93	2.02	1.62

(Source: Annual Reports of Public Sector Banks)

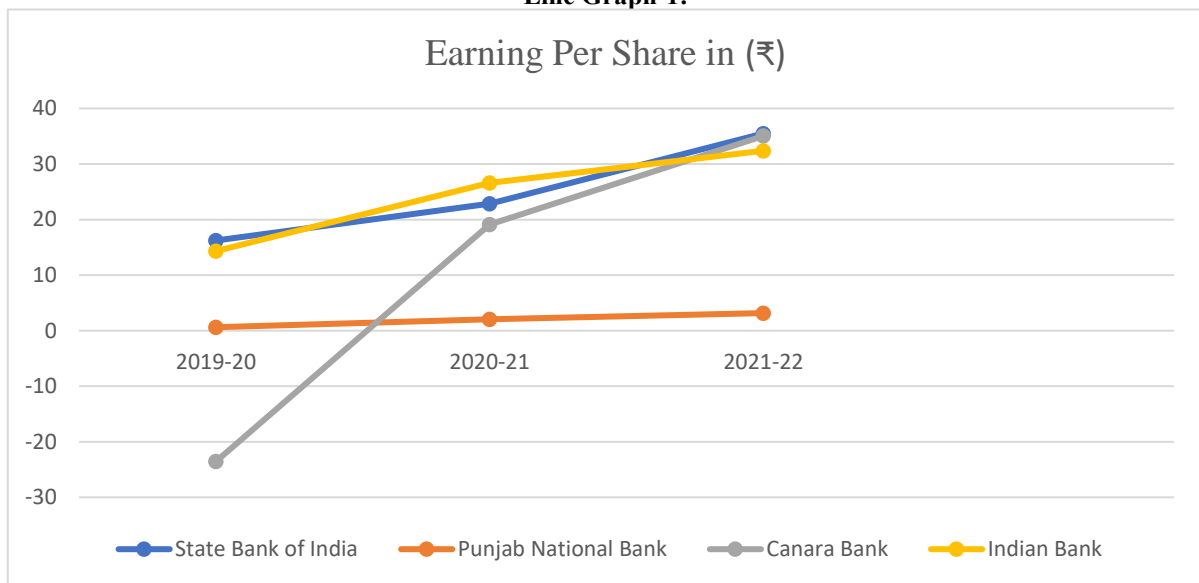


Bar Graph-1



(Source: Annual Reports of Public Sector Banks)

Line Graph-1:



(Source: Annual Reports of Public Sector Banks)

Table-4: Return on Asset & Return on Equity of 4 Major Public Sector Banks in (%)

S.no	Name of Banks	F.Y 2019-20		F.Y 2020-21		F.Y 2021-22	
		Return on Asset	Return on Equity	Return on Asset	Return on Equity	Return on Asset	Return on Equity
1.	State Bank of India	0.38	7.74	0.48	9.94	0.67	13.92
2.	Punjab National Bank	0.04	0.58	0.15	3.88	0.26	5.96
3.	Canara Bank	(0.32)	(8.05)	0.23	6.71	0.48	12.82
4.	Indian Bank	0.26	3.94	0.50	10.63	0.63	12.13

(Source: Annual Reports of Public Sector Banks)



DATA ANALYSIS

Table -2 represents the net profit & loss of 4 different public sector banks during the financial year 2019-20 to 2021-22 and Table-3 describes bank-wise funds allocated to CSR. As we can see in the financial year 2019-20 the net profit after tax of the state bank of India was 14488 crore and this bank contribute 27.47 crore to CSR in the same financial year which was almost 0.189% of the net profit. But as per the RBI, the standard norm is almost 1% of net profit after tax and it is purely on a voluntary basis so it is rarely followed. In the next financial year 2020-21, the profit of the state bank of India was 20410 crore and it increased by 40.87% In this year this bank contributes towards CSR 144.88 crore which is equivalent to 0.7098% of net profit, and having an EPS of 22.87 ₹ which was increased by 6.64 ₹ which was around 40.91% increment or Return on Asset and Return on Equity was 0.48% and 9.94% which was better than the previous year 2019-20 because of more contribution in CSR leads to more positive results. in the financial year 2021-22, the net profit of the state bank of India rose to 31676 crore which was a jump of 55.19%, and CSR contribution in this year was 204.10 crore which was 0.644% of the net profit after tax and EPS, ROA, and ROE were 35.49 ₹, 0.67%, and 13.92% all three financial parameters provide positive results and had a big jump as compared to the previous year, which shows due to an increase in the contribution of CSR leads to improve the financial performance of the Financial Institution. Now we can see the net profit after tax of the Punjab National Bank in the financial year 2019-20 was just 336 crore which was quite lower as compared to other banks but this bank contributes to CSR 29.21 crore which was 8.69% of the net profit after tax which was too higher and it was also above the standard norms set by RBI. In the next financial year, 2020-21 the net profit of the Punjab National Bank was 2022 crore which rose by 501.78% and this bank donated 40.38 crore to CSR which was approx. 1.99% of the net profit after tax and have and have an EPS of 2.08 ₹ which was increased by nearly 200% from the previous year or return on asset and return on equity were 0.15% and 3.88% means ROA was around 4 times higher and ROE was nearly 7 times higher than the last year. In the next

financial year 2021-22, the net profit of this bank was 3457 crore which was expanded by 70.96% and this bank contributes 50.19 crore towards CSR which was almost equal to 1.45% of net profit after tax and EPS, ROA, and ROE were 3.16 ₹, 0.26%, 5.96% all three parameters gave the positive result as compared to the earlier year because due to more contribution in CSR leads to more positive impact on the financial performance. In the financial year 2019-20, Canara Bank was facing a loss of 2236 crore but still, this bank contributed 20.49 crore toward CSR. In the next financial year 2020-21, the net profit after tax of this bank was 2558 crore and the contribution to CSR was 24.70 crore which was nearly 0.96%. and EPS was 19.11 ₹ but in the previous year, there was a loss per share of (23.55) ₹ This year Canara Bank ROA and ROE were 0.23% and 6.71% which were also positive to the previous loss year. In the financial year 2021-22, the net profit after tax of Canara Bank was 5678 crore which was around a 121.97% increment since last year’s net profit, and this year Canara Bank contribute 50.96 crores towards CSR and this was 0.89% of the net profit after tax and EPS, ROA, and ROE were 35.04 ₹, 0.48%, 12.82% these three parameters were nearly twice than the previous financial year. Now we can see the results of Indian Bank The net profit after tax in the financial year 2019-20 was 3944.82 crore and the contribution towards CSR was 4.93 crore which was around 0.124% of net profit after tax. In the next financial year 2020-21, the net profit of the Indian Bank was 3005 crore which declined by 23.82% from last year and this bank contributes 2.02 crore to CSR which was 0.067% of the net profit after tax and EPS was 26.61 ₹ which was almost 85.6% higher than the last year or ROA, ROE were 0.50%, 10.63% which were increased by approx. 92.30% and 169% in comparison to the previous year. In the financial year 2021-22, the net profit of the Indian Bank reached 753 crore which means it was diminished by 74.94% from last year but still this bank contributes 1.62 crore to CSR funds and this was nearly a 0.2151% of net profit after tax and EPS, ROA, and ROE were 32.38 ₹, 0.63%, 12.13% This is the only bank where we can see due to fall in net profit contribution towards CSR decreased but still financial parameters such as EPS, ROA, ROE were in a booming trend.

Table-5: CSR Score Card Based on the Areas of Spending by Top CSR Contributor Public Sector Banks During F.Y 2021-22.

Parameters	Punjab National Bank	State Bank of India	Canara Bank	Indian Bank
Health	✓	✓	✓	✓
Education & Skill Development	✓	✓	✓	✓
Sports	✓	✓	✓	✓
Financial Literacy	✓		✓	✓
Livelihood/Finance	✓			
Rural Development	✓	✓	✓	
Disaster Management	✓			
Women Empowerment		✓	✓	✓
Environment		✓	✓	✓
Animal Welfare		✓		
Total Score	7	7	7	6

(Source: Annual Reports of Public Sector Banks)



TABLE ANALYSIS

This Score Card represents the Punjab National Bank contribution in almost all areas except Women Empowerment, Environment, and Animal Welfare and getting a 7 score which means 7 core areas where the P.N.B participated. State Bank of India made the highest contribution in the year 2021-22 and got 7 CSR Scores This bank participates in different areas but spends the highest amount on rural development and the health sector. This Bank also participates in Environment and animal welfare areas but does not contribute to disaster management, financial literacy, and livelihood finance. Canara Bank is also a major CSR contributor public sector bank which got a 7 CSR Score and serves in almost every area except Disaster Management, Livelihood Finance, and Animal Welfare. Indian Bank achieved a 6 CSR Score by an endowment in various sectors.

LIMITATIONS OF THE STUDY

1. There are a total of 12 Public Sector Banks in India but we Studied only 4 Major Public Sector Banks.
2. This Study is limited to Three Financial Years started from 2019-20 and ends on 2021-22.

CONCLUSION

The concept of Corporate Social Responsibility has collected prominence from all avenues. Banking Institutions must realize that government alone will not be able to get success in its endeavor to uplift the downtrodden of society. Thus, from the above collected and tabulated data, we can see there is a positive relationship between CSR and the Financial performance of Public Sector Banks because due to the increase in contribution towards CSR their EPS, ROA, and ROE enhanced positively, and other qualitative factors such as goodwill, customer loyalty, Employees satisfaction, quality improvement will also increase. As we know India is the fastest-growing economy and is booming with national and multinational firms at the same time, India also faces social challenges like poverty, population growth, illiteracy, etc. so it can be irradiated by CSR and this will act as double edge sword, one edge provides the benefit to society and another edge will help to the company from all prospective either Financially or Non-Financially.

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