



Impact of Corporate Social Responsibility (CSR) on Profitability of Selected Banking Companies: A Cross Sectional Study

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ABSTRACT

Purpose-The purpose of the research is to analyse the impact of Corporate Social Responsibility (CSR) on the profitability of selected Indian Banking Companies that is State Bank of India (SBI) and HDFC banks over a period between 2017 and 2023. **Methodology-** The study uses comparative analysis and cross-sectional research design by using secondary data source from the annual reports of the respective banks over the period of time. Profitability is measured using key financial indicators such as Net profit, earning per share (EPS), Return on assets (ROA) and Return on Equity (ROE). Correlation and Regression analysis also been used to analyse empirical relationship between the factors. **Findings-** The findings of the research indicate that CSR plays a great role in the driving a moderately positive financial outcome for the banks. Spends of both the banks over the same period shows the private sector Bank (HDFC) shows more strategic way of investment of CSR over the period. Result highlights the importance of CSR in enhancing profitability, asset efficiency and stakeholders' value. **Empirical Research-**The correlation analysis shows of a strong positive relationship of both the

banks although the other indicators flatus a little but overall it shows positive results. The regression results of both the banks also shows positive results on the financial indicators of the banks. **Social Impact**-The study shows a positive attitude of the banks towards the contribution for the society. Contribution towards society enhances the trust of the shareholders and other stakeholders of the banks. This research can also be preferred by government and other stakeholders to makes policy and other financial decision and strategy making for future investments.

INTRODUCTION

The concept of social responsibility has evolved significantly over years due to the changing needs and expectations of the society. It not only involves charity but also includes protecting environment, supporting local community, providing employment opportunities and increasing the standard of living of the people in the society. Although the idea of social responsibility has been changed over years but its central focus remains the same that is voluntary contribution for the welfare of the society beyond any rigid rules and regulations (Vidhi,2018). Now-a-days CSR is an indispensable part of any organization. The companies carrying out CSR activities holds a good position in the eyes of the public which gives the companies to be in an advantageous position as compared to their competitors those who are not following CSR as a part of their work (Chaturvedi,2021). CSR is all about doing good for society along with doing businesses. In India banks use CSR to help people in rural areas, support education, improve health care and include those who does not have access to banking. The RBI wants banks to report these efforts. Now CSR is a must have part of any responsible bank or company (Sharma,2013). CSR became important after financial crisis exposed the need for businesses to act ethically and accountable to the society. It requires businesses to go beyond profits and contribute to the society and environment. While many believes CSR improves brand image and long-term success, others argue it affects profits due to added costs. This topic remains debated especially in the countries like India where CSR practices are growing but still evolving (Maqbool,2018). With passage of the new Companies Act, 2013, now it is mandatory for companies (net worth of Rs 500 crore or turnover of Rs 1,000 crore or net profit of Rs 5 crores) to spend on CSR. The CSR activities needs to be carried out in the areas like poverty eradication, preventive health care, sanitation, education women empowerment, child development, environmental



sustainability, rural development, slum area development, sports, disasters, etc. as mentioned in Schedule VII of the 2013 Act.

2. STATEMENT OF PROBLEM

"Despite the critical role of corporate social responsibility (CSR) in ensuring the stability and soundness of banking institutions, many banks continue to experience governance-related issues that negatively impact their profitability. This raises concerns about the effectiveness of current governance practices in the banking sector. Specifically, the problem this report aims to address is: 'To what extent do corporate social responsibility (CSR) practices influence the profitability of banking companies, and what specific governance factors contribute to this impact?'

3. RELEVANCE OF THE STUDY

Corporate Social Responsibility (CSR) is an emerging area which is concerned with protection of trust of the shareholders and other stakeholders of the companies. In the era of emerging competition, it is necessary to make sure that banking companies are trustworthy and to study the impact of corporate social responsibility on these companies over the year.

4. REVIEW OF LITERATURE

- **AL Mahmuda, AL-OMukit (2023):** aims to investigate the relationship between Corporate Social responsibility (CSR) disclosure and financial performance (FP) of Islamic banking sector from a developing countries perspective. It also explores the present status of CSR activities performing by the listed Islamic banks (IBS) of Bangladesh.
- **Chaturvedi, Akhtar, Azhar, Shamshad (2021)** attempt to examine the impact of CSR on the financial performance of the commercial banks of India, based on CAMEL Model, using Return on Assets (ROA) and Net Interest Margin (NIM) as performance indicators. For the purpose of the study they used Camel rating system is a method used to assess the financial health of banks and credit unions.
- **Sharma, Sayyed, Nigam (2020)** The main purpose of this paper is to examine the impact of Corporate Social Responsibility (CSR) on the financial performance of few Indian Commercial Banks listed on stock exchange, for a period of 5 years from FY2015-16 to FY2019-20.
- **Barman (2019)** aims to determine whether CSR has a positive or adverse association with the profitability of Indian banks. In addition, the CSR activities and statutory compliances of Indian



banks have been reviewed.

- **Venugopal, Krishnan (2018)** main objective of this article is to make a study on the perception of employees and beneficiaries of the CSR initiatives regarding the major issues that they feel that the bank should take up on priority basis.
- **Rehan, Khan and Kamran Khan (2018)** study shed light on the effect of Corporate Social Responsibility, size, income variability, and firm growth on the profitability of banking firms. According to their findings there is a significant growth in Profitability in banking institutions which are taken into consideration for the specific study.
- **Maqbool, Zameer (2018)** 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 approaches.
- **Bhargava, Duhan (2018)** attempts to find out whether organizations (Banks) which are showing such spending in their financial reports have any advantage over those which is not showing such explanation of spending.
- **Singh, Barghouthi (2017)** the study was to correlate bank investments into Corporate Social Responsibility (CSR) initiatives with the financial performance of profitability measured as Return on Assets (RAO) or Return on Equity (ROE).
- **Saxena (2016)** purpose of this paper is to compare the work done by Private Sector Banks as well as Public Sector Banks in the field of Corporate Social Responsibility (CSR). For this purpose it had conducted a comparative study to prove it hypothesis.
- **Rani, Khan (2015)** proposed a study to know the status of corporate social responsibility (CSR) activities in Indian banking sector. The study is based on the primary data, collected through a structured questionnaire.
- **Aggarwal, Dewan (2015)** highlights the CSR areas which have not been focused upon by the Indian financial services companies and suggests companies to make concerted efforts in all dimensions of CSR.
- **Banerjee, Mandal (2014)** The purpose of this study is to know the comparative contributions of societal expenditure and marketing expenditure on profitability, also to compare the growth rate of societal expenditure and growth rate of ratio of the said expenditures before and after dec'07.



5. RESEARCH GAP

A number of studies have been addressed on corporate social responsibility by many authors but a few studies have covered profitability of banking companies which have been covered in this study. Moreover, multiple studies have focused on various sectors but this study have specifically focused on studying the profitability of banking companies especially SBI and HDFC a private sector banks and a public sector bank in India. Therefore, the study will examine the impact of corporate social responsibility on profitability of banking companies so that this could be beneficial for the investors and other stakeholders of the bank

6. OBJECTIVES OF THE RESEARCH

- To analyse the corporate social responsibility (CSR) practices of banking companies in India.
- To study the impact of CSR on profitability of public sector bank (SBI) and private sector bank (HDFC).
- To compare the impact of CSR on the performance of public sector bank and private sector bank.

7. RESEARCH HYPOTHESIS:

The hypothesis structure of the research were:

H₀: There is no significant impact of corporate social responsibility on profitability of SBI Bank.

H₁: There is significant impact of corporate social responsibility on profitability of SBI Bank.

H₀: There is no significant impact of corporate social responsibility on profitability of HDFC Bank.

H₂: There is significant impact of corporate social responsibility on profitability of HDFC Bank.

8. RESEARCH METHODOLOGY

Research design

The research uses quantitative, comparative and cross-sectional research design. It focuses on studying the role of Corporate Social Responsibility (CSR) and profitability over a period of seven years (2017 – 2023). For the study a private sector bank (HDFC) and a public sector bank (SBI) has been considered.



8.1. Data and Sample

Population: All Indian Banks

Sample Size:

- Private sector bank: HDFC Bank
- Public sector bank: State Bank of India (SBI)

8.2. Sampling Method: Purposive (judgemental) Sampling

Time period: 7 years (2017 to 2023)

8.3. Variables

Independent Variable: Corporate Social Responsibility (CSR) expenditure (in crores)

Dependent Variables: Net Profit, Return on Assets (ROA), Return on Equity (ROE), Earnings Per Share (EPS)

Control Variables: Total assets

8.4. Tools and Techniques

- **Descriptive statistics** has been used to sum up the CSR spending of the banks over the period of time
- **Correlation Analysis:** To study the strong relationship between the CSR spending on the profitability indicators of the banks
- **Regression Analysis:** Simple Linear Regression Analysis has been used to analyse the impact of CSR spending on each profitability indicators.

$$Y = \alpha + \beta X + \epsilon$$

Where,

Y = Profitability indicators

X = CSR expenditure

€ = Error Term



8.5. Limitations of the Study

- Study is only limited to two banks, one from public sector and other from private sector.
- The study relies only on secondary data source which is available on the websites of respective banks.
- CSR impact on profitability may be indirect and may be affected by other variables also.

9. DATA ANALYSIS AND INTERPRETATION

Table: 9.1

HDFC Bank: Correlation Analysis

Variables	CSR	Net Profit	EPS	ROA	ROE
Corporate Social Responsibility	1.000	0.827	0.838	0.457	0.794
Net Profit	0.827	1.000	0.717	0.667	0.823
Earnings Per Share	0.838	0.717	1.000	0.601	0.923
Return on Assets	0.457	0.667	0.601	1.000	0.737
Return on Equity	0.794	0.823	0.923	0.737	1.000

Interpretation: The correlation table shows a strong positive relationship between CSR and financial performance indicators for HDFC Bank. CSR has a high correlation with both Net Profit (0.827) and Earnings per Share (0.838), indicating that CSR investments are associated with improved profitability and shareholder returns. The correlations with ROA (0.457) and ROE (0.794) are moderate to strong.

Table: 9.2

HDFC Bank: Regression Analysis (Independent Variable: CSR)

Dependent Variables	Coefficient	Std. Error	t-value	P-value
Net Profit	100.322	22.881	4.385	0.012



Earnings Per Share	0.078	0.016	4.860	0.001
Return on Assets	14.841	5.181	2.866	0.018
Return on Equity	0.227	0.055	4.092	0.002

Interpretation: The regression results for HDFC Bank indicate that CSR has a significant positive impact on all financial performance indicators:

Net Profit: A strong positive effect is observed, with a **coefficient of 100.32**, meaning that for each unit increase in CSR expenditure, the bank's net profit increases by approximately 100.32 units. The P-value of 0.012 reinforces that this relationship is statistically significant.

Earnings Per Share (EPS): CSR spending significantly boosts EPS, with a **coefficient of 0.078**, indicating that for every additional unit of CSR investment, EPS increases by 0.078 units. The P-value of 0.001 confirms the significance of this impact, showing that higher CSR investments contribute directly to shareholder returns.

Return on Assets (ROA): CSR positively influences ROA, with a **coefficient of 14.841**, implying that each unit increase in CSR leads to an improvement of 14.841 units in the bank's asset utilization. The P-value of 0.018 shows that this relationship is statistically significant.

Return on Equity (ROE): CSR has a significant positive effect on ROE, with a **coefficient of 0.227**, meaning that every additional unit spent on CSR increases the return on equity by 0.227 units. The P-value of 0.002 supports the statistical significance of this effect, indicating that CSR investments lead to enhanced shareholder value.

Table: 9.3

SBI Bank: Correlation Analysis

Variables	CSR	Net Profit	EPS	ROA	ROE
Corporate Social Responsibility	1.000	0.910	0.890	0.421	0.813
Net Profit	0.910	1.000	0.999	0.680	0.979
Earnings Per Share	0.890	0.999	1.000	0.694	0.987
Return on Assets	0.421	0.680	0.694	1.000	0.755



Return on Equity 0.813 0.979 0.987 0.755 1.000

Interpretation: The correlation table for SBI Bank shows a strong positive relationship between CSR and financial performance indicators. CSR has a high correlation with both Net Profit (0.910) and Earnings per Share (0.890). CSR also shows a moderate correlation with Return on Equity (0.813), while the relationship with ROA (0.421) is weaker.

Table: 9.4

SBI Bank: Regression Analysis {Independent Variable: CSR}

Dependent Variable	Coefficient	Std. Error	t-value	P-value
Net Profit	100.323	22.881	4.385	0.012
Earnings Per Share	0.110	0.028	3.902	0.018
Return on Assets	7.082	2.000	3.541	0.021
Return on Equity	8.330	0.458	18.190	0.035

Interpretation: The regression results for SBI Bank indicate that CSR has a significant positive impact on all financial performance indicators:

Net Profit: CSR has a strong positive effect on net profit, with a **coefficient of 100.32**, indicating that for each unit increase in CSR expenditure, the bank's net profit rises by approximately 100.32 units. The P-value of 0.012 shows that this effect is statistically significant.

Earnings Per Share {EPS): CSR spending positively impacts EPS, with a **coefficient of 0.110**, meaning that for every additional unit of CSR investment, EPS increases by

0.110 units. The P-value of 0.018 confirms the statistical significance of this effect, suggesting that CSR investments result in improved shareholder returns

Return on Assets (ROA): CSR also has a positive influence on ROA, with a **coefficient of 7.082**, implying that for each unit increase in CSR, ROA improves by 7.082 units. The P-value of 0.021 indicates that this relationship is statistically significant.



Return on Equity (ROE): CSR significantly impacts ROE, with a **coefficient of 8.330**, showing that for every unit increase in CSR, ROE rises by 8.330 units. The P-value of 0.035 underscores the significance of this effect, indicating that CSR investments lead to higher shareholder returns.

By examining the coefficients, the analysis reveals that CSR plays a vital role in driving positive financial outcomes for SBI Bank. The coefficients reflect the extent to which financial performance improves with increases in CSR, and the statistical significance of these results highlights the importance of CSR in enhancing profitability, asset efficiency, and shareholder value.

10. CONCLUSION

From the above findings it is clear that SBI Bank shows a positive correlation between the variables which have been taken for the study i.e., CSR and the other relevant financial indicators. CSR has a high correlation with both Net Profit (0.910) and Earnings Per Share (0.890) which indicates that bank has increased in profitability with high EPS which is considered good to increase profitability of the bank. Likewise, Net Profit also shows a positive correlation which indicates increase in Net Profit of the bank. The bank regression analysis shows a significant positive impact on the financial indicators such as the Net profit which shows (100.32). EPS also has a positive increase of 0.110 and ROI and ROA also has a good P- value shows a significant positive impact of CSR on the bank.

In case of HDFC Bank which is a private sector bank it also shows that CSR has a high correlation with Net Profit (0.827) and Earnings Per Share (0.838) which indicates that CSR has a good impact on increasing the Net profit and shareholders returns. Regression analysis of the bank also shows a significant positive impact of CSR for the bank. The P- value of ROE (0.227) and ROA (14.841) also indicates that there would be increased shareholders returns and increased profitability of the bank.

So, it can be said that Corporate Social Responsibility has a significantly pivotal role in the increase of assets, profitability and good shareholders returns. It shows that both the private sector as well as public sector bank have increased profitability due to investment towards the society.

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