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Effect of CSR Spending on Profitability of Indian Banks: A Case Study of Selected Private Banks

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ABSTRACT

Over the past few years there is great debate over the responsibility of the business unit towards society. Companies Act 2013 also mandates the organisational unit to spend 2% of its average last three years earnings (profits) towards the society. However it does not lays down the area for such spending. Organisations are free towards such spending. Some organisations show such spending in their annual reports while some does not. The present paper is an attempt to find out whether organisations (Banks) which are showing such spending in their financial reports have any advantage over those which is not showing such explanation of spending. The results show that those banks which are showing such explanations of CSR spending in detail in their financial records have an advantage over others which are not giving such explanations.

Keywords: CSR, spending annual report, profitability etc.

INTRODUCTION:

The concept of Corporate Social Responsibility (CSR) has evolved over the decades but its focal point varies with the changing requirements of business and social needs. William J. Bowen was the first person who mentioned about the concept of CSR in his publication "Social responsibilities of businessman" in 1953. Later the term CSR becomes popular in the 1990s. Now a day's CSR is extensively used concept, especially after New Company's Act 2013. It is the most operational way of making sustainable competitive profit and achieving lasting values for stakeholder as well as shareholders. It is a concept in which organisation decide voluntarily to contribute to a better society and a healthy environment. Organisations merge social and environmental concerns into their business activities and their interaction with their stakeholder on a voluntary basis. In a broader sense we can say that the business organisation acquire several benefits from the society, therefore it's the duty of organisation to reciprocate the same.

CSR is a must for an organisation so that it can have an impact on the environment and the society and yet sustain profitability i.e. TRIPLE BOTTOM LINE (TBL) (people/ society, planet/environment, profit/economy).

TBL concept means that if you want to survive the organisation should pay attention to the following components:

Social:

People are the most important asset of every organisation and therefore every organisation must have very strong and positive relationship with people. No organisation can be successful if its relationship with people is not strong. TBL ensures that the operations of the organisation must benefit the employees along with the society in which business is conducted. Human resource managers of TBL are not only providing adequate compensation to the workers but also provide a safe and pleasant working environment. Such organisations seek positive ways to contribute to the society by their operations/ activities such as education programs, medical aid, charitable contribution etc.

Environment:
The planet sustains us physically or mentally. There is a friendly relationship between corporations and planet. If corporations protect their environment, the environment will benefit them in return. Operations of such organisations avoid activities that can harm the environment and seek to reduce the negative impact of the operations. The need for environmental friendliness arises from the fact that resources are limited. Too much degradation will not only deteriorate our quality of lives, but will also destruct our natural resources not leaving a healthy environment for our off springs. The need is to set a rough demarcation as to the limit of degradation that is acceptable so as to secure the future of coming generation.

Economic:
Profit plays a vital role for business to survive. In the past profit was considered as the important factor but the need of today is not just profit but value creation so as to sustain healthily for a long-long time. So, not just profit but value creation in all aspects is a must.

Definitions of Corporate Social Responsibility:
Many authors and institutions has defined the CSR:
Bowen has suggested that the *"social responsibility of businessman refers to the obligations of businessman to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of the objectives and value of our society"*.
According to Infosys founder, Narayan Murthy, "*social responsibility is to create maximum shareholders value, working under the circumstances, where it is fair to all its stakeholders, workers consumers, the community, government and the environment"*.
According to Forbes (2010), *corporate social responsibility works in two ways, the company gives back to the society, in turn, people get to know about the company who helped them most and cater to their products and services.*
European commission described CSR as *"a concept where by companies integrates social and environmental concerns in their business operations and interaction with their stakeholders on a voluntary basis"*.
Today banking sector is growing larger and powerful than before. Various non-governmental organisations put pressure on banks to act responsibly towards their stakeholders. Therefore pressure has given rise to the concept named CSR. Now, most of the banks are allocating their certain portion of profits towards CSR spending. Specially the private sector banks are not only making such expenditure but also are giving appropriate discloser of such expenditure in their financial statements. Corporate social responsibility disclosure supply information to the general public about corporate activities which is related to the social, such as improving waste management, reducing environmental impact, efforts to protect employees, energy and product safety.
The interest in corporate social responsibility disclosure (CSRD) has increased with time. CSRD is a key tool for communicating with stakeholders regarding a company's social responsibility activities. It forms a central charter for public relations in communicating and creating mutual understanding, managing potential conflicts and achieving legitimacy (Golob & Bartlett, 2007).

LITERATRE REVIEW:

Since, the mid 1970's CSRD have been the focus of academic research. CSRD is the process of communicating the social and environmental effects of organisations economic actions to particular interest groups within the society and to society at large Gray, Javad, Power & Sinclair; Adams & Zutshi. Deegan & Rankin (1996) describe disclosure as "disclosure relating to the interaction between an organisation and its physical and social environment inclusive of disclosures relating to human resources, community involvement, the natural environment, energy and product safety".
Disclosure about CSR is one way that companies demonstrate their legitimacy to stakeholders Dawkins & Ngunjiri.
Although many empirical studies have been conducted to investigate the content of annual reports for CSRD, most of the studies have talked about the issue existing in the developed countries such as the U.S., Canada, and the U.K, Australia & Western Europe (Ernst & Ernst (1978), Guthrie & Parker (1990) and Roberts (1992). Very few studies have talked about CSRD practices in the developing countries like Bangladesh, Jordan, Malaysia and Saudi Arabia (Belal, 2001; Imam, 2000; Nik Nazli Bt Nik Ahmad, 2003; Abdullah Aldosari, 2012). In India hardily any studies have been conducted on CSRD.
A number of studies have investigated that the size of the firm and CSR disclosures are positively related (Cowen et al, (1987); Patten, (1991); Hackson et al, (1996); Ahmed,(2015). But some studies stated that there is

no relationship between companies size and CSRD (Lucyanda, J & Siogian, GP (2012); Kansal et al (2014). Trotman & Bradely (1981) examined four variables that is corporate size, systematic risk, social pressure and management decision horizon to show a positive relation between size, social pressure and no relation between the systematic risk of company and the amount of CSD. Similarly Hossain, et al, (2006) in a study in the developing country Bangladesh with an additional variable of subsidiaries of multinational company and found that there is a positive relationship with the disclosure and the net profit margin.
In Empirical study mixed results were obtain between profitability and CSRD, Lau (1994) examined his study in Malaysia and found that the higher profit companies have higher disclosure in their annual reports as compared to low profit companies. Hackston & Milne, (1996) in his study New Zealand found no relationship between profitability and CSD while undergoing research. Garcia- Sanchez, (2008) also found that there is no association between profitability and CSD.
Monteiro & Abibar – Guzman, (2009) conducted a study in Portuguese using form size, industry membership, profitability, quotation on the stock market, foreign ownership and environmental certification variables. The empirical result showed that a company is listed on the stock market is positively associated with environmental disclosure. Similar study was conducted by Jinfeng & Huifeng, (2009) in china which also concluded with similar results.

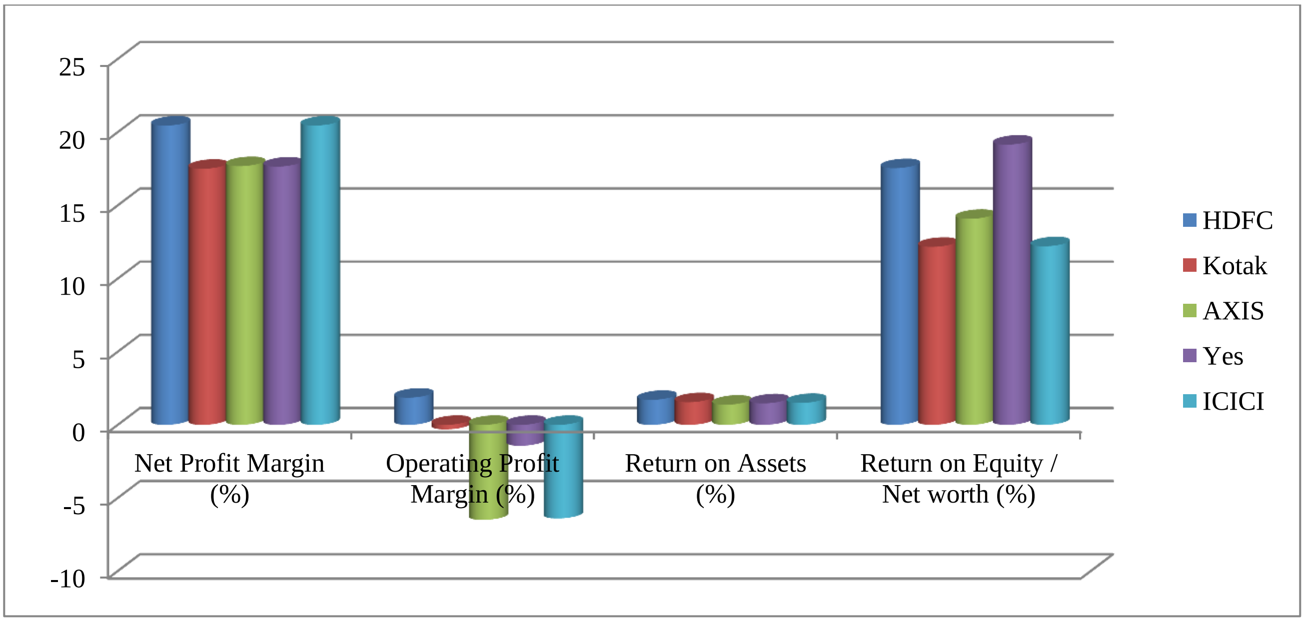
OBJECTIVES OF THE STUDY:

1. To analyse the financial performance of selected bank.
2. To analyse the area of spending's in CSR.
3. To analyse the impact of CSR spending's on financial performance

ANALYSIS AND FINDINGS:

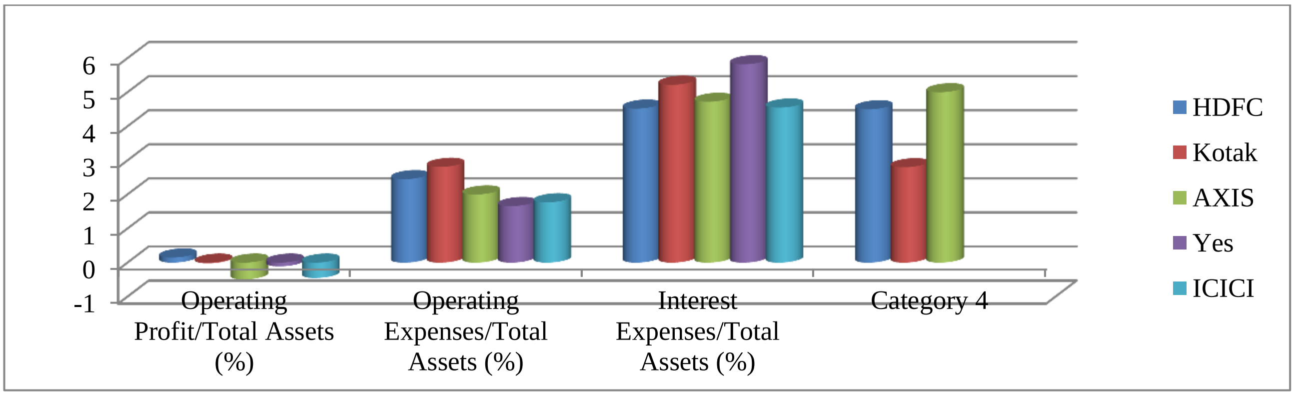
Financial Analysis: The selected banks have been analysed for financial performance on different ratios. The results are-

Key Margin Ratios	HDFC	Kotak	AXIS	Yes	ICICI	AVERAGE
Net Profit Margin (%)	20.45 (1)	17.50 (5)	17.68 (3)	17.65 (4)	20.45 (1)	18.7448
Operating Profit Margin (%)	1.86 (1)	-0.31 (2)	-6.50 (5)	-1.43 (5)	-6.40 (4)	-2.5576
Return on Assets (%)	1.71 (1)	1.55 (2)	1.38 (5)	1.47 (4)	1.50 (3)	1.5216
Return on Equity / Net worth (%)	17.54 (2)	12.17 (5)	14.08 (3)	19.15 (1)	12.21 (4)	15.0312



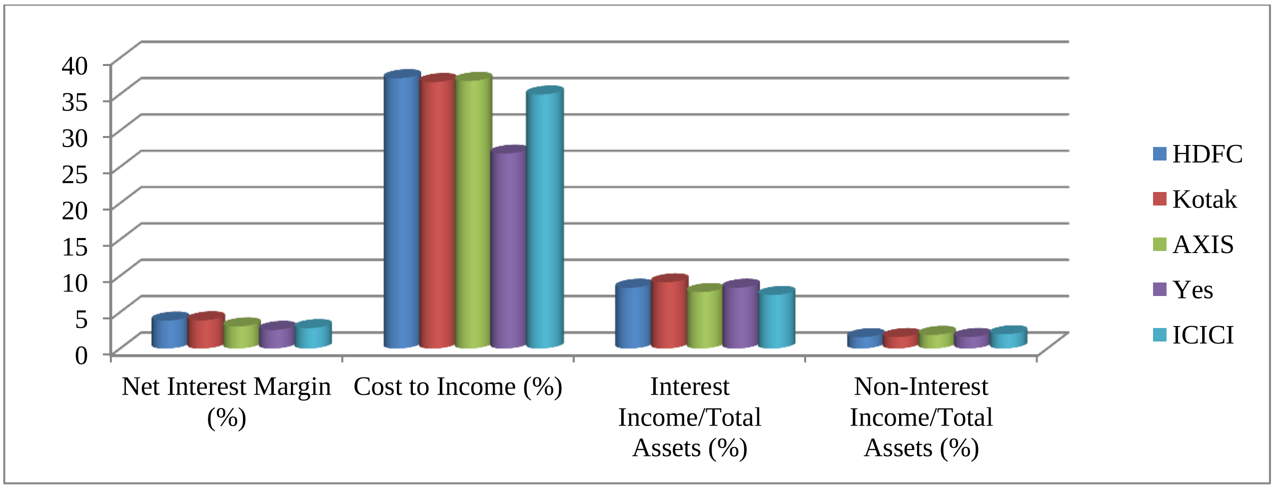
The analysis shows that HDFC and ICICI bank top the list in Net profit margin (Rank 1), followed by AXIS, yes and Kotak Bank. However in Operating profit margin only HDFC has a positive figure. In case of Return on assets HDFC again topped the list followed by ICICI bank. The analysis on Return on equity to net worth shows a complete different picture. Here Yes bank topped the list followed by HDFC and Axis bank

Key Margin Ratios	HDFC	Kotak	AXIS	Yes	ICICI	AVERAGE
Operating Profit/Total Assets (%)	0.15	-0.02	-0.49	-0.11	-0.45	-0.1856
Operating Expenses/Total Assets (%)	2.45	2.81	2.00	1.66	1.77	2.1392
Interest Expenses/Total Assets (%)	4.52	5.22	4.72	5.82	4.55	4.9648



The analysis shows that HDFC tops the list(0.15%) in terms of operating profit to total assets, while in terms of operating expense to total assets and interest expense to total assets Kotak bank (2.81%) and Yes banks (5.82%) are at the top. This indicates that these two banks had more of operating expense and interest expense as a percentage to total assets as compare to other selected banks in the study.

Key Margin Ratios	HDFC	Kotak	AXIS	Yes	ICICI	AVERAGE
Net Interest Margin (%)	3.84 (2)	3.88 (1)	3.04 (3)	2.55 (5)	2.81 (4)	3.2232
Cost to Income (%)	37.19 (1)	36.66 (3)	36.82 (2)	26.82 (5)	34.95 (4)	34.4892
Interest Income/Total Assets (%)	8.36 (2)	9.10 (1)	7.77 (4)	8.36 (2)	7.36 (5)	8.1908
Non-Interest Income/Total Assets (%)	1.55 (5)	1.57 (4)	1.88 (2)	1.58 (3)	1.96 (1)	1.708



In terms of net interest margin to total assets and interest income to total assets Kotak bank tops the list, followed by HDFC (3.84%) and Axis (1.88%) in respective ratio. In terms of cost to total income HDFC bank was at the top (37.19%) closely followed by Axis bank (36.82%) and Kotak (36.66%).

CSR Spending Analysis:

Table No.1: CSR activities undertaken by selected Indian Private Banks

Bank	CSR focused areas	CSR Budget
HDFC	1. Financial literacy & empowerment. 2. Promoting Education 3. Skill training & livelihood 4. Healthcare 5. Environmental sustainability 6. Eradicating poverty 7. Rural development	194.81 crore
Kotak	1. Promoting education- primary focus area 2. Enhancing vocational skills & livelihood 3. Promoting preventive healthcare & sanitation 4. Reducing inequalities faced by social & economically backward groups 5. Sustainable development 6. Relief & rehabilitation 7. Clean India 8. Sports	16.41 Crore
Axis	1. Financial literacy & inclusion 2. Environmental sustainability 3. MSME sector building program 4. Education and skill development 5. Administrative expenses i.e. training cost for the banks personnel	137.41 crore
Yes	1. Livelihood security & enhancement a) Education b) Skills/ employability training 2. Healthcare & social welfare 3. Environment sustainability 4. Arts/ sports & culture	45.23 crore
ICICI	1. Inclusive growth 2. Rural development projects including financial inclusion and financial literacy 3. Relief & welfare in calamity affected areas 4. Gift a livelihood programme 5. Supporting research and capacity building in education sector 6. Health sector related projects 7. Financial counselling	172 crore

CONCLUSION:

All though the prescribed limit of CSR of these banks is almost half of the estimated CSR budget, yet most of the banks are unable to spend tis prescribed budget. The major portion of these banks CSR budget was allotted to health and education. All though different studies had established relationship between CSR spending and financial performance of the organization, we also find any positive relationship between the CSR and profits of the organization. Maybe these companies are not reporting their profits intelligently enough or have been facing some contingent times due to which negative correlation is appearing in the study. Furthermore the study shows there is no significant difference between the change in profits of companies spending more than prescribed limit and the companies spending less than the prescribed limit.

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