

Corporate social responsibility and financial performance: An empirical analysis of Indian banks

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Abstract

Despite scads research on the relationship between corporate social responsibility and financial performance, literature is still inconclusive. This study attempts to examine the relationship between corporate social responsibility and financial performance in the Indian context. Secondary data has been collected for 28 Indian commercial banks listed in Bombay stock exchange (BSE), for the period of 10 years (2007–16). The results indicate that CSR exerts positive impact on financial performance of the Indian banks. The finding of this study provides great insights for management, to integrate the CSR with strategic intent of the business, and renovate their business philosophy from traditional profit-oriented to socially responsible approach.

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Introduction

After financial crisis 1924, the corporate world was forced to restructure their relationship with stakeholders. Stakeholders contested for greater accountability and transparency from corporate management. The Corporate world can't succeed without taking cognizance of their immediate society. [European Commission \(2001\)](#) defined "CSR as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on the voluntary basis". CSR has broadened the domain of corporate sector from stockholders to stakeholder by assigning responsibility towards all those institutions which are affected by the company. Despite a substantial research on CSR, it still lacks conceptual clarity. Different scholars regressed to come up with an inclusive definition, which reflects basic CSR character. We have looked for a definition and basically, there isn't one ([Jackson & Hawker, 2001](#)). The problem exists due to the social construction of definition which fickle across time and space. The comprehensive definition was proposed in 1983, by AB Carroll "corporate social responsibility involves the conduct of a business so that it is economically profitable, law-abiding, ethical and socially supportive" ([Carroll, 1983](#)). Thus, CSR is a philosophy which defines the company-stakeholders relationship.

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The CSR is ever more on the agenda of business organization, due to its ability to enhance the competitiveness of a firm. This has motivated researchers to investigate what affect CSR exerts on bottom-line of the business. In this perspective, prior work has presented divergent results. The dominant perspective believes that CSR provides a competitive edge, which finally enhances the financial strength of the business (Margolis, Elfenbein, & Walsh, 2009). The underlying premise, which asserts that CSR enhances financial performance, is the stakeholder theory (Freeman, 1984). The theory emphasis that the success of a company depends on the enduring relationship with stakeholders and managing them have become an essential tool for value creation (Hammann, Habisch, & Pechlaner, 2009). The other perspective is negative relationship between two constructs. According to this line of thinking, it consumes the scarce resources of company without any substantial return (Friedman, 1970). In other words, social action involves a cost which affects profit negatively. For instance, cost incurred in different CSR activities, for instance, charity, eco-friendly equipment, better working conditions, pollution control, will squeeze the profitability.

As a blistering topic of debate, CSP - CFP investigated worldwide, but lacks insights from an Indian perspective. Further, developing countries became a great receptive of CSR idea, which have become a hub of CSR, makes it imperative to assess its financial implications. Thus, the motive is to explore the nature and the course of association shared between the CSR and financial performance by Indian commercial banks.

Review of literature

Previous studies have shown mixed results regarding the relationship between CSR and Financial performance. The theme has produced scorching debates among researchers, hitherto literature is inconclusive. The common perspective is positive, negative and neutral relationship between two constructs.

Positive relationship between CSR and CFP

This school asserts that CSR is an important driver of enhancing financial performance. CSR, according to stakeholders and agency theory, exerts a positive influence on financial performance. Several studies have supported the positive nexus, for instance, Waddock and Graves (1997) assessed 469 companies while surrogated KLD measurement for CSR. He examined the impact from both slack resources and good management theory. He found CSR positively associated with prior and future financial performance, hence supports both slack resource and good management theory. Similarly, Kim and Kim (2014) studied CSR in tourism industry, examines whether CSR enhances value for shareholders. The study used ESG rating from 1991 to 2008, to specifically test the effect of CSR on two different types of equity-holder risks (i.e., systematic and unsystematic risks). He suggested that social responsibility was found to enhance shareholder value by increasing Tobin's Q, while firms having minimal CSR reduced shareholder value by increasing the risk. The main hypothesis which supports the positive relationship is CSR enhances competitiveness of a firm.

From an innovation perspective, CSR reduces firm costs, create value for stakeholders, and craft internal capabilities, such as being first mover in an industry (Preston & O'bannon, 1997), all these contribute to the competitive advantage of a firm. The three basic channels through which CSR exerts competitiveness in the firm; cooperation with different stakeholder, developing new business opportunities through addressing key societal challenges, improving working conditions, that increases the confidence of workers and pay better attention towards workers. Thus, by investing in superior social responsibility, a firm builds up a stock of reputational capital, and hence boosts its financial performance. Further, CSR helps in building the positive relationship with customers, attracting motivated employee, lowering companies risk and spreading positive word of mouth which might otherwise impose a cost (Bird, Hall, Momentè, & Reggiani, 2007). Similarly, Hammond and Slocum, (1996) highlighted that CSR can enrich corporate reputation and lower financial risk, thus firms having minimal chance of getting bankrupt, compared to non-CSR firms.

Negative relationship between CSR and CFP

In the late 60s, Milton Friedman came up with an argument, that there is nothing like the social responsibility of business. CSR is "fundamentally subversive doctrine" in the free society, otherwise, the company will be at a detrimental position; the only goal for the business is to increase profit while respecting legal and ethical decorum

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