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An Examination of the Relationship between Corporate Social Responsibility and Profitability with reference to State Bank of India

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Abstract
In India, the banking sector has significant history of getting engaged themselves in different kind of social activities which are known as Corporate Social Responsibility (CSR). The paper examines the relationship between CSR and profitability of State Bank of India (SBI) which is the initiator of CSR activities in the banking sector of India. The study used annual reports of SBI for the year 2008 to 2016. Ordinary least square (OLS) model of regression was analyzed to assess the impact as well as test the hypothesis of the study whether there is a relationship and the extent of the relationship between the independent variable (corporate social responsibility expenditure) and the dependent variable (profit after tax). The hypothesis that was formulated was tested and the result shows that there is significant positive relationship between corporate social responsibility and profitability in case of SBI.

Keywords: Corporate social responsibility, corporate financial performance, SBI, profitability

1. Introduction

Corporations have, historically functioned with the primary objective of profit-making in the world of business. Increase in shareholder value and financial gains remaining the chief motivating factors, the last decade has seen sensitization towards a wider range of issues on the part of corporate world; areas such as environment, society, working conditions and facilities, ethical practice and like, when duly addressed from what is today called Corporate Social Responsibility (CSR).It is the “triple bottom line” of the corporate- the combination of their financial, social and environmental activities/performances in the process of conducting their business. Amidst all the transformation occurring in the business world since the 1990s, the emergence and expansion of CSR agenda has perhaps been the most remarkable phenomenon. It is one of the most interesting and pressing issues in the modern corporate world.

In India, the banking sector has a glorious history of getting engaged themselves in different kinds of social activities which is formally known as CSR like donations to different organizations, country beautification, patronizing cultural activities etc. But in some recent years there is tremendous growth in this involvement, because in the year 2007 RBI played an important role in supporting the concept of CSR by which banks are directed to undertake CSR initiatives for sustainable development. This paper in basically focused on the CSR activities of the bank and how it is related with profitability and in what extent selected bank are eager to involve in these sorts of CSR activities. Banks are profit based organizations, so in this perspective they surely want to spend money in those sectors which will directly or indirectly bring money for them, so obviously there are some positive relationships between CSR and banks profitability.

2. About State Bank of India (SBI)

To analyze how much impact CSR create on profitability State Bank of India (SBI) has been chosen. State Bank of India is an Indian multinational, public sector banking and financial services company. This government-owned corporation has its headquarters is in Mumbai, Maharashtra. SBI provides a wide range of banking services through its various branches in India and abroad. They have also provided banking facilities for non-resident Indians (NRIs). The company is ranked 232nd on the Fortune Global 500 list of the world's biggest corporations as of 2016.

Among all Indian banks SBI is the pioneer in the field of Corporate Social Responsibility. They have taken CSR initiatives mainly for the less fortunate and underprivileged people of the society. SBI incorporates CSR in their business strategy since 1973 for the underserved communities. Over the 40 years it has been continuing its effort as a pioneer in the banking sector and has become the leader much ahead of the other banks. SBI has set aside 1% of its net profit for conducting their CSR initiatives. The bank also make an effort to fulfil the developmental needs across various areas in the society such as Health, Education, Adoption of girl child, Women's empowerment, Child development, Welfare and rehabilitation of poor and handicapped, Assistance to poor and underprivileged, Entrepreneur Development programmes, Vocational guidance, Green banking, Thrust for assistance to IT education in rural/tribal/unreached areas, Environment protection, Assistance during natural calamities and many more.

3. Literature Review

Literature review is essential for doing an empirical study as it not only lays out what research has been done by others relevant to the research objectives, but also present the strong evidence for the in-depth critical evaluation to the research topic (Biggam, 2011). In this paper, a study has been done to explore how CSR has impacts on the profitability of SBI. An international survey conducted by Price water house Coopers in early 2002 found that nearly 70 percent of the global chief executives believed that addressing CSR was vital to their companies' profitability (Simms, 2002). Perhaps the most investigated question, at least in management literature involving CSR has been its relationship with profitability and growth (Zahra & La Tour, 1987 cited in Cottril, 1990). Nevertheless, the absence of common conclusion is surprising (Cottril, 1990).

For over three decades, the study of the correlation between CSR performance and corporate financial performance has yielded contradictory results (Marom, 2006). According to Margolis and Walsh (2003), 122 published studies between 1971 and 2001 empirically examined the relationship between CSR and financial performance. Empirical studies of the relationship between CSR and financial performance comprise essentially two types. The first uses the event study methodology to assess the short-run financial impact (abnormal returns) when firms engage in either socially responsible or irresponsible acts. The results of these studies have been mixed. Wright and Ekatah, Samy, Bampton and Halabi Ferris (1997 cited in Tsoutsoura, 2004) discovered a negative relationship; Posnikoff (1997 cited in Tsoutsoura, 2004) reported a positive relationship, whereas Welch and Wazzan (1999 cited in Tsoutsoura, 2004) found no relationship between CSR and financial performance. Other studies, discussed in McWilliams and Siegel (2000), are similarly inconsistent concerning the relationship between CSR and short-run financial returns. The second type of study examines the relationship between some measure of corporate social performance (CSP) and measures of long-term financial performance, by using accounting or financial measures of profitability.

4. Objective:

The objective of the study is to justify the significant (positive, negative or neutral) relationship between CSR and profitability in case of SBI. To justify the above objective, we have taken the following hypotheses which are tested to measure the relationship between CSR initiatives represented by CSR expenditure (CSR) and the profitability of SBI.

H_0: there is no significant relationship between Corporate Social Responsibility expenditure and Bank Profitability

H_1: there is significant relationship between Corporate Social Responsibility expenditure and Bank Profitability

5. Methodology and Model development

5.1 Methodology

Secondary data was the chief source of information for the study. The study used annual reports of State Bank of India for the period of 2008-2016. An extensive literature viewed to grasp the concept of CSR and the relationship between CSR and the performance of banking business. Data relating to expenditure for the bank on corporate social responsibility and profitability was used to construct ordinary least square (OLS) model of regression to assess the impact as well as test the hypothesis of the study; if there is relationship and the extent of the relationship if any between the independent variable (corporate social responsibility expenditure) and the dependent variable (profit after Tax).

5.2 Model development

Regression model was used to examine the relationship between the independent variable CSR and the dependent variable PAT which is shown in equation (1):

$$P_t = \alpha_0 + \beta_1 CSR_t + \dot{\varepsilon} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

When P (banks Profitability) is the dependent variable and CSR is independent variable. Where; t is the t-th year (time series annual data), Pt is the CSR of t-th year.

This study also attempted to use the Pearson correlation analysis method, this is consistently in line with previous studies (Heinze, 1976; McGuire et al., 1988; Stanwick, 1998; Preston and O’Bannon, 1997; Charles- Henri et al., 2002; Hull et al., 2008) and regression analysis (Fogler Nutt, 1975; Vance, 1975; Stanwick, 1998; McWilliams et al., 2000; Hull et al., 2008) to understand the CSR and Profitability link and its relational degree and direction.

6.1 Data Presentation, analysis and discussion

To examine the significant (positive, negative or neutral) relationship between CSR and profitability we have taken CSR expenditure and Profit after tax (PAT) from 2008 to 2016.

Table 1: SBI data on CSR Expenditure and Profit after Tax

Year	**CSR Expenditure***	**Profit after Tax***
2008	8.11	6729
2009	8.76	9121
2010	19.72	9166
2011	24.44	8265
2012	71.18	11707
2013	123.27	14105
2014	148.93	10891
2015	115.8	13102
2016	143.92	9951

Source: Annual Report (2008-2016)

* All figures in cr.

In order to reduce magnitude of the data for easy elasticity, the data presented in the table 1, the data was logged for easy interpretation of the data i.e. to convert the values in a single scale with a small range. The logarithm of the magnitude of the data is presented in the table 2.

Table-2: SBI Log data

Year	**CSR Expenditure***	**Profit after Tax***	**Log CSR**	**Log PAT**
2008	8.11	6729	2.093098	8.814181823
2009	8.76	9121	2.170196	9.118335
2010	19.72	9166	2.981633	9.123256265
2011	24.44	8265	3.196221	9.019785
2012	71.18	11707	4.265212	9.367942
2013	123.27	14105	4.814377	9.554285

2014	148.93	10891	5.003476	9.295692
2015	115.8	13102	4.751865	9.48052
2016	143.92	9951	4.969258	9.205428

Source: Annual Report (2008-2016)

Using SPSS 23 to run the table 2, the logarithm data on CSR expenditure and Profit after Tax (PAT) of SBI for the period of 2008-2016. The output is presented in table 2. From the output the result shows high association or relationship between the two variables under examination.

Table 3: Correlations between CSR and profit after Tax

		PAT	CSR
PAT	Pearson Correlation Sig.(1-tailed) N	1.000 9	0.805** .004 9
CSR	Pearson Correlation Sig.(1-tailed) N	0.805** .004 9	1.000 9

** Correlation is significant at the 0.01 level (1-tailed)

Table 4: Regression result on the impact of corporate social responsibility on profitability model

Model	R	Standard Error of the estimate	Durbin-Watson
1	.805	.14713	2.510

a. Predictors: (Constant), CSR

b. Dependent Variable: PAT

This establishes relationship between CSR expenditure and PAT was found to be significant at 0.01 or 1%. To evaluate the impact of corporate social responsibility expenditure on profitability in SBI revealed (Beta= 0.805, p=009 which is<.01), the results of the Ordinary Least Square regression analysis is shown in table 4. This means that for every unit change increment the CSR expenditure will lead to .805 or 80.5% increase in the profit after tax of the company. It is also indicating that corporate social responsibility is important in achieving effective financial performance of SBI. The Durbin-Watson shows that the model is fit at 2.510. Over all, the model states that 80.5% of the variance of profit after tax of SBI has been explained by the benefit accrued from corporate social responsibility.

From the above table 4, the value of ("r"= 0.805, "p"=009 which is < .01) which stand for "r" calculated. This shows that there is a positive correlation between corporate social responsibility expenditure and the profit earned by the company which is significant at the 0.01 level (1-tailed). This means that the null hypothesis is rejected and leading to the acceptance of the alternative hypothesis.

Table 5: Regression Co-efficient

Model	Un-standardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
	B	Standard Error	Beta			Lower Bound	Upper Bound
1.Constant	8.629	.172		50.219	.000	8.223	9.035
CSR	.155	.043	.805	3.590	.009	.053	0.258

Dependent Variable: PAT

Above are the (un-standardized) and standardized regression weights for the regression analysis of corporate social responsibilities and profitability. The standardized regression coefficient (beta weight) for CSR is .805. What this weight means is that for every unit change in CSR, profitability will increase by a multiple of .805 standard deviations. Note that the beta coefficients are significant at p=009 which is < .001. The columns headed "95% confidence intervals" shows confidence intervals around the un-standardized regression coefficients. Thus it can be said that, with 95% confidence the value of the constant lies somewhere between 8.223 and 9.035, and the value of the regression coefficient *b* (un-standardized) lies somewhere between 0.053 and 0.258.

6.2 Discussion of Findings

The results of the ordinary least square regression analysis as showed the impact of corporate social responsibility expenditure on profitability in SBI which revealed Beta= 0.805, p=009 <.01. This means that for every unit change increment the CSR expenditure will lead to .805 or 80.5% increase in the profit after tax of the company. It is also indicating that corporate social responsibility is important in achieving effective financial performance for SBI. The Durbin-Watson shows that the model is fit at 2.510. The hypothesis that was formulated was tested and the result shows that there is significant relationship between corporate social responsibility and profitability.

7. Conclusion and Limitation

From the above analysis it is clear that CSR has significant impact on the profitability of SBI. So the CSR expenditure provides good returns for the banks in the short run and in the long run it will provide better return surely. The study concludes that there is a significant relationship between CSR and profitability and the null hypothesis is rejected. In India, CSR initiatives by banks have risen significantly. So Indian Bank should carefully monitor the activities of the Banks whether they are complying the mandatory involvement in the CSR activities from net profit after tax. Above all, new laws regarding CSR, legal restrictions, to do CSR activities for the betterment of the people not for profit making or marketing strategies will surely bring more sustainable growth in the banking sectors of India.

It should be pointed out that this study has several limitations. First, the study is based only on the net profit after tax of the bank which is one of the major indicators of bank's financial performance but not the only one. Second, the study considers only one bank of India which does not reflect the overall banking sectors of India.

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