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IMPACT OF CORPORATE SOCIAL RESPONSIBILITY IN INDIAN BANKING SECTOR

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Abstract

The major corporate social responsibility initiative has positive impact on Indianbanking sector. It significantly influences banking performance in terms of equitable income distribution, balanced regional economic growth, financial inclusion, lower cost of transaction, and provision of finance to all segments. Financial performance of banks has also been increased due to wide presence of corporate social responsibility initiatives. In order to check the impact of corporate social responsibility initiative in socio-economic development, this study considered ten years data from 2007-08 to 2016-17. This study widely used Augmented Dickey-Fuller test, Co-integration test, financial data analysis, and Bank Efficiency Score analysis for data analysis. The empirical result shows that the existence of significant long-term relationship between socio-economic development and corporate social responsibility components. Financial performance of banks due to the implementation of corporate social responsibility is found at satisfactory level. Moreover, the efficiency of banks has also been systematized due to corporate social responsibility initiatives. It was concluded that that corporate social responsibility has significant impact on Indian banking sector.

Key word used: Corporate Social Responsibility, Commercial Banks, Indian Banking Sector, Socio-Economic Development, Financial Performance, Bank Efficiency.

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1. INTRODUCTION

Banking industry plays a crucial role in the economic growth of a nation; successfulexistence of banking system increases money circulation and controls excess money circulation in the economy.Acceptance of deposits and lending loans is the main business of banking and it is supported with multiple services. Banking industry in India is the backbone of the nation's economy; it has played a significant role in the development of economy. Indian banking system consists of commercial and cooperative banks, of which commercial bank has branch banking system and serves maximum market. Indian banking is extensively varied from other nations because of its unique social, geographic and economic characteristics. In India, banking sector is monitored by RBI, and commercial banks have own corporate social responsibility initiatives to govern its activities. Indian commercial banks aimed to serve its customers as per government regulations and directions. Moreover, equitable income distribution, balanced regional economic growth, financial inclusion, lower cost of transaction, and provision of finance to all segment is the main corporate social responsibility initiative of Indian commercial banks. In addition to that Indian banks serve as a mechanism of government policy, it was subjected to implement various national importance and customer focused development schemes. Predominantly, corporate social responsibility initiatives have significant effect towards individual and social development and will pave the way for increasing economic development.

The concept of corporate social responsibility has attained importance from all respects. Leading business corporations across the globe has realized the significance of being connected socially pertinent causes as a means of encouraging their brands. Corporate social responsibility stems from the desire to perform well and obtain self-satisfaction in return as well as societal obligation of business. As a driving force for social growth, corporate social responsibility assists companies' life up to their roles as local neighbors and global citizens in a fast changing globe. For Indian banking sector, corporate social responsibility can be a means of innovation, opportunity and competitive advantage while at the same time providing with the opportunity to vigorously contribute to the sustainable development. Corporate social responsibility as a business management tool, it surpasses in such a way that the legal, ethical, social and commercial expectations of business. It considers three aspects of economic, social, and environmental aspects connected with the business.

2. RATIONALE FOR THE STUDY

Commercial banks are the main players in the financial system and they play an imperative role in the development of economy in a nation. The main motive of commercial banks is to develop a diversified, efficient and competitive banking system with the purpose of improving the distribution efficiency of funds through operational flexibility, financial viability and intensification of institution. Corporate social responsibility measures are originated and sequenced to develop and favorable environment for banks to overcome the external irregularities. At first, these measures are connected with management of interest rates, more pre-emption through reserve requirements and credit distribution to all sectors. Secondly, as part of CSR initiative, increasing capital contribution can help serve better to the customers. Thirdly the reform is related with enhancing efficiency and productivity through developing healthy competition. Finally, it enhances the transparency and disclosure standards in the banking sector. Indian banking industry consists of public sector banks, private sector banks and foreign banks and also has co-operative banks and regional rural banks. During March 2000, there were 101 Scheduled commercial banks in India out of which 19 were nationalized banks, 8 belonged to SBI Group, 23 were old private sector banks, 8 were new private sector banks and 42 were foreign banks.

Corporate social responsibility significantly contributes to the development of business and relationship with all stakeholders. As a result it increases business performance, reputation of firm, and customer satisfaction. Corporate social responsibility initiative in the banking sectors assists to understand the complexity of financial products and services, ethics in banking business, risk management, customer care, strategy to tackle financial crises, and protection of customer rights. In addition to that commercial banks observe ethical behavior of employees, ability of employees, transparency in transactions, cooperation with social development measures, and maximize savings habit of customers. Nowadays, Indian banks show more corporate social responsibility, it can be evident from environment development issues, social conduct, and conduction of awareness programs on various aspects. CSR activity enhances service quality and delivery, maintains customer relationship, increases customer welfare, and serves for economic development.

3. REVIEW OF LITERATURE

Khan and Fasih (2014) revealed that commercial banks are the main players in the financial system and they render an important role in the nation's economy. Fassin and Gosselin (2011) revealed that trust is the main asset of commercial banks and it is also served as the main source of reputation of the banks. Munariet al. (2012) stated that customer satisfaction is the main criterion for the assessment of banks in relation to the use of financial products and services. Perez and Del Bosque (2012) showed that banks within their corporate social responsibility strategy are mostly focusing on the stakeholders who bring them most benefit to the customers and workforce. Loureiroet al. (2012) argued that the concept of corporate social responsibility contributes to superior financial performance by decreasing costs directly and indirectly, by increasing productivity and enhancing customer satisfaction. Chaterjee and Lefcovitch (2009) revealed the existence of positive relationship between corporate social responsibility and financial performance of the commercial banks.

Ahmed et al. (2012) has sensibly focused on corporate social responsibility activities and identified the association between social and financial performance, with regard to social activities of the banks. Yeung (2011) showed the key constituents of corporate social responsibility it includes understanding the difficulty of financial services, risk management; reinforce ethics in the banking business, the execution of strategies for the financial catastrophe, protection of customer rights and a channel setting for customer grievances. Burianovaand Paulik (2014) highlighted the importance on the social responsibility of banks requires increased professionalism of those working in the financial sector. Sigurthorsson (2012) revealed that the commercial banks implemented their concept of social responsibility by supporting charitable events, while paying no attention to the formation of socially responsible practices.

4. OBJECTIVE OF THE STUDY

This study aimed to check the impact of corporate social responsibility in Indian banking sector. In order to examine the impact in Indian banking, this present study is carried out with the following objectives.

1. To examine the socio-economic development due to corporate social responsibility initiative in Indian banking.

2. To analyze the role of corporate social responsibility on financial performance of banks.
3. To check the impact of corporate social responsibility on efficiency of banks.

5. RESEARCH METHODOLOGY

The study examines the impact of corporate social responsibility measures in Indian banking sector. CSR initiatives of commercial banks increase performance of banks, efficiency in service, and socio-economic development. This study hypothesized that CSR measures in Indian banking have a significant impact on the socio-economic growth. The study employs secondary data that are mainly available in published annual reports of several banks, various reports on Indian banks, RBI bulletin, National Institute of Bank Management, Indian Institute of Bankers, publications of Indian Bank Association, various journals on banking and so on. This study collects data from the year 2007-2008 to 2016-2017. The current research attempts have been conducted on Indian banking sector consists of nationalized banks, state bank of India and its associates, old private sector banks, new private sector banks and foreign banks. The various corporate responsibility aspects of the banks have been considered. The study used the econometric techniques of Augmented Dickey-Fuller (ADF) unit root test, and Co-integration test. The impact of corporate social responsibility on the commercial banks has been analyzed by checking financial data analysis and Capital to Risk-weighted Assets Ratio (CRAR). The efficiency of Indian banking industry due to CSR initiative is tested through Bank Efficiency Analysis.

6. ANALYSIS AND INTERPRETATION

6.1. Impact of CSR in Indian Banking

This study investigates the impact of corporate social responsibility on Indian commercial banks.Corporate social responsibilityis an integral part of socio-economic development stimulus; it includes equitable income distribution, balanced regional economic growth, financial inclusion, lower cost of transaction, and provision of finance to all segment. Therefore, by taking these variables as CSR initiatives in banking sector the socio-economic development has been measured.This study has been constructed by using proxy socio-economic development is the dependent variable as a function of equitable income distribution, balanced regional growth, financial inclusion, lower cost, and credit to all sectors. The Augmented Dickey-Fuller test has been used to examine its stationarityalong with its order of integration. The results of the ADF test for the different variables are revealed in the table-1.

Table – 1: Results of Augmented Dickey-Fuller Unit Root Test

Variables	**ADF Test**	**ADF lag**	**5% Mackinnon Critical Value**	**Order of Integration**	**Stationary Level @ 5%**
Socio-economic development	-2.6567	1	-2.9969	I(1)	Good
Equitable income distribution	-3.5779	1	-2.9969	I (1)	Good
Balanced regional growth	-5.7593	1	-2.9969	I (1)	Good
Financial inclusion	-4.7378	1	-2.9969	I (1)	Good
Lower cost of transaction	-6.5563	1	-2.9969	I (1)	Good
Credit to all sectors	-3.4765	1	-2.9969	I (1)	Good

Source: Moneycontrol.com

It is evident that in table-1, all the variables are integrated of order one which confirms that all variables are significant at 5% Mackinnon critical value with the order of integration I(1). All factors are equally possess the stationarity level at 5% significance is good. It evidences that all variables are completely boost the GDP without any bias. The results of ADF test ranges from -2.6567 to -6.5563 for all variable with the significance level of 5%.Moreover, tofind out the existence of long-run relationship among the variables, co-integration test has been performed with null hypothesis (H_0) states that there is no co-integration exist in the long-run. As contrary to this alternative hypothesis (H_1) states that there is co-integration exist in the long-run. If the residual is stationary the different sets of variables are co-integrated. The co-integration test has been utilized to bring the results, which is presented in the table-2.

Table– 2: Results of Co-integrationTest

Variables	ADF Test	ADF lag	5% Mackinnon Critical Value	Order of Integration	Stationary Level @ 5%
Residuals	-4.916	1	-2.9969	I (1)	Good

Table-2 revealsthe co-integration level between the dependent and independent variables. It wasascertained by compiling data from 2007-08 to 2016-17, there is a long-run co-integration exist among the dependent variable socio-economic development and independent variable such as, equitable income distribution, balanced regional economic growth, financial inclusion, lower cost of transaction, and credit facility to all sectors. It shows that socio-economic development of India depends on the CSR initiative of commercial banks.

6.2. CSR on Bank Financial Performance

Corporate social responsibility has direct and significant effect on increasing bank financial performance, which has direct influence in bank networks, employees, business, and growth.The financial performance of Indian commercial banks has been provided in table-3.

Table – 3: CSR on Bank Financial Performance

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
No. of banks	80	77	80	79	80
No. of offices	59703	63706	67387	72391	76697
No. of employees	896434	905538	937446	950176	1004183
Business per employee (in lakh)	521.92	640.15	753.43	867.56	987.36
Profit per employee (in lakh)	3.48	4.72	5.63	6.01	7.00
Budget on CSR initiative(in lakh)	72.06	76.53	79.24	78.85	91.06
CSR to total income	0.23%	0.62%	0.78%	0.96%	0.92%
CSR to customer growth	83%	98%	126%	134%	151%
CSR to socio-economic development	56%	71%	88%	98%	116%

Source: RBI Bulletin

Table-3reveals that the number banks are prevailing around 80 and there is an increasing trend continued in number of branches, which touched the mark 76697 in the year 2016-17. The number of employees has also been increased and touched the mark of 10,04,183 in 2016-17. Business per employee was registered atRs. 521.92 lakhs in 2012-13 and it reached Rs. 987.36 lakhs in 2016-17.Due to the wide practice of CSR, profit per employee has also been increased from Rs.3.48 to 7.00 during this period.Budget on CSR initiatives was Rs.72.06 in 2012-13 and increased to 91.06 in 2016-17. Similarly, CSR to total income was 0.23% in 2012-13 and increased to 0.92% in 2016-17.CSR to customer growth has also been increased, which was 83% in 2012-13 and 151% in 2016-17. Finally, CSR to socio-economic development has also been enhanced from 56% to 116% in during this period. It is confirmed that CSR has effective role in increasing banks financial performance.

6.3. CSR on Bank Efficiency

Data envelopment framework employs principles of linear programming to inspect how a particular variable operates relative to other variables. Therefore, in this way efficiency can be measured through the ratio of output to input. If the variables are two or more, this can be addressed by constructing an efficiency frontier from weighted outputs and weighted inputs. Variables on the frontier are assigned an efficiency score of 1 while those inside receive scores ranges from 0 to1. In this study, socio-economic development and customer growth are taken as output. Conversely; number of branches and budget on CSR are taken as input.Bank efficiency analysis has been performed from 2007-18 to 2016-17, the results are presented in table-4.

Table – 4: Bank Efficiency Score Analysis

Bank Group	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**
Nationalized Banks	0.59	0.62	0.63	0.64	0.62	0.68	0.73	0.71	0.79	0.82
SBI & its Associates	0.58	0.64	0.65	0.73	0.74	0.78	0.81	0.82	0.82	0.83
Old Private Sector Banks	0.64	0.77	0.71	0.68	0.73	0.84	0.87	0.91	0.86	0.87

New Private Sector Banks	0.74	0.83	0.81	0.81	0.87	0.84	0.84	0.85	0.88	0.97
Foreign Banks	0.88	0.86	0.84	0.93	0.83	0.83	0.86	0.93	0.92	0.97

Source: RBI Bulletin

It is found that table-4, the observed low efficiency of nationalized banks and state bank group seems to effect from their implication of generating socio-economic developmentas well as other outputs and their operation areas and methods. The efficiency of both banks has suffered due to the slower growth in customer base. Moreover, both private banks and foreign banks have showed high efficiency over a period of time than their counterpart of state owned and nationalized banks. The units under all groups of banks have enhanced their efficiency in the recent times when compared with 5 or 10 years back. Therefore, the scheduled commercial banks together improved their efficiency continuouslyduring the period. It is inferred that recent three years have higher efficiency in all those banks.

7. CONCLUSION

The implementation of corporate social responsibility among Indian banks has major influence on its performance and socio-economic development. Moreover, it increases bank reputation and significantly attracts more customers to carry out their banking transactions and facilitates to establish long-term relationship.The outcome of ADF unit root test illustrated that the stationarity of all the banking corporate social responsibility variables has been recognized which is a basic requirement for co-integration test. The co-integration test designates the survival of co-integrating equation at 5% significance level, exhibiting that long-run relationship exists among the variables. Financial performance of banks have been improved in terms of number of branches, business per employee, profit per employee, budget on CSR, CSR to total income, CSR to customer growth, CSR to socio-economic development. Bank efficiency scores evidences that all the units under nationalized banks, SBI and its associates, old private sector banks, new private sector banks and foreign banks have improved their efficiency in the recent times. Corporate social responsibility in Indian banking sectors have positive effect on providing effective service to the customers. In addition to that it sizably reduces the cost involved in providing various services to the customers. It was concluded that corporate social responsibility has significant impact on Indian banking sector.

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