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CSR in the banking sector of India : The effect of CSR spending on the profitability and market value of selected banks

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Abstract

This study aims to investigate whether investments that prioritise social responsibility enhance Financial Performance by examining the effect of Corporate Social Responsibility (CSR) expenditures on the market capitalisation and profits of banks. A correlation and regression analysis were conducted on a sample of selected banks in India, including both

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private and public institutions, to investigate the link between CSR expenditure, profitability, and market capitalisation. The study shows a strong and statistically significant link between CSR spending and performance measures. Executives and decision-makers in the banking industry can use the findings to support CSR programs. Ultimately, the study backs up CSR in business strategy and adds to the evidence that CSR boosts market capitalization and profitability for banks.

Subject Classification: *62J05, 91B76, 91G50.*

Keywords: *Corporate social responsibility (CSR), Corporate social responsibility expenditure, Economic performance.*

1. Introduction

As the world continues to recover from the recent pandemic, Corporate Social Responsibility received an astonishing increase during this period. For instance, individuals, corporations, organizations, governments, and financial institutions all over the world needed to react swiftly to the problems posed by the pandemic and thus create immediate responses with long-term CSR commitments for the benefit of society [1]. The Covid-19 epidemic significantly altered the CSR landscape, reaching a stage at which it is no longer just a voluntary act, but a need to be completed by companies for imperatives economic recovery and social resilience [2]. It is reasonable to state that CSR serves as an umbrella for achieving strategic alignment, balancing resource allocations, strengthening stakeholder engagement and inclusion and more [3].To achieve CSR benefits, the banking industry takes into consideration its stakeholders (internal and external) and shareholders, as a means to result in a win-win situation in which all parties' requirements and expectations can be met through CSR resource allocations. Therefore, CSR activities allow financial firms to engage with stakeholders/shareholders and boost client loyalty and reputation. Transparency plays a crucial factor in this interaction, which explains why the study uses transparency disclosed to establish a connection between CSR expenditure and the performance of the top banks in India. Authors,[4] advocate for the concept "the more CSR, the better FP", which reinforces the claim that higher investment in CSR results in concrete financial advantages.

The study is built upon the questions: how do stakeholders respond to the resource allocations for social purposes initiated by the banks? Or what is the long-term influence of Corporate Social Responsibility expenditure on the selected banks' performance?

2. Literature Review

This review is structured around two primary themes:

2.1 *Empirical research on the influence of CSR on financial performance*

The empirical study of [5] highlights the nexus of Corporate Social Responsibility (CSR) and economic performance in Korean stocks. The Blomberg ESG index was employed to generate the disclosure index in the study. The linear regression result implied a significant positive relation with the governmental disclosure score, which, in further analysis has shown evidence of a U-shaped relationship. [6] Conducted an alternative study in the same year, in which they utilised corporate governance and corporate image as mediating factors in the association between CSR and the economic growth of a developing country. The results highlight a positive and significant association between CSR with corporate governance and corporate image.

2.2 *Methodological approachesutilised in CSR-FP literature*

The following are some of the authors who are texting the association between economic outcomes and Corporate Social Responsibility expenditure. First, [7] study analyses the influence of CSR expenditure on US firm results. Using charity, investment, and signalling as sources of CSR expenditure, the study tests their association with future profitability. The author's findings reveal that corporate charity and investment do not appear to improve future profitability, instead, future profitability and CSR expenditure are likely to share a good relationship given that the signalling value information has a good association with economic performance. Following this, [8] use the previous authors' research design, [7], for studying the nexus between CSR expenditure and the economicresults of Iranian firms. This study reveals a positive as well as negative effect of CSR expenditure on firm profitability ratio. Those findings suggested that CSR is an overhead expense which attack negatively the short-run performance but in the long run CSR provides a positive effect on the market since it draws investors.

Objective and Hypotheses

This article seeks to provide more insight into the connection between Corporate Social Responsibility (CSR) expenditure and the performance of leading banks in India, according toForbes India Magazine 2024.

To fulfil this, the paper synthesises two main hypotheses based on the economic growth indicators of the banks.

H1: There is a relationship between CSR expenditure (CSRExp) and earnings per share (EPS) in India's selectedbanks.

H2: There is a relationship between CSR expenditure (CSRExp) and market capitalisation (MC) in India's selected banks.

3. Methodology

The purpose of this studyis to shed light on the statistical relationship between Corporate Social Responsibility (CSR) expenditures on the economic performance of the Forbes India Magazine's listed banks in India.This study utilizes a quantitative research design to investigate this association.

3.1 *Sample*

The sample comprises the leading 10 banks listed on Forbes India Magazine's India in 2024, and determined by their market capitalization.

3.2 *Data Collection and Analysis*

The ProwessIQ database of CMIE was employed to acquire data from the financial year 2015 to 2022 (8 years) for all the variables. Statistical analyses, such as correlation, regression and ANOVA, were performed to determine the influence of Corporate Social Responsibility (CSR) expenditures on the economic results of the Forbes India Magazine's listed banks in India.

Variables:

Independent Variable: CSR Expenditure.
Dependent Variables: Earnings per Share, Market Capitalisation.
Control Variable: Debt-to-equity ratio, Bank Size (log size).

Proposed Panel Regression Model

$$EPS = \beta0 + \beta1CSRexp + \beta2Leverage + \beta3Logsize + \varepsilon i \quad (1)$$

$$MC = \beta0 + \beta1CSRexp + \beta2Leverage + \beta3Logsize + \varepsilon i \quad (2)$$

4. Results and discussion

This section presents the correlation and regression results on CSR expenditure and bank performance in India. The following content provides a comprehensive overview of descriptive statistics, correlation, and regression coefficients.

4.1 *Correlations*

The Pearson correlation coefficients for this study's main factors are illustrated in Table 1.The observed correlations demonstrate that increased CSR spending correlates with enhanced profitability, improved shareholder returns, and elevated market valuation; CSRExpP-value =0.000<0.05α with all the performance indicators.

Table 1

Correlations

Control Variables			**Log PAT**	**EPS**	**Log MC**	**CSRExp**
Leverage & Log Size	EPS	Correlation	0.362	1.000	0.559	0.564
		Significance (2-tailed)	0.002		0.000	0.000
		df	68	0	68	68
	Log MC	Correlation	0.569	0.559	1.000	0.612
		Significance (2-tailed)	0.000	0.000		0.000
		df	68	68	0	68
	CSRExp	Correlation	0.558	0.564	0.612	1.000
		Significance (2-tailed)	0.000	0.000	0.000	
		df	68	68	68	0

Source: Authors assembly using SPSS

4.2 *Regression Results*

Table 2 displays the outcomes of the multiple regression analysis, where the dependent variable is EPS and the independent factors are CSR expenditure, bank size, and leverage. The value of R = 0.597 indicates that there is a moderate positive correlation between the independent variables, that involve log size, leverage, and CSRExp, and EPS. Even though the model doesn't account for most of the variation in EPS, describing more than one-third (35.6%) is still statistically significant in financial studies, where various intangible factors play a role in the results, R-squared value 0.356 ($p < 0.001$).

Table 2

Model Summary of EPS

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.597[a]	0.356	0.328	22.02951
a. Predictors: (Constant), Log Size, Leverage, CSRExp				
b. Dependent Variable: EPS				

Source: Authors assembly using SPSS

The regression model is also statistically significant ($F(3, 68) = 12.55$, $p < 0.001$), as evidenced by the ANOVATable 3. The statistically significant F-value indicates that the overall regression model exceeds a null model, suggesting that at least one of the independent variables, likely CSRExp, serves as a dependable predictor of EPS.

Table 3

ANOVA of EPS

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18279.501	3	6093.167	12.555	<.001[b]
	Residual	33000.340	68	485.299		
	Total	51279.841	71			
a. Dependent Variable: EPS						
b. Predictors: (Constant), Log Size, Leverage, CSRExp						

Source: Authors assembly using SPSS

The regression analysis shows a significant and positive correlation between Corporate Social Responsibility (CSR) spending and earnings per share (EPS), with a beta coefficient of CSR expenditure of 0.60 ($p = 0.000$) as shown in Table 4. This suggests that higher investments in CSR activities are linked to an increase in banks'EPS, thus, CSR spending is a key factor in determining the value that a company returns to its shareholders. The analysis also indicates a negative relationship between firm size (log size) and EPS ($\beta = -0.344$, $p = 0.002$). This finding implies that larger firms, even with higher profits, might experience diluted earnings as a result of expanded capital bases or heightened operational complexity. Finally, the leverage is not significant ($\beta = -0.070$, $p = 0.486$), indicating an absence of a definitive connection to EPS in this scenario.

Figure 1 depicts a scatter plot of the regression variables, with CSR expenditure plotted against EPS. The plot reveals a positive trend.

Table 4

Coefficients of EPS

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	162.251	45.032		3.603	0.001
	CSRExp	0.113	0.020	0.604	5.633	0.000
	Leverage	-3.590	5.120	-0.070	-0.701	0.486
	Log Size	-25.628	7.910	-0.344	-3.240	0.002
a. Dependent Variable: EPS						

Source: Authors assembly using SPSS

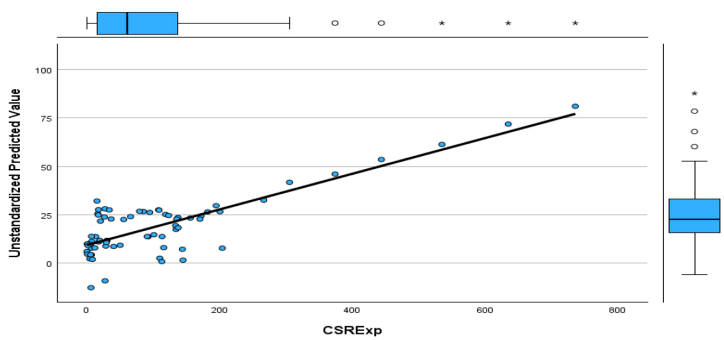

Figure 1

Regression Variable Plot of CSR Exp. and EPS

This fits with the stakeholder theory, which says that meeting the wants and addressing the concerns of different stakeholders can help the business make more money. Hypothesis 1 is supported; thus, this presents the idea that socially responsible investments can be good for business and not just a cost. This result contradicts earlier studies of [9]; [10].

Table 5displays the outcomes of the multiple regression analysis. R = 0.689 indicates a reasonably strong positive connection between the independent factors and market capitalisation. An explanatory power of approximately 50% constitutes a robust validation of the model, especially within the dynamic realm of market performance, R-squared value is 0.47 (p < 0.001).

Table 5

Model Summary of MC

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.689[a]	0.474	0.451	0.38294
a. Predictors: (Constant), Log Size, Leverage, CSRExp				
b. Dependent Variable: Log MC				

Source: Authors assembly using SPSS

Table 6

ANOVA of MC

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.997	3	2.999	20.451	<.001[b]
	Residual	9.972	68	0.147		
	Total	18.969	71			
a. Dependent Variable: Log MC						
b. Predictors: (Constant), Log Size, Leverage, CSRExp						

Source: Authors assembly using SPSS

The regression model is also statistically significant (F (3, 68) = 20.45, p < 0.001), as evidenced by the ANOVA Table 6. Likepreviousresults, this indicates that the predictors, provide significant insight into the market capitalization of the chosenbanks.

The regression analysis indicates a statistically significant and positive link between market capitalisation (MC) and CSR expenditureTable 7. To be more specific, the coefficient for CSR spending is (B = 0.618, p = 0.000). The finding suggests that the market reacts positively to banks that participate in socially responsible activities, potentially interpreting these expenditures as indicators of long-term stability, ethical management, and improved brand value. The size of the firm (β = 0.116, p = 0.230) and the level of leverage (β = -0.095, p = 0.299) have not a substantial impact on the market capitalisation (MC).

Figure 2 depicts a scatter plot of the regression variables; with CSR expenditure plotted against MC The plot reveals a positive trend.

Table 7

Coefficients of MC

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.895	0.783		4.975	0.000
	CSR Exp	0.002	0.000	0.618	6.377	0.000
	Leverage	-0.093	0.089	-0.095	-1.047	0.299
	Log Size	0.166	0.138	0.116	1.211	0.230
a. Dependent Variable: Log MC						

Source: Authors assembly using SPSS

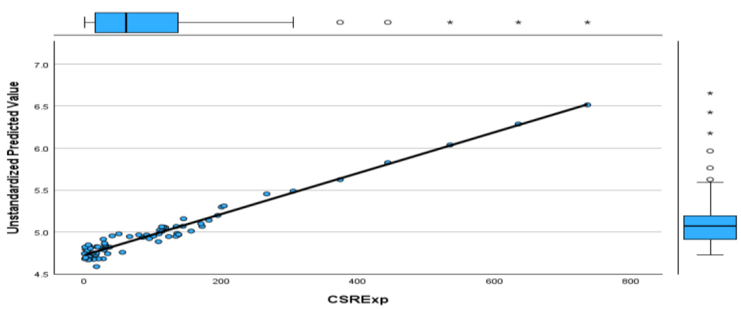

Figure 2

Regression Variable Plot of CSR Exp. and MC

The study's hypothesis 1 is supported by evidence showing that CSR expenditure has a positive effect on market capitalization (MC). This finding is consistent with the resource-based view (RBV), which suggests that CSR activities can operate as valuable intangible assets that improve a company's competitive advantage. This conclusion also emphasizes the potential financial advantages for bank managers who engage in Corporate Social Responsibility (CSR), as it indicates that such investments might improve market perceptions and, as a result, boost market value [11]. For the most part, the current study's findings corroborate those of [12] and [13], who also found that social responsibility efforts improved the economy.

5. Conclusion

This study accentuates the financial advantages of Corporate Social Responsibility (CSR) expenditure on the profitability and market capitalisation of banks by utilising the most prominent banks in India, as ranked by Forbes India Magazine.The study outcomes strengthen the broader literature on social accountability and economic wellness by offering empirical evidence that endorses the stakeholder theory and the resource-based view (RBV).This shows how important CSR is as an investment, not a mere cost that can help banks succeed in the long term in the market.For experts, this means that strategically raising CSR spending might be a beneficial way to raise shareholder value. To have the most positive effect on society and make the most money, banks might think about incorporating CSR more deeply into their main business strategies. Decision-makers should take these findings into account when promoting transparency and social responsibility in the banking sector.

6. Limitations and future research

The study used data that was open to the public, which might not include all the important parts of CSR initiatives, especially the ones that are hard to quantify. Lastly, conducting an investigation into the long-term impact necessitates a time frame exceeding 8 years. However, the study used data from 2015-2022, which is a short duration for predicting the long-term effects.

Future research could include qualitative CSR aspects that may affect market attitudes and profitability to avoid these issues. This would help researchers in further describing the intricacies of CSR activities' effects on economic growth. Finally, longitudinal research is preferred to outline the accuracy of a long-term effect.

Appendix - *Research Participants*

HDFC Bank, ICICI Bank, SBI, Kotak Mahindra, Axis Bank, Punjab National Bank, Bank of Baroda, Indian Overseas Bank, IndusInd Bank, Union Bank of India.

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