

Impact of CSR on Market Risk of Leading Private Banks in India

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Abstract

This research paper talks about the analysis of impact of corporate social responsibility on various indicators of market risk of various leading private banks in India. This study tries to explore various initiatives taken by these private banks in various areas of CSR and also tries to find impact of CSR on two key indicators of market risk which are market risk premium (Beta) and market value at risk of bank. This research study utilizes panel data unit root test and panel data regression analysis technique through e-views software for achieving objectives of this study. Results of this study reveal that CSR has significant negative impact on both Beta and Value at Risk of leading private banks in India. As increase in CSR can help these financial institutions to minimize the market risk associated with financial performance of these institutes in India.

Keywords: *CSR, Market Risk, Beta, Value at Risk, Panel Data, Unit Root Test, Regression Analysis.*

Introduction

Corporate social responsibility has recently developed into an essential feature of the philosophy of business, reflecting the impact of business on the society in the context of sustainable development (W. Visser 2015). The major point of view of CSR revolves around the obligation of companies towards all its partners: investors, banks, representatives, providers, government, and network rather than exclusively on various advantages for investors. Each and every

financial institution most importantly bank plays a critical role in adding CSR activities to its method of allocating resources to the general public and contributes to the overall advancement of the management of the nation's account area (Lubbe & Puth 1994). For defining the duties and responsibilities of financial institutions with regards to social welfare, central bank of the country emphasis on requirement of proper act regarding CSR, which advised public and private banks to pay exceptional attention to the social connection of various functionalities of these institutions and directed them to show active participation in various area related to social welfare and understand the combination of development of various instruments for that. Central Bank as a regulatory body jointly perceived that banks were initiating non - financial reports (NFR) that could cowl the banks ' work towards the development of society. Leading private banks in India like ICICI, HDFC & AXIS Bank are playing very crucial role in promotion and upliftment of CSR in Indian financial sector.

The overall Indian corporate sector is battling with another part, which is to address the problems of the present age without trading off the capacity of the next generation. In particular, this calls for organizations being completely mindful of their social, ecological and financial obligations, and adjust these diverse contemplations in a moral way. In our country it is still seen as a secondary function of organization. Lack of commitment from various stakeholders as well as regulators is also responsible for current state of development in this area.

CSR is the key aspect of any organization. It is not just a responsibility of the company or not just a liability of the company towards society rather it is one of the key strategic pillar for making foundation of success of the company. It shows commitment of organizations towards fulfilling its duties towards various stakeholders associated with it.

Many researchers confirmed the positive relationship of these social welfare programs with various performance indicators of the company. Most of the studies covered various key accounting parameters representing financial performance of the organization. Still this area was not fully discovered by the researchers by covering various aspects of financial performance while assessing impact of CSR on the financial performance of the company (C. Sukanya et al 2015).

With current developments in our country and increased need of CSR by Indian banking sector it has become very important to assess the impact of CSR on various aspects of the bank in India. With increased involvement of public and private banks in these programs, quest for finding impact of CSR on the financial performance specially market performance of the bank has also increased. Thus research needs to be conducted to explore the relationship between CSR and various factors of market risk of Banks in India.

In 2004, The RBI had setup a Khan Committee to assess "budgetary incorporation" matter after which the suggestions of the board or amassing were solidified into an overview of the methodologies for the Mid-Term (2005-06). In the report RBI criticized that the banks should broadcast a point of view of achieving progressively key monetary incorporation to make available a basic 'clear' setting aside extra cash accounts. Various public limited and private limited companies are doing CSR activities and running programs related to social welfare in our country. Some of these are not only meeting the prescribed budget but also investing money beyond this limit to promote their work related to social welfare in different areas or section of society.

Initiatives of ICICI bank- it has shown its commitment with respect to affiliation normal stewardship and broadened a heavenly help and has prepared "clean" mechanical undertakings. It has comparatively stretched out credit to zero-discharge vehicles.

The key components of the intervention include:

- 1- Promoting Mother Child Health and Nutrition (MCHN) Day
- 2- Strengthening Growth Monitoring
- 3- Management of Severe Acute Malnourishment (SAM)
- 4- Capacity-building of all relevant employees for enhancing customer service network of the company
- 5- Supportive Supervision to Anganwadi Workers (AWWs)
- 6- Strengthening community participation

Initiatives of AXIS BANK- The CSR Focus Areas of the Bank are adjusted to the Schedule VII (rundown of reasonable CSR exercises) of the Companies Act, 2013.

These include:

Making important financial effect in the lives of helpless and underprivileged areas of the general public that incorporate among others, in an unexpected way abled, road kids, penniless ladies, offspring of sexually misused ladies, monetarily weaker segments and casualties of regular and different fiascos including war and demonstrations of fear based oppression.

Elevating measures to destroy appetite, neediness and lack of healthy sustenance, and advancing preventive social insurance and sanitation, advancing instruction, like thorough study of customers, change in work style as per the customer comfort, general aptitude of the employees with respect to various age groups like kids, ladies, elderly and the in an unexpected way abled, and business improvement ventures. This would likewise incorporate activities to advance money related proficiency, purchaser instruction and mindfulness, and limit and ability working in different parts of the economy in arrangement with the different Government activities.

Advancing management of natural resources, saving and optimum utilization of various biological resources, regular checks with respect to various natural assets and monitoring as well as awareness programs for various components of nature like soil, air and water through different activities, for example, asset protection, sustainable power source and vitality effectiveness among others.

Contribution is done by bank in various donation schemes controlled by central government, state governments and other notified trusts for providing financial support to needy section of society as well as at the time of natural calamities. The Bank attempts a few CSR programs guided by its Policy on various social welfare practices. The exercises are executed by the Bank or by the Axis Bank Foundation or through some other Trust or organizations and elements as esteemed appropriate.

Initiatives of INDUSIND BANK- IndusInd Bank trusts that 'Great Ecology is Good Economics'. They keep on creating an incentive for every one of their partners and rise as a 'Best-in-Class' Bank that is focused on maintainable monetary development by concentrating on following territories of CSR-

- Strengthen our administration structure with morals, straightforwardness and responsibility
- Provide an incentive to customers through powerful partner commitment
- Promote gender balance in companies, assorted variety and prosperity everything being equal
- Respect the security of universally announced human rights
- Engage with Government and Trade and Industry Associations on national and worldwide stages
- Build comprehensive, sound and manageable networks
- Undertake activities to advance more prominent natural obligation
- Communicate our CSR destinations and objectives to all interior and outside partners.

Initiatives of HDFC Bank-

HDFC Bank is among leading private banks in India. Bank believes that a nation truly develops when its communities find sustainable means of livelihood. Under HDFC Bank Parivartan, our CSR initiative, it reaches out to communities and enables them to shift from a vicious cycle of poverty to a virtuous cycle of growth. Stemming from Bank's core value of sustainability, this approach empowers millions to be self-reliant and in effect, become partners in the growth of our nation. Taking one step at a time, Bank aims to pave the way for a brighter future.

CSR and Market Risk at Private Banks-

Banks's focus on CSR and investment in CSR related activities can have positive incentive for the company. It can also help the Bank in terms of positive engagement of various partners of the Bank and their attachment with the Bank if it is involved in various social welfare activities. Social welfare program affects various financial components of the Bank in a positive way. Many researchers believe that it has positive implication for the Bank as its association with various market based indicators of financial performance is positive. Accordingly, in settling on CSR exercises, financial institutions like Banks should utilize CSR instrumentally to upgrade financial performance and investor satisfaction (R. U. Mohammad 2016).

Market risk associated with financial performance of the Bank can be expressed by beta (risk premium) of the Bank and for more advance measure of market risk (diversifiable risk) of the Bank we can employ market Value at Risk (VaR) of the Bank.

Diversifiable risk (market risk) of the Bank is a key part of measuring the financial performance of the Bank as it measures the degree of risk associated with the financial profit of the Bank in both long and short run (Evans, D. 2010). It also measures the risk associated with financial performance which can be diversified or transferred or can be managed. For representing the market risk one of the traditional parameters used by the financial analyst is beta which is also called market premium of the Bank. It represents the components of return which is dependent on market and can be increased by increasing the connectivity of company's market performance with overall market portfolio (Karacic, D. & Bukvic, I. B. 2014). Formula of Beta is

$$\text{Beta} = \text{Covariance (Ra \&Rm)} / \text{Variance (Rm)}$$

Where Ra is return on the market price of the company and Rm is return on market portfolio.

Beta of the company can be calculated with covariance of return of the company with market return along with variance of market return for the given period.

Some of the experts use advance measure of market risk which is called value at risk (VaR). Value at risk measures the maximum risk which can occur in the market value of the company with the given degree of probability (Li, X. 2015).

Objectives of the Study

The research paper aims to enrich the knowledge and understanding of various factors representing market risk of the Bank which gets affected by corporate social responsibility in Indian scenario.

Objectives for this study is to analyze the CSR impact over the Bank's Market Risk which is comprised of the following-

- 1- To study the impact of CSR on Market Risk Premium (Beta) of the Bank w.r.t. Private Banks in India.
- 2- To study the impact of CSR on Market Value a Risk (VaR) of the Bank w.r.t. Private Banks in India.

Research Methodology

Research Design- This study utilized descriptive research to analyze the data and achieve the objectives of this research. This study used both secondary data as well as primary data to form the basis of this study and to test the hypothesis of this study.

Sampling- sampling is a technique of selecting some components of the population for the analysis purpose of any study. A sampling unit is an integral constitution of the sample. In this study for evaluating the impact of CSR on market risk of private banks in India, 4 leading private

banks ICICI, AXIS, HDFC & INDUSLAND BANK were taken for the purpose of this study. In this study non-probability convenience sampling method is used to select the sample of this study.

Tools for Data Collection- Secondary data for this study were collected from the official website of various private Banks through annual reports of the companies as well as from BSE website and various authentic databases like database of Ministry of Corporate Affairs, in order to achieve the objectives of the study. For selected Banks data of last 5 years for various variables was taken from 2014-15 to 2018-19.

For CSR expenditure data was collected from annual reports of the Banks from 2014-15 to year 2017-18 and for market risk of the company for which daily market price data of all selected Banks along with daily price data of BSE-Sensex was collected from 2015-16 to 2018-19. Then market risk premium (Beta) and market value at risk (VaR) were calculated on a yearly basis for selected Banks from 2015-16 to 2018-19 by using daily price data of different Banks and BSE-Sensex.

Data Analysis Techniques- for data analysis following techniques were used in this research study-

- 1- Panel unit root test to check the stationarity of data series.
- 2- Panel Data Regression Analysis for checking impact of CSR on market risk of various private banks taken into study.

Results & Discussion

Panel Data Unit Root Test for checking Stationarity of Data series

First stationarity of various data series was checked using panel data unit root test through E-views.

Panel unit root test: Summary
Series: CSR
Exogenous variables: Individual effects

Method	Statistic	Prob.**	Cross-	
			sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-13.1969	0.0056	4	16
Null: Unit root (assumes individual unit root process)				
ADF - Fisher Chi-square	210.546	0.0906	4	16
PP - Fisher Chi-square	262.507	0.0020	4	16

Table 1: Unit Root Test Result for CSR Data Series

As probability values for 2 out of 3 methods is less than 0.05. It means our CSR data series does not have a unit root; hence it is stationary in nature.

Panel unit root test: Summary
Series: BETA
Exogenous variables: Individual effects

Method	Statistic	Prob.**	Cross-	
			sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-124.32	0.0000	4	16
Null: Unit root (assumes individual unit root process)				
ADF - Fisher Chi-square	146.35	0.0000	4	16
PP - Fisher Chi-square	178.67	0.0020	4	16

Table 2: Unit Root Test Result for BETA Data Series

As probability values for all 3 methods is less than 0.05. It means our Market Risk Premium (BETA) data series does not have a unit root; hence it is stationary in nature.

Panel unit root test: Summary
Series: VAR
Exogenous variables: Individual effects

Method	Statistic	Prob.**	Cross-	
			sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu*	-83.65	0.0021	4	16
Null: Unit root (assumes individual unit root process)				
ADF - Fisher Chi-square	265.32	0.0000	4	16
PP - Fisher Chi-square	186.67	0.0000	4	16

Table 2: Unit Root Test Result for VaR Data Series

As probability values for all 3 methods is less than 0.05. It means our Value at Risk (VAR) data series does not have a unit root; hence it is stationary in nature.

Panel Data Regression Analysis Results

Dependent Variable: BETA
Method: Panel Least Squares
Periods included: 4
Cross-sections included: 4
Total panel (unbalanced) observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.217961	0.093316	-2.335737	0.0202
CSR	-0.821378	0.026840	6.051344	0.0291
R-squared	0.592673	Mean dependent var	-0.222402	
Adjusted R-squared	0.603512	S.D. dependent var	0.591188	
S.E. of regression	0.052225	Log likelihood	254.9865	
Sum squared resid	0.996074			

Table 4: Panel Data Regression Result for CSR & BETA Data Series

Outcome of regression analysis shows that probability value is 0.0202 which is less than 0.05; it means p-value is quite low and it signifies that Corporate Social Responsibility (CSR) is significantly related to change in the Beta of the company.

Hence we can say that CSR has significant impact on the Beta of the company. So our null hypothesis is rejected and alternative hypothesis is accepted.

Regression coefficient between CSR and Beta is -0.821378 which represent that mean change in the Beta is significantly negative for one unit of change in the CSR while holding other variable in the model constant.

In outcome of our regression model Adjusted R-square value is 60.3512 % it means our model accounts for 60.3512 % of the total variability. In simple words 60.3512 percent variability of Beta is explained by CSR.

Dependent Variable: VAR
Method: Panel Least Squares
Periods included: 4
Cross-sections included: 4
Total panel (unbalanced) observations: 16

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.082301	0.265964	-22.86889	0.0000
CSR	-0.712979	0.027726	6.462276	0.0447
R-squared	0.571976	Mean dependent var	-6.441955	
Adjusted R-squared	0.593831	S.D. dependent var	1.747543	
S.E. of regression	0.074419	Log likelihood	585.6401	
Sum squared resid	0.897457			

Table 5: Panel Data Regression Result for CSR & VaR Data Series

Outcome of regression analysis shows that probability value is 0.0447 which is less than 0.05; it means p-value is quite low and it signifies that Corporate Social Responsibility (CSR) is significantly related to change in the Market Value at Risk of the company.

Hence we can say that CSR has significant impact on Value at Risk of the company. So our null hypothesis is rejected and alternative hypothesis is accepted.

Regression coefficient between CSR and Market Value at Risk is -0.712979 which represent that mean change in Value at Risk (VaR) is significantly negative for one unit of change in the CSR while holding other variable in the model constant.

In outcome of our regression model Adjusted R-square value is 59.3831 % it means our model accounts for 59.3831 % of the total variability. In simple words 59.3831 percent variability of Market Value at Risk is explained by CSR.

Overall results of this research study shows that corporate social responsibility has significant impact on both key representatives of market risk- Beta and Value at Risk. Increase in CSR can reduce Beta as well as Value at Risk for the Banks. It means CSR can help these banks in reducing market risk.

Conclusion

Recently it has been observed that Indian banks are changing their traditional work culture and moving towards corporate sustainability or relative areas. It is inspired from the basic principle of economics of limited resources. As per the observation of this study CSR has direct link with the market performance of private banks in India. CSR has significant impact on market risk of the bank and increase in CSR may result into reduction in market risk of the bank. Study covered

impact of CSR on market risk premium (Beta) and market value at risk (VaR) of various leading private banks in India which are representatives of market risk of these banks. Outcome of this study revealed that CSR has negative impact on Beta and VaR of the company so we can conclude that increase in CSR will reduce the overall market risk of the Bank.

This study focuses on positive aspects related to CSR expenditures by private banks in India. In India we are still in the phase where it is required to make CSR expenditure a necessity for various companies including banks, as the mindset is still not much affirmative for CSR spent.

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