



## Impact of CSR investment on the financial performance of private banks in India

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### Abstract

The study intended to determine the effect of corporate social responsibility on financial performance of commercial banks. Financial performance was measured by use of net profits before taxes obtained from audited statements of comprehensive income. Investment in CSR was measured using monetary spending on social activities. Data was obtained from commercial banks audited financial statements, websites, publications and annual reports. Commercial institutions that did not participate in CSR activities or that had not kept data pertaining to CSR were excluded. Secondary data from the year 2012 to 2016 was used for analysis. Using descriptive research design, the study tested for linear relationship between financial performance and corporate social responsibility. The study used correlation analysis technique, graphical analysis tool and the five years secondary data to analyze the effect of corporate social involvement on the financial performance of private sector banks in India. The study revealed that not all private commercial banks report their CSR involvement. Out of the 20 banks studied, only 8 provided the necessary and complete data that was appropriate for the study. The study findings were that expenses on social course have an effect on financial performance of private banks in India.

**Keywords:** corporate social responsibility, private banks in India, market price, net profit, environment protection, customer satisfaction

### Introduction

A bank is a money related establishment that acknowledges collection of money from general society and makes credit. Loaning exercises can be performed either specifically or by implication through capital markets. Because of their significance in the money related dependability of a nation, banks are exceedingly directed in many nations. Most countries have organized a framework known as partial save keeping money under which banks hold liqued resources equivalent to just a segment of their present liabilities. Notwithstanding different controls proposed to guarantee liquidity, banks are by and large subject to least capital necessities in view of a worldwide arrangement of capital principles, known as the Basel Accords.

Banks go about as installment specialists by leading checking or current records for clients, paying checks drawn by clients on the bank, and gathering checks stored to clients' present records. Banks additionally empower client installments by means of other installment strategies, for example, Automated Clearing House (ACH), Wire exchanges or transmitted exchange, EFTPOS, and mechanized teller machines (ATMs). Banks obtain cash by tolerating reserves saved on current records, by tolerating term stores, and by issuing obligation securities, for example, banknotes and securities. Banks loan cash by making advances to clients on current records, by making portion credits, and by putting resources into attractive obligation securities and different types of cash loaning. Banks give distinctive instalment administrations, and a financial balance is viewed as vital by most organizations and

people. Non-banks that give instalment administrations, for example, settlement organizations are typically not considered as a satisfactory substitute for a ledger.

### Business Model

A bank can produce income in an assortment of various ways including premium, exchange expenses and monetary guidance. Customarily, the most critical strategy is by means of charging enthusiasm on the capital it loans out to customers. [Citation needed] The bank benefits from the distinction between the level of premium it pays for stores and different wellsprings of assets, and the level of premium it charges in its loaning exercises.

This distinction is alluded to as the spread between profoundly the cost of assets and the advance loan cost. Verifiably, gainfulness from loaning exercises has been patterned and subject to the necessities and qualities of credit clients and the phase of the financial cycle. Expenses and budgetary exhortation constitute a more steady income stream and banks have accordingly put more accentuation on these income lines to smooth their money related execution.

### Private sector banks

Private banking is an entity keeping money, venture and other monetary administrations gave by banks to high-net worth individuals (HNWIs) with elevated amounts of wage or sizable resources. The term private alludes to client benefit rendered on a more individual premise than in mass-advertise retail managing an account, for the most part through devoted

bank counselors. It doesn't allude to a private bank, which is a non-joined managing an account organization.

Keeping money in India has been commanded by open division banks since the 1969 when every single real bank was nationalized by the Indian government. Be that as it may, since progression in government saving money approach in the 1990s, old and new private area banks have re-developed. They have become speedier and greater over the two decades since progression utilizing the most recent innovation, giving contemporary developments and fiscal apparatuses and procedure.

### **Financial performance of private sector banks**

The term financial performance is a composite of an association's budgetary wellbeing, its capacity and eagerness to meet its long haul monetary commitments and its responsibilities regarding give benefits within a reasonable time-frame. Long haul destinations speak to the outcomes anticipated from seeking after specific procedures which speak to moves to be made to finish long haul targets. The time allotment for goals and techniques ought to be steady, generally from two to five years. Money related execution alludes to the demonstration of performing budgetary movement. In more extensive sense, monetary execution alludes to how much money related targets being or has been refined. It is the way toward measuring the consequences of a company's strategies and operations in money related terms.

Accounting based pointers, for example, ROA, ROE and return for capital invested catch an association's inner proficiency. These pointers are utilized to gauge association's general budgetary wellbeing over a given timeframe and can likewise be utilized to think about comparative firms over a similar industry or to analyze businesses or divisions in conglomeration. ROA is utilized to gauge the effectiveness of benefits in delivering salary while ROE measures the execution of the firm with respect to investor venture. A portion of the impediments of bookkeeping measures are that they just catch chronicled parts of the company's execution, are liable to inclination from administrative control and the distinctions in bookkeeping methods. Bookkeeping measures are likewise internal looking since them to a great extent mirror the productivity.

### **Corporate social responsibility**

The concept of corporate social responsibility has evolved over the decades but still there is no proper definition of it. Authors defined it as an integration of social, ethical, economic, environmental and legal expectation of society from business organizations. Now after globalization, liberalization and privatization CSR activities become important part of strategies formulation to fulfil competitive urge. Government, non – profit organization, community welfare societies and business organization are working together for development of economy through such activities. Banking and financial institution are not different from other and being backbone of Indian economy they have to cope up with all changes around them.

Responsibility of banking industry is more in comparison to other because of their financing services which create multiplier effect on the on whole economy and long term

sustainability. In emerging economy like India banks should act responsible in investment and financing any project with respect to social and environmental issues.

Banking sector plays very important role in Indian economy, it acts like blood in body for proper and smooth functioning. Post independence Reserve bank of India (RBI) was established in 1935 which was nationalized in 1949 and with this banking regulation act empowered RBI to regulate, control and inspect the banks in India. This act also made mandatory to register all banks with RBI that means no bank in India can operate without taking permission from RBI. But as banks got listed in stock exchange with globalization and liberalization they have to follow set norms of Securities exchange board of India (SEBI) for trading purpose, Companies act 1956 under supervision of Ministry of corporate affairs (MCA) and Reserve bank of India (RBI) at same time.

Reserve bank of India (RBI), Ministry of corporate affairs (MCA) and Security exchange board of India (SEBI) issue guideline from time to time for all organization to follow all rules and regulation. There are especial guidelines for corporate social responsibility in companies' bill 2013 which are applicable from 2014 – 2015. RBI set up Khan Committee in 2005 and Nachiket committee in 2013 to covers all commercial bank under financial inclusion plan and make it compulsory to submit a report on CSR activities at the end of every year.

The purpose of this project is to study the importance of corporate social responsibility in strategy formulation of top 10 private banks on Indian on the basis of income. Content analysis was done to study annual reports generated from official website of these banks. Content analysis was used in number of studies to explore structured document.

### **Common CSR actions include**

Environmental sustainability reusing, squander administration, water administration, sustainable power source, reusable materials, "greener" supply chains, lessening paper utilize and receiving Leadership in Energy and Environmental Design building standard.

Community involvement. This can incorporate raising cash for neighborhood philanthropies, giving volunteers, supporting nearby occasions, utilizing neighborhood specialists, supporting neighborhood monetary development, participating in reasonable exchange hones, and so on.

Ethical marketing: Companies that morally market to shoppers are putting a higher incentive on their clients and regarding them as individuals who are finishes in themselves. They don't attempt to control or dishonestly publicize to potential shoppers. This is critical for organizations that need to be seen as moral

### **Potential business benefits**

#### **Triple bottom line**

"Individuals, planet and benefit", otherwise called the triple main concern shape one approach to assess CSR. "Individuals" alludes to reasonable work rehearses, the group and area where the business works. "Planet" alludes to manageable ecological practices. Benefit is the financial esteem made by the association in the wake of deducting the

cost of all data sources, including the cost of the capital (not at all like bookkeeping meanings of benefit). This measure was asserted to help a few organizations be more aware of their social and good duties

### **Human Resources**

A CSR program can be a guide to enlistment and maintenance especially inside the focused graduate understudy advertise. Potential enlists frequently consider a company's CSR strategy. CSR can likewise help enhance the view of an organization among its staff, especially when staff can end up noticeably required through finance giving, raising money exercises or group volunteering. CSR has been credited with empowering client introduction among client confronting employees. CSR is known for affecting representative turnover

### **Risk Management**

Overseeing danger is an imperative official duty. Notorieties that take decades to develop can be demolished in hours through debasement embarrassments or ecological mishances. These draw undesirable consideration from controllers, courts, governments and media. CSR can constrain these dangers.

### **Impact of corporate social responsibility on financial performance on private sector bank**

A few specialists have contended that CSR can enhance the aggressiveness of an organization over the long haul, suggesting a positive connection between the CSR inclusion of an organization and its money related achievement. The connection amongst CSR and money related execution speaks to the slightest comprehended range of CSR. While contemplates recommend a mellow positive relationship, this association has not been completely settled and the systems through which association's money related execution can be upgraded through CSR is not surely knew. Most analysts contend that great corporate notorieties 5 have key an incentive for firms that have them. Firms with resources that are important and have an upper hand may hope to win unrivaled returns. Those whose benefits are hard to emulate may likewise accomplish supported prevalent monetary execution the perspective for positive connection amongst's CSR and CFP recommend that an organization's unequivocal expenses are inverse of the concealed expenses of partners. Along these lines, this perspective is proposed from the point of view of maintaining a strategic distance from cost to significant partners and considering their fulfillment. Responsibility regarding CSR would result to expanded expenses to intensity and diminishing the concealed cost of partners. A few partners view CSR as an image of notoriety and the organization notoriety was enhanced by activities to help the group bringing about positive impact on income". Organizations can transform a social issue into long haul financial open door and monetary advantages, beneficial limit, human ability, generously compensated employments and riches. Organizations dedicating a medium measure of assets to CSR detailed most astounding ROE showing, an altered "U" shape connection amongst CSR and budgetary execution. Hypothetically, CSR is relied upon to enhance a company's monetary execution over the long haul. A firm is relied upon

to pick up section into new however unpredictable markets, remain aggressive, keep up its clients separated from expanded income, and keep up a superior brand picture according to its clients, better 6 comprehension of clients' needs and how to transform those needs into needs. Customers have reacted in ways that have irrefutably moved CSR from "slant" to 'desire.

### **Review of literature**

Leedy (1997) states that, the purpose behind a written work study is to "look" at the composition assembled by others in a related region not by any stretch of the imagination vague but instead protection to your own particular area of study. In the audit diverse promoting, online appropriations and journals will be investigated. Taking in got from the adequately existing written work will grow the degree of the issue under audit. In any case, in this examination broaden critical expounding on Corporate Social commitment and publicizing models will be investigated to extend the degree of inconceivable promoting through utilization of corporate social responsibility.

Puth and Lubbe (1994:179-180) portray corporate social commitment as 'non-particular thought suggesting the business affiliation's stress and element two-way consideration with the social, money related and political propel which affect the earth inside which it exists". Skinner greenish blue (2007) battles that "around the world, the expression "corporate social RESPONSIBILITY" (CSR) or "corporate social wander" (CSI) normally used to portray the demonstration of good corporate citizenship". Before reasonable change in the mid-nineties noteworthy business battled that CSR was neither an affirmation of fault for their share of the hopelessness of the denied, nor is it proposing responsibility with respect to the budgetary welfare of the country (Mersham *et al.* 1995:79)

Kotler and Lee (2005:5) states that as demonstrated by KPMG US Professionals Services firm, a 2002 survey of the Global Fortune Top 2005 associations demonstrated a continued with addition in different American associations giving a record of corporate responsibility. In 2002, 45 percent of these associations issue characteristic, social, or practicality reports differentiated and 35 percent in their 1999 diagram. Genuine streets for this specifying consolidate corporate giving and, logically, the generation of an alternate yearly gathering giving reports. In the survey Econet and NRZ are the two corporate affiliation arranged in Zimbabwe that practices CSR or CSI. Econet, much the same as NRZ accommodates the publics through endowments and generosity.

Cutlip *et al.* (2003) says the genuine techniques for imparting and showing corporative social commitment consolidate mission and regard clarifications, talks, publicizing, and liberality adding to preparing, human administrations, welfare and articulations of the human experience. Additionally, Cutlip (2003:472) battle that routinely the PR experts expect a key part in corporate philanthropy, sometimes filling in as the officer accountable for the limit.

Seital (1995:4) recommends that "publicizing can be described similarly as four specific limits specifically a) Research, b) Action, C) Communication and d) Evaluation. Promoting accordingly applies the R-A-C-E approach that

incorporates examining attitudes on a particular issue, perceiving movement undertakings of the affiliation that addresses that issue, passing on those activities to expand perception and affirmation, and evaluating the effects of the correspondence attempts on the all-inclusive community.

Grunig (2000:1) watched publicizing sharpen the world over as a canny researcher everlastingly 35 years and assumed that five examples are going on: Firstly, PR's is transforming into a calling with a scholastic collection of data. Moreover, open association is transforming into an organization function instead of only a particular correspondence work. Thirdly, promoting pros are getting the chance to be clearly key teachers who are less charmed with notoriety in the expansive interchanges than their precursors. Fourthly, promoting have moved from a calling sharpened just by white folks to a calling with a female larger part and with experts of various racial and ethnic establishments. Finally, all publicizing practice today is worldwide rather than bound to the edges of only a solitary association. As a condition of remove this survey will take a gander at the utilization of two-way symmetrical model as fabulous promoting by Bata and Zimbabwe Alloys to talk with the gathering in which they work.

Schwaz and Carroll (2003) and furthermore the rights related with citizenship proposed by means of Carroll (1991). Both associations that sees the mischief to their associations of fail to get a handle on remotely agreed social responsibilities and look for after more conspicuous legitimacy from their affirmation of the code of practicing CSR to their publics. These responsibilities should be thoroughly based to wrap the legal, financial and moral estimation and what's more the rights related with citizenship proposed by Matten and Crane (2005). The societal authenticity of such responsibilities is inconceivable where they change in accordance with creating outside frameworks for good and social qualities

Norman and Ramirez (1993) fight that regard happens not in progressive chains yet rather in complex gatherings of stars. They Point out "regard" in a business sort out occurs in light of a regard making structure, inside which differing money related entertainer's suppliers, business accessories, accomplices, customers participate for corporate regard. The structure of associations inside the regard framework is the techniques through which a joint use of a socially arranged regard framework is refined. This derives an accomplice approach to manage ensure shared characteristic of interest

**ICICI Bank**

**Table 1:** ICICI Bank

Years	Net Profit (in crores)	CSR Investment (in crores)	Yearly Avg. Share Price
2016	9726.29	172	258.15
2015	11175.35	174.33	306.625
2014	9810.48	192.27	727.5
2013	8325.47	96.57	1122.725
2012	6465.26	27.5	913.65

**Result:** Correlation between net profit and CSR investment: 0.926861694

and uniform responsibility to shared values over the regard organize.

Lafferty *et al.* (2002) demonstrate a creating gathering of confirmation unequivocally supporting the view that positive corporate picture is determinedly related to purchase desire and that buyers isolate among firms and their things/advantage offerings. This survey will in like manner almost assess the CSR approach at Econet and NRZ by PR specialists to meet Carroll's 3C-SR exhibit as suggested as effective routine of CSR.

**Research Methodology**

**Research Design**

It is an exploratory research where content analysis was done to investigate top private banks of India by analysing the impact on their financial performance by their CSR investments. For analyzing the impact of a sample of 8 Private Banks has been taken from the population on the basis of net worth.

1. ICICI Bank
2. AXIS Bank
3. Yes Bank
4. Federal Bank
5. HDFC Bank
6. Kotak Mahindra Bank
7. IndusInd Bank
8. Karnataka Bank

**Objectives of the study**

The objectives of this study are as following:

1. To analyse the impact of CSR on net profit of selected Banks.
2. To analyse the impact of CSR investment on the average share price of the banks.

**Hypothesis of the study**

- There is no significant impact of CSR on Financial Performance of the banks.
- There is significant impact of CSR on Financial Performance of the banks.

**Data Analysis**

To meet the objective of the study the data for the study Data is collected through annual report of various banks included in the study from the year 2012 to 2016.

Correlation between CSR investment and average share price: -0.668479807

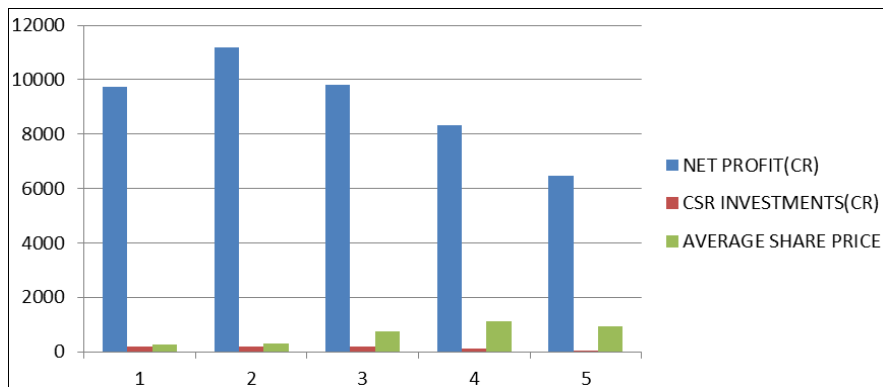


Fig 1: ICICI Bank

**Interpretation**

- As the result of Correlation between net profit and CSR investment shows positive result i.e. more than 0 that implies that the CSR investment and net profit are positively correlated. So with increase in the CSR investment, profits will also increase. So the bank should increase their CSR investment to increase their future earnings and vise-versa.
- As the result of Correlation between Average share price and CSR investment shows negative result i.e. less than 0 that implies that the CSR investment and Average share price are negatively correlated. So with increase in the CSR investment, Average share price tends to decrease and vise-versa.

**AXIS Bank**

Table 2: Axis Bank

Year	Net Profit (in crores)	CSR Investment (in crores)	Average Share Price
2016	8223.66	138.96	500.725
2015	7357.82	135.38	1011.4
2014	6217.67	62.17	1383
2013	5179.43	51.8	1223.5
2012	4242.21	42.42	1274.55

**Result:** Correlation between net profit and CSR investment: 0.93942149  
 Correlation between CSR investment and average share price: -0.828396079

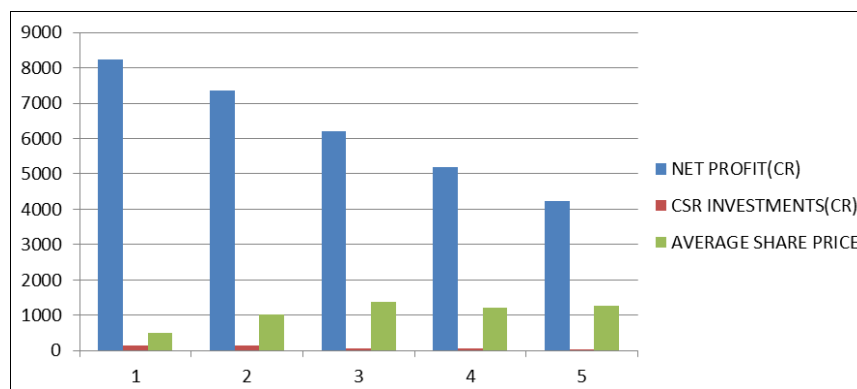


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**Yes Bank**

Table 3: Yes Bank

Year	Net Profit (in crores)	CSR Investments (in crores)	Average Share Price
2016	2539.45	31.48	837.05
2015	2005.36	15.642	615.625
2014	1617.78	12.295	422.875
2013	1300.68	9.1	398.3
2012	977	5.41	341.55

**Result:** Correlation between net profit and CSR investment: 0.958044197  
 Correlation between CSR investment and average share price: 0.973280373

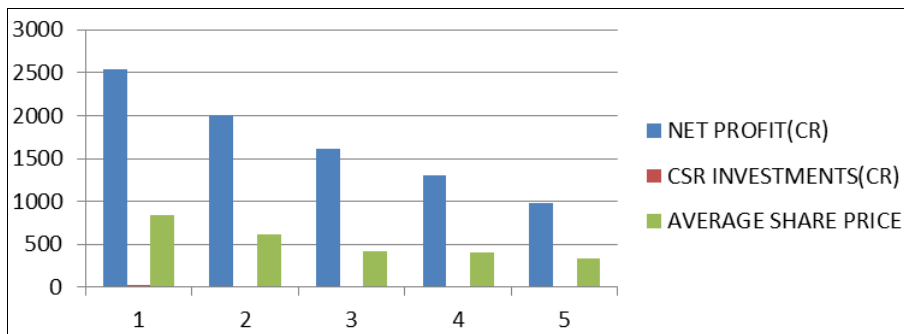


Fig 3: Yes Bank

**Interpretation**

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earnings and vise-versa.

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**HDFC Bank**

Table 4: HDFC Bank

Year	Net Profit (in crores)	CSR Investments (in crores)	Average Share Price
2016	12296.21	120.72	1047.45
2015	10215.92	118.55	888.8
2014	8478.38	70.36	688.075
2013	6726.28	58	571.325
2012	5167.09	46.25	1435.5

**Result:** Correlation between net profit and CSR investment: 0.951716061

Correlation between CSR investment and average share price: -0.07640499

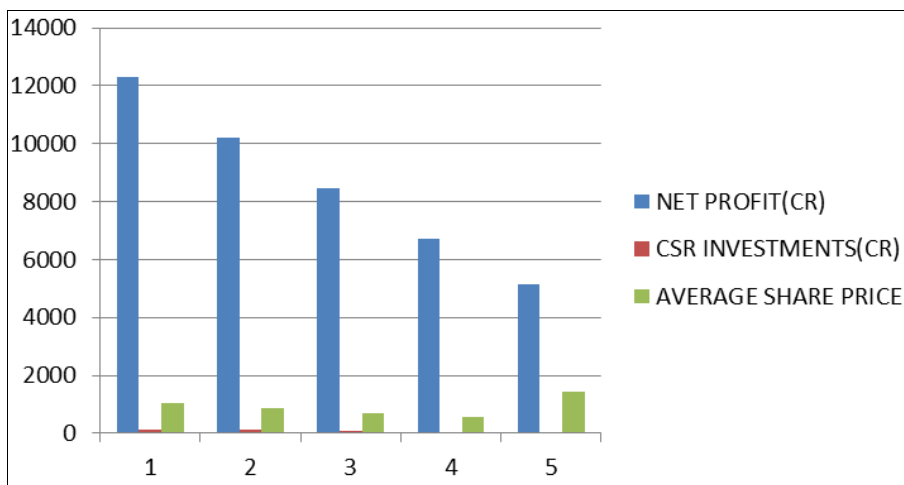


Fig 4: HDFC Bank

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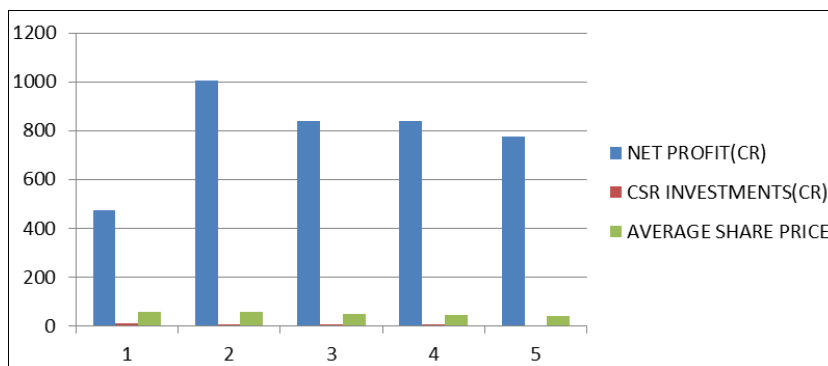
**Federal Bank**

**Table 5:** Federal Bank

Year	Net Profit (in crores)	CSR Investments (in crores)	Average Share Price
2016	475.65	12.3	56.66
2015	1005.75	7.27	57.66
2014	838.89	5.45	48.15
2013	838.17	4.95	45.48
2012	776.8	2.96	42.2

**Result:** Correlation between net profit and CSR investment: - 0.631670418

Correlation between CSR investment and average share price: 0.834897645



**Fig 5:** Federal Bank

**Interpretation**

- As the result of Correlation between net profit and CSR investment shows negative result i.e. less than 0 that implies that the CSR investment and net profit share are negatively correlated. So with increase in the CSR investment, profits tend to decrease. So the bank should decrease their CSR investment to increase their future

earnings and vice-versa.

- As the result of Correlation between Average share price and CSR investment shows positive result i.e. more than 0 that implies that the CSR investment and Average share price are positively correlated. So with increase in the CSR investment, Average share price tends to increase and vice-versa.

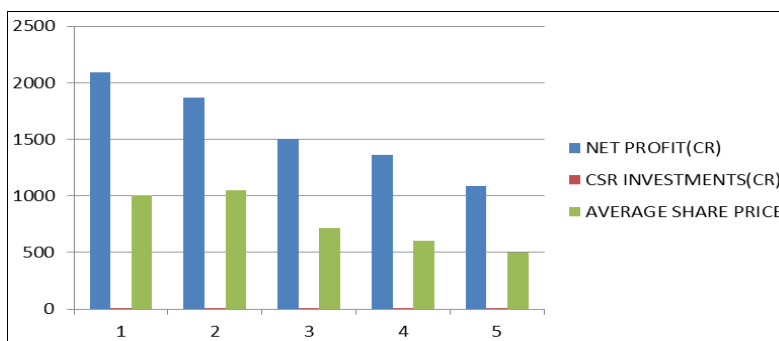
**Kotak Mahindra Bank**

**Table 6:** Kotak Mahindra Bank

Year	Net Profit (in crores)	CSR Investments (in crores)	Average Share Price
2016	2089.78	11.1	1002.45
2015	1865.98	11.97	1052.2
2014	1502.52	9.6	718.25
2013	1360.72	6.8	600.625
2012	1085.05	5.4	501.65

**Result:** Correlation between net profit and CSR investment: 0.922681988

Correlation between CSR investment and average share price: 0.966116371



**Fig 6:** Kotak Mahindra Bank

**Interpretation**

- As the result of Correlation between net profit and CSR investment shows positive result i.e. more than 0 that implies that the CSR investment and net profit are positively correlated. So with increase in the CSR investment, profits will also increase. So the bank should increase their CSR investment to increase their future

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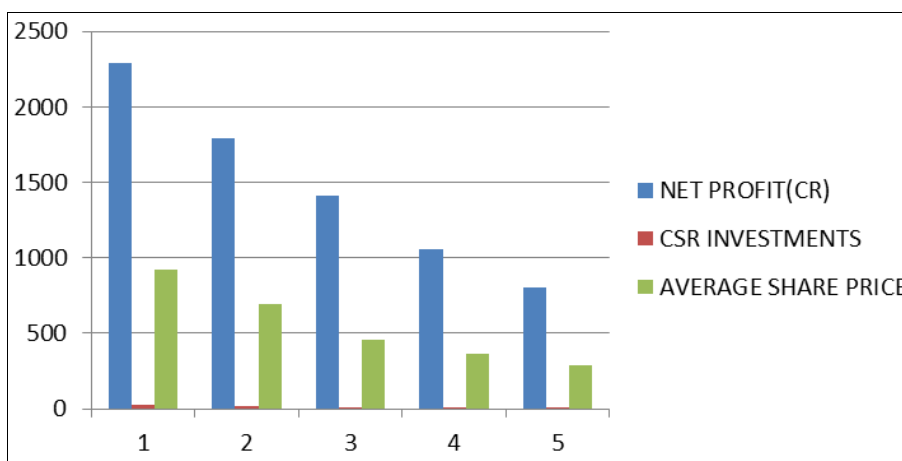
**IndusInd Bank**

**Table 7: IndusInd Bank**

Year	Net Profit (In Crores)	CSR Investments (in crores)	Average Share Price
2016	2286.45	27.32	923.52
2015	1793.72	17.53	692.225
2014	1408.02	12.69	459.45
2013	1061.18	9.13	368.3
2012	802.61	6.9	291.8

**Result:** Correlation between net profit and CSR investment: 0.99

Correlation between CSR investment and average share price: 0.99199049



**Fig 7: IndusInd Bank**

**Interpretation**

- As the result of Correlation between net profit and CSR investment shows positive result i.e. more than 0 that implies that the CSR investment and net profit are positively correlated. So with increase in the CSR investment, profits will also increase. So the bank should increase their CSR investment to increase their future

earnings and vise-versa.

- As the result of Correlation between Average share price and CSR investment shows positive result i.e. more than 0 that implies that the CSR investment and Average share price are positively correlated. So with increase in the CSR investment, Average share price tends to increase and vise-versa.

**Karnataka Bank**

**Table 8: Karnataka Bank**

Year	Net Profit (in crores)	CSR Investments (in crores)	Average Share Price
2016	415.29	4.89	113.6
2015	451.45	3.88	121.5
2014	311.03	2.48	124.6
2013	348.08	2.43	113.625
2012	246.07	1.35	101.925

**Result:** Correlation between net profit and CSR investment: 0.894769665

Correlation between CSR investment and average share price: 0.419841022

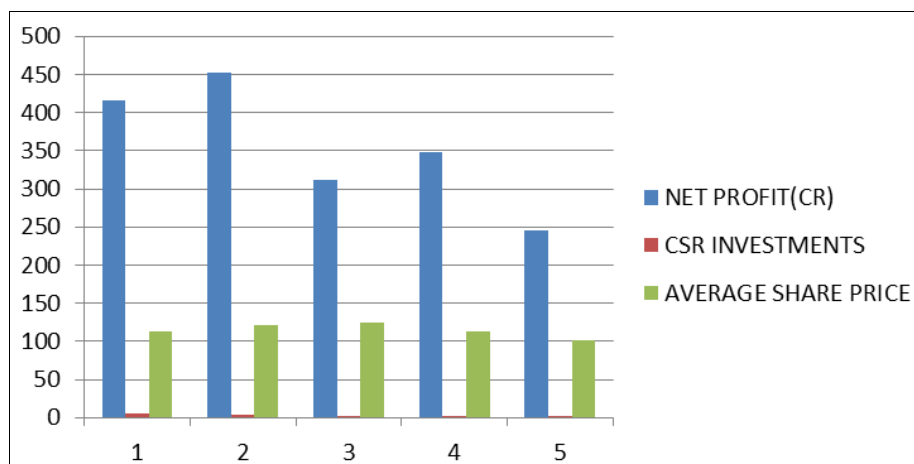


Fig 8: Karnataka Bank

### Interpretation

- As the result of Correlation between net profit and CSR investment shows positive result i.e. more than 0 that implies that the CSR investment and net profit are positively correlated. So with increase in the CSR investment, profits will also increase. So the bank should increase their CSR investment to increase their future earnings and vice-versa.
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### Findings and Conclusion

Through data analysis of various banks included in this study we can conclude that there is a degree for improvement of independent CSR or supportability answer as indicated by vital parameters to gauge genuine position. Managing an account segment is unique in relation to other administration part so government need to concentrate more on working and part in advance of society through CSR exercises.

From above outcome we found that the solid huge effect of CSR on Net Profit. CSR on general keeping money execution is altogether positive however independently it's distinctive. In private area banks effect of CSR on benefit essentially positive. Patterns of CSR consumption in every single chose bank is expanding. Then again the effect of CSR by and large share cost of banks is indicating negative outcome.

The investigation of the CSR spending of 8 private Indian banks uncovers that the division is yet not set up for 2% of the net benefit spending on CSR ventures. The 8 banks broke down in this paper have spent only 0.70% of their normal net benefit of FY 2011, 2012 and 2013 and 1.17% in 2014 and 2015. Private area banks have been spending significantly more on CSR, than their companions out in the open division. In general, these 8 banks have spent INR 535.85 crores on CSR exercises in FY 2013-14 and they have to spend right around three times of this sum, INR 1628.1 crores, in FY 2014-15 to consent to the compulsory CSR condition of the new Act. These banks need to streamline their CSR

arrangement and undertakings on the grounds that the greater part of their CSR spending have been in gift or sponsorship shape or sporadic exercises. The new Act requires CSR exercises to be in venture mode with pre-characterized destinations, execution pointers and an upgraded checking and assessment arrange.

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