



## **A study on the relationship between Corporate Social Responsibility expenditure and Profitability: Analysis and Impact.**

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### **ABSTRACT -**

Corporate social responsibility (CSR) is not a new concept in the banking sector, but nowadays, it becomes highly typical since the crisis has significantly highlighted the need for integration of moral principles in the banking business. The purpose of the study is to discover the impact of Corporate Social Responsibility (CSR) expenditure on the profitability of Jammu and Kashmir Bank Limited which indicates the fundamental picture of the overall Jammu and Kashmir State. J & K bank Ltd. is one of the non-government commercial Banks the dependent variable. Required data are collected from the annual reports of Jammu and Kashmir Bank Limited from the financial year 2014-15 to 2016-17 and analyzed using ordinary least squares (OLS) model and test the hypothesis through the student's t test. The result show that there is no significant impact of CSR on Net profit and therefore recommends the bank to critically evaluate its existing policy on performing CSR activities to increase profitability.

**Keywords :** *CSR, Jammu and Kashmir Bank Limited, Profitability, Net Profit.*

### **1. INTRODUCTION -**

Since the 1950s, CSR (Bowen, 1953) along with the related notions of corporate social responsiveness, corporate social responses (Strand, 1983) and corporate social performance (Carroll, 1979 ; Wood, 1991) have been the subject of many conceptualizations originating mainly from the management literature. 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 educational and social organizations, country beautification, patronizing cultural activities, health etc. But in some recent years there is tremendous growth in this involvement, because in accordance with the section 135 of the 2013, companies act, a company meeting the CSR applicability criteria need to spend, in every financial year, at least 2% of its average net profits made during the three immediately preceding financial year, in pursuance of its CSR policy. The Jammu and Kashmir Bank Ltd. has formed a social oriented CSR Policy in 2013. The main objective of the CSR policy of the Bank is continuous commitment to operate in economically, Socially and environmentally sustainable manner so as to ensure upliftment of the marginalized and under privileged sections of the society to promote inclusive socio-economic wellbeing and growth, empowerment of communities, capacity building & environment protection. It is in this framework that the J & K Bank CSR policy is outlined, encompassing the Bank's Philosophy for delineating its responsibility as a Corporate Citizen and lays down the guidelines and mechanism for undertaking socially useful programmes for welfare & sustainable development of the community at large.

Corporate Social Responsibility (CSR) is gaining fast global acceptance as a standard to assume environmentally sustainable and socially equitable business practices. The role of business world- wide and specifically in the developed economies has evolved from classical 'profit maximizing' approach to a 'social



responsibility' approach, where businesses are not only responsible to its stockholders but also to all of its stakeholders in broader inclusive sense. As a member of the global economy, India is also aware of the need to take positive initiatives to establish an image of environmentally and socially responsible businesses. The banking community has responded sensibly to the call for CSR and sustainable social development. This paper is basically focused on the CSR activities of the Jammu and Kashmir limited and how it is related to profitability and to what extent banks 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 Bank's profitability.

The rest of the paper is structured as follows. We first present a basic framework to capture the notion of CSR as a tool in maximizing profits. In section 2, we explain the literature review and data sources we use. Section 3 highlights research objectives and section 4 explores the research methodology and mode development. Finally in section 5 and 6, we address analysis, hypothesis testing and conclusion of CSR choices.

### **LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK –**

Today the corporate world is facing the concept of corporate social responsibility (CSR) wherever we see. At large corporations are encouraged to behave as socially responsible firms. However, in both the corporate and the academic world there is uncertainty as to how CSR should be defined. The beginning studies on CSR started with Bowen who issued "Social Responsibility of Business man in 1953. Many other researchers during the 60s have tried to validate and to narrate the more accurate definition of CSR (Iqbal et al, 2013). Davis (1960) states CSR as "Actions and decision made by business persons partially beyond the Organization's direct economic and technical interest". Since the 1970s, different scholars have paid more attention toward the Corporate Social Performance (CSP) as well as CSR (Carroll, 1979).

Carroll (1979) was the famous writer who intended a four part definition of CSP including the Economic Responsibility, Discretionary Responsibility, Ethical Responsibility and Legal Responsibility. Carroll (1979) argued that the managers or administrators of organizations who have selected the Corporate Social Performance must follow the criteria, the criteria from the definition of CSR that take under consideration an accurate explanation of where, why, how and in what way the owners of organization are linked to social responsibility, and a list of essentials and rules that govern the CSR.

The relationship between CSR and financial performance has produced mixed results with some studies concluding for a positive others negative and even others for the existence of such a relationship (McWilliams and Siegel, 2006; Margolis, Elfenbein and Walsh, 2007). The empirical studies conducted in developed markets on the relationship between CSR and financial performance is essentially of two distinct categories (Margolis and Walsh, 2007). Most of the prior studies found a positive relationship between CSR and financial performance (Smipson and Kohes, 2002) Graves and Waddock, 1994; McGuire et a., 1988) Moskowitz (1972) found a positive relationship between socially responsible business practices and corporate equity returns. Policies, Strategies and programmes that are associated with social activities can be used to indicate the level of CSR's commitment of an organization. Organizations too, need to meet the customer's demand and expectations. As to maintain good relationship and attract more customers, enterprises are taking initiatives to fulfill the demand of providing such information.

### **3. RESEARCH OBJECTIVES :**



The general objective of this study is to examine the effect of CSR expenditure on Jammu and Kashmir bank limited’s profitability. But specifically, the study also sought to achieve the following objectives :

- i) To find out how Jammu and Kashmir Bank limited undertake its CSR activities.
- ii) To investigate whether CSR acknowledges the strong profitability linkage in the Banking Sector.

**4. RESEARCH METHODOLOGY -**

The study is conducted on the basis of secondary data. For the purpose of data collection annual reports of Jammu and Kashmir banks Limited were used, Data used includes, CSR expenditure and Net Profit (NP) for the financial period from 2014-15 to 2016-17. Data relating to cost/investment/expenditure for the bank on CSR and NP were used to construct an OLS model of regression which was analyzed to assess the impact as well as test the hypothesis of the study; If there is a relationship and the extent of the relationship, if any, between the independent variable (CSR expenditure) and the dependent variable (NP). Pearson product moment correlation coefficient (r) was used to determine the nature of relationship and coefficient of determination (r<sup>2</sup>) to conclude on the power of independent variables in explaining the variations of dependent variable. The formulated hypothesis was experienced by using the student’s test at the 5% level of significance.

**4.1 Model Development**

$$P_t = \alpha_0 + \beta_1 CSR_t + \varepsilon$$

In the model :

Financial performance represents as a dependent variable is denoted by  $P_t$  and independent variables represents corporate social responsibility (CSR) is denoted by  $\beta$  CSR. This study also attempted to use the Pearson correlation analysis method. This is consistently in line with previous studies to understand the CSR and Profitability link and its relational degree and direction.

**CSR and Net Profit**

Table 1 represented the total amount of CSR which Jammu and Kashmir Bank Ltd has spend during the financial year 2014-15 to 2017-18.

S.No.	Year	CSR Expenditure (Rs.)	Net Profit (Rs.) '000' Omitted
1	2014-15	13,74,61,812	5,085,963
2	2015-16	28,48,38,554	4,160,315
3	2016-17	21,86,51,090	77,203*

Source : Annual report of Jammu and Kashmir Bank Limited from financial year 2014-15 to 2016-17. \* (revised figure)

**Hypothesis Development**

On the basis of the above literature review, the following hypothesis is developed:

H0: There is no significant effect of Corporate Social Responsibility (CSR) expenditure on Jammu and Kashmir Bank Limited’s Profitability.

HA : There is a significant effect of Corporate Social Responsibility (CSR) expenditure on Jammu and Kashmir Bank Limited’s Profitability.

**5. DISCUSSION AND ANALYSIS :**

**5.1 Correlation Coefficient**



Pearson product moment correlation is denoted by r. r which stands for the co-efficient of correlation is defined below as :

Year	CSR (X) Rs. in Crore	Net Profit (Y) Rs. in Crore	$(X - \bar{X})$	$(Y - \bar{Y})$	$(X - \bar{X})(Y - \bar{Y})$
2014-15	13.7462	508.4802	-10.2051	226.5664	-2312.1327
2015-16	28.4838	413.8405	4.5325	134.0016	607.3622
2016-17	21.8651	0.7720	-2.0862	-281.2579	586.7602
Mean	23.9513	282.0299			-1733.3773

The Co-efficient of correlation is independent of the scale used if we divide the term  $\sum(X - \bar{X})(Y - \bar{Y})$  by the sample standard deviation. It is also made independent of the sample size, and bounded by the values +1.00 and -1.00 if we divide by  $(n-1)$ .

Correlation Coefficient 
$$r = \frac{-1733.3773}{(4-1)(7.9423)(227.0718)} = -0.3204$$

Coefficient of determination,  $r^2 = 0.1027$

The calculated value of r suggests that there is a negative relationship between CSR and profitability for the Jammu and Kashmir Bank Limited. However, the  $r^2$  value points that the association is also not so strong.

**5.2 t test for the coefficient of Correlation :**

At the 0.05 level of significance, the decision rule state that if the computed t falls in the area between +2.776 and -2.776 the null hypothesis cannot be rejected.

$$t = \frac{-0.3204\sqrt{4-2}}{\sqrt{1-(-0.3204)^2}} = \frac{-0.453114}{0.947259} = -0.4783$$

The computed t value is -0.4783 which falls within the critical limit. Additionally, the calculated p value is higher than the predetermined level of significance. Thus at the 5% level of significance, the null hypothesis that there is no significant effect of CSR expenditure on Jammu and Kashmir Bank Limited's profitability can't be rejected.

**5.3 Liner Regression Analysis -**

$$P_t = \alpha_0 + \beta_1 CSR_t + \varepsilon$$

Where,  $\beta_1 = r \left( \frac{S_y}{S_x} \right)$

$$\beta_1 = -0.3204 \times 227.0718/7.9423 = -9.1684$$

$$\alpha_0 = 282.0299 - (-9.1684 \times 23.9513) = 501.6234$$



The value of calculating  $r$  indicates that the CSR and financial performance of Jammu and Kashmir Bank Limited have a negative relationship. Thus, the regression equation is  $P_t = 501.6231 + (-9.1684 \times CSR_t)$ , So if Jammu and Kashmir Bank Limited spent 31.7103 crore on CSR in 2018, then expected Net Profit would be 210.8907 crore. The  $\alpha_0$  value of 501.6234 is the point where the equation crosses the NP value. A literal translation is that if there was no CSR made by Jammu and Kashmir Bank Limited then the amount of Net Profit estimated is 501.6234.

## 6. CONCLUSION :

Nowadays, the concept of CSR has become more and more common in business practices and customers who expect companies to be socially responsible although the initiative may not work for all types of organization. Hence designing CSR Scheme requires careful planning and implementation mechanism by the high level management. Consequently, the study is undertaken to get an idea about the CSR activities performed by Jammu and Kashmir Bank Limited and its impact on profitability. Additionally it is important to mention here that the bank has shown a loss in the financial year 2016-17 while maintaining tremendous amount for provisions and reserves in order to make a strong position for future contingencies but in the present study net profit for the said period was revised and undue appropriations were accordingly changed.

Taking into the account the results, the study show that there is no significant effect of CSR on profitability for Jammu and Kashmir Bank Limited throughout the financial years 2014-15 to 2016-17. As a consequence, the bank is suggested that it should be careful in designing activities concerning CSR. Future research in this area could proceed in a number of directions. Firstly, more extensive studies are needed to explore the causal mechanisms linking CSR to profitability and to determine whether or not those relationships hold consistently over time. Secondly, It is also important to position the timing in the relationship, since it would be valuable to investigate and to ascertain how long it takes for the impact of CSR on financial performance to be revealed. Finally, the reliability of the CSR data should be determined, as the sources have significant differences regarding how to evaluate the CSR performance of a firm.

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