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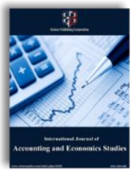

Assessing the Impact of Mandatory Corporate Social Responsibility Expenditure on Financial Performance: A Study of Selected Indian Banks

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Abstract

CSR expenditure was made mandatory in India to ensure that companies contribute to social and economic development, promoting corporate accountability and sustainable growth. This paper analyzes how the compulsory corporate social responsibility spending required by the Indian Companies Act of 2013 affects the financial performance of commercial banks in India. Under the Companies Act, private banks in India are mandated to allocate a minimum of 2% of their average net profits from the preceding three years to CSR initiatives, whereas public banks adhere to the National Voluntary Guidelines of 2009, permitting discretionary contributions of up to 1% of their prior year's profits. This study explores the correlation between corporate social responsibility expenditure and the financial performance of twelve Indian banks over the period from 2014-15 to 2023-24. Financial performance is assessed through profitability indicators such as Return on Assets (ROA), Return on Equity (ROE), Net Profit (NP), and Net Profit Margin (NPM), while the Price-to-Earnings (P/E) ratio and Tobin's Q are employed as proxies for market returns. The results reveal a significant association between CSR expenditure and both profitability and market return for Indian banks.

Keywords: *Corporate Social Responsibility (CSR); Financial Performance (FP); Profitability; Market Return; Return on Assets (ROA); Return on Equity (ROE); and Tobin's Q.*

1. Introduction

Corporate Social Responsibility (CSR) is an increasingly important concept that is gaining significant recognition among businesses (Wirba, 2024). Corporations and businesses should work towards collaborating with their communities by participating in initiatives that improve the socio-economic environment in which they operate. As public awareness of environmental concerns grows, many businesses are adopting sustainable management practices. While businesses play a crucial role in job creation and wealth generation, neglecting their responsibilities can lead to adverse effects on both society and the environment (Thakur, Shah, et al., 2024). Corporations should prioritize not only profit generation but also the social and environmental expectations of their diverse stakeholders. To fulfill these responsibilities, many companies are making substantial investments in Corporate Social Responsibility (CSR) activities (Bouslah et al., 2023). Proponents of CSR suggest that developing and implementing CSR strategies presents a valuable opportunity for organizations (Fatima & Elbanna, 2023). CSR initiatives serve as indicators for organizations to diminish information asymmetries in the market and to showcase their commitment to sustainability (Conte et al., 2023; Koundal & Bhalla, 2025; Saikia & Hussain, 2022; Thakur, Hussain, et al., 2024). In developing countries, many companies are unaware of the significance of CSR and consequently do not prioritize it. The Companies Act in India has established mandatory CSR requirements for certain firms, including financial institutions (George et al., 2023). Starting in the financial year 2014-15, the Indian corporate sector was obligated to comply with the newly implemented Section 135(5) of the Companies Act of 2013. This provision required specific companies to dedicate 2% of their average net profits to CSR initiatives (A. Kumar et al., 2023; Thakur, Shah, et al., 2024). Compulsory regulations can have a considerable impact on corporate performance (George et al., 2023). As a result, businesses in India are now required to support the creation of a fair society and encourage sustainable economic growth (Bhattacharyya et al., 2021).

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The financial sector is viewed as either directly or indirectly accountable for various economic, environmental, and social issues (Stauropoulou et al., 2023). Financial institutions, such as banks, are essential to a country's economic activities and development initiatives by providing funding for various sectors and projects that produce goods and services. While these production and development efforts are important, they can also lead to negative consequences for the environment and society. Although the banking industry is recognized for promoting economic growth, it must also accept its responsibility for the negative impacts linked to financing businesses (Nájera-Sánchez, 2020). CSR practices in the Indian banking sector seek to enhance financial inclusion in the densely populated nation by offering financial services to previously underserved regions. This commitment is evidenced by targeted initiatives aimed at poverty alleviation, improving healthcare access, promoting rural development, providing vocational training, enhancing financial literacy, upgrading infrastructure, advancing education, conserving the environment, and more. These strategic investments, referred to as CSR expenditures, are thought to have a positive correlation with the financial performance of companies, as supported by various studies (Bhattacharyya et al., 2021; George et al., 2023). It leads to an increase in profitability and market returns. Banks that invest in community welfare initiatives tend to attract more investors, resulting in higher income and returns. On the other hand, several studies suggest that CSR expenditures can sometimes hurt the financial performance of companies (Nollet et al., 2016). This can happen because spending on social welfare activities decreases the funds that banks can allocate to other opportunities. Milton Friedman contends that a business's primary objective should be to maximize profits, characterizing expenditures on CSR as a "fundamentally subversive doctrine (Carson, 1993). CSR may also lack a significant correlation with financial performance (Aupperle et al., 1985). The findings suggest that the mandatory CSR framework established by the Companies Act of 2013 has a modest positive effect on stock returns, indicating that CSR spending is not directly linked to a firm's financial performance (Coelho et al., 2023). Consequently, it can be concluded that the relationship between CSR expenditures and a firm's financial performance is intricate (Galant & Cadez, 2017). While essential CSR investments generally enhance a company's profitability, they do not always exhibit a strong positive correlation with market returns. This uncertainty may also arise from the debate over voluntary versus mandatory CSR and their respective impacts on firms' financial performance. Companies that engage in voluntary CSR typically have a clear understanding of their financial objectives and may tailor their initiatives to gain a competitive advantage. Consequently, these firms are more likely to see a positive effect on their financial performance (Adamkaite et al., 2023; Garriga & Melé, 2004; Hussain et al., 2025; Thakur, Shah, et al., 2025; Zaiane & Ellouze, 2023). However, with mandatory CSR, companies might experience a short-term decline in financial performance, as the initial expenditure on required CSR can strain the balance sheet. As a result, the immediate effects of mandatory CSR on a firm's valuation may be unclear. Nevertheless, in the long run, businesses can strategically align their mandatory CSR initiatives to generate competitive advantages, which may ultimately be reflected in their financial performance.

Nonetheless, companies have increasingly recognized the importance of CSR and have started investing in CSR initiatives over the years. Organizations typically adopt various strategies for CSR spending, including philanthropic donations, sustainability initiatives, social investments, employee volunteering, ethical sourcing, responsible marketing, and more. Engaging in CSR activities has proven highly beneficial for firms, as higher CSR expenditures have resulted in improved financial performance and profits. Since CSR expenditure is a relatively new concept in India, there is limited research on the relationship between CSR and business financial performance. In light of this, the primary objective of this study is to investigate the connection between CSR spending and the financial success of Indian banks. This is not the first study to examine this relationship (Chi & Hang, 2023; Dahal et al., 2024; George et al., 2023; Kaimal & Uzma, 2024; Maqbool & Zameer, 2018). However, these previous studies lack comprehensiveness regarding data periods, methodologies, and other factors. To address these gaps in the existing literature, the current study has been undertaken.

2. Review of literature

Due to the growing pressure from various stakeholders to adopt sustainable practices, regulators worldwide now mandate CSR disclosures (Wirba, 2024). Banks around the world are increasingly embracing CSR to improve their reputation and gain a competitive edge (Xuetong et al., 2024). CSR disclosure is essential for promoting transparency, fostering trust, and managing risks, as it offers stakeholders insights into a company's ethical, environmental, and social practices (Kandpal et al., 2024; Wirba, 2024). It enhances a company's reputation, attracts socially responsible investors, and ensures compliance with regulations. By promoting transparent communication with stakeholders, CSR disclosure also aids in risk management and bolsters stakeholder engagement (Yusif & Hafeez-Baig, 2024). The Government of India implemented Section 135 (S-135) of the Companies Act of 2013 to encourage businesses to actively support communities by national objectives and the UN Sustainable Development Goals (Dharmapala & Khanna, 2018; Thakur, Koundal, et al., 2025). The focus of CSR adapts to the evolving demands of businesses and various social needs. It recognizes that companies have multiple types of responsibilities. Previous studies have shown that the relationship between CSR and firms' financial performance is not consistent (Galant & Cadez, 2017).

2.1. Positive relationship between CSR and financial performance

There is a positive correlation between financial performance and CSR expenditure. Additionally, the study indicates that mandatory CSR reporting results in an increase in CSR spending (Chi & Hang, 2023, 2023; Kaimal & Uzma, 2024). Using CSR expenditure as a proxy for CSR is consistent with earlier research (Oware & Mallikarjunappa, 2022). CSR expenditure can have a positive effect on financial performance by improving key metrics such as Return on Assets (ROA), Return on Equity (ROE), Net Profit (NP), and Net Profit Margin (NPM) (Cho et al., 2019). Strategic investments in CSR can enhance operational efficiency, resulting in improved asset utilization and increased ROA (Belu & Manescu, 2013). It also enhances a company's reputation, drawing in investors and boosting profitability relative to equity, thereby improving ROE (Cao et al., 2015). CSR can foster customer loyalty and satisfaction, resulting in increased sales and net profit, while sustainable practices contribute to cost control. Together with revenue growth, these elements can improve a company's net profit margin, making CSR expenditure advantageous for long-term financial success (Coelho et al., 2023).

Table 1: Summarizes the findings of selected studies on CSR and Financial Performance

CSR and Financial performance	Authors	Country	Variables	Control Variables	Methodology	Outcomes
Positive relation	(Oware & Mallikarjunappa, 2022)	India	Return on equity (ROE) and return on assets (ROA)	Third-party assurance (TPA)	Panel and hierarchical regression models are employed to analyze data from 29 companies in the Indian stock market for the period from 2010 to 2017.	The study finds that CSR positively correlates with the financial performance (ROA and ROE) of listed firms in India, while TPA negatively affects financial performance and mediates the relationship between CSR and financial performance.
	(Okafor et al., 2021)	US	Net profit margin (NPM), return on assets (ROA), return on equity (ROE), revenue growth (RG), and firm value (TQ)	No control variables were included.	The empirical study utilizes panel data from the top 100 tech companies listed on the S&P 500 for the years 2017 to 2019.	The results show that tech companies that invest more in CSR see a corresponding rise in revenue and profitability.
	(Kaimal & Uzma, 2024)	India	Tobin's Q and return on assets	Family ownership	The study comprises 288 non-financial service sector companies listed in India, totaling 3,456 firm-year observations. A panel data regression analysis is conducted using data spanning 12 years, from 2010 to 2021.	The study demonstrates a positive impact of CSR spending on financial performance metrics, specifically Tobin's Q and return on assets.
	(Tulcanaza-Prieto et al., 2020)	Ecuador	ROA and ROE as proxies for financial performance,	No control variables were included.	corporate performance, based on a sample of 304 firm-year observations from 2013 to 2018.	The positive correlation between CSR initiatives and corporate financial performance.
	(George et al., 2023)	India	Profitability measures (ROA, ROE, Net profits) and market returns (P/E ratio) are used as proxies for the financial performance,	size, risk, age, and capital intensity	Panel regression models were utilized to analyze the relationship between CSR expenditure and the financial performance of 22 Indian banks from 2016 to 2022.	CSR expenditure directly affects the profitability of the chosen Indian banks." However, the study does not demonstrate any significant relationship between CSR expenditure and the market returns of Indian banks.

2.2. Negative relationship between CSR and financial performance

There is also a negative relationship between CSR and financial performance (Homayoun et al., 2023). A negative relationship between CSR and financial performance may emerge when corporate investments in social responsibility lead to increased costs without delivering immediate returns (R. Sharma & Aggarwal, 2022). For instance, allocating funds to CSR initiatives can divert resources from core operations, potentially reducing operational efficiency and profitability, which in turn can negatively impact key financial metrics like ROA, ROE, and net profit. Additionally, if stakeholders perceive CSR efforts as insincere or primarily driven by public relations motives, it can harm brand trust and customer loyalty, leading to lower sales and diminished financial performance. Moreover, excessive CSR spending that lacks alignment with business objectives can strain financial resources, resulting in a situation where the short-term costs of CSR outweigh the potential long-term benefits, ultimately harming the company's overall financial health.

Table 2: Summarizes the findings of selected studies on CSR and Financial Performance

CSR and Financial Performance	Authors	Country	Variables	Control Variables	Methodology	Outcomes
Negative	(R. Sharma & Aggarwal, 2022)	India	ROA, ROE. Return on net assets (RONA) and Tobin's Q	SIZE-Size Natural logarithm of total assets LEV-Leverage Total debt divided by paid-up equity capital AGE- Age Incorporation year subtracted from the year in consideration CF- Cash flows from operations	The paper employs independent sample t-tests, one-way ANOVA, fixed-effect panel regression models, and principal component analysis on a dataset of 153 non-financial companies listed in the BSE-500 from 2015 to 2019.	The empirical findings of the paper indicate that mandatory CSR expenditure hurts the company's profitability.
	(Mahmuda & Muktadir-Al-Mukit, 2023)	Bangladesh	Return on assets	No control variables were included.	Secondary data from the annual reports of seven Indian banks for the years 2009–2018 were collected to obtain meaningful measures of CSR activities.	The results indicate that CSR disclosures have a significant negative relationship with the financial performance (return on assets) of Indian banks.
	(Bhattacharyya et al., 2021)	India	ROA and stock returns	Size, risk, and profit margin	OLS and 2SLS methods were utilized to analyze the relationship between the variables, based on data collected from 149 banking firms during the period 2015 to 2017.	The study found no correlation between banks' financial performance, as measured by accounting metrics, and their levels of CSR spending or financial inclusion. However, it revealed a significant negative relationship between CSR and stock market returns.

2.3. Neutral relationship between CSR and financial performance

Previous studies have also identified a neutral relationship between CSR and financial performance (Cho et al., 2019; Garg et al., 2021). A neutral relationship between CSR and financial performance can occur when CSR initiatives neither significantly improve nor reduce a company's financial outcomes. In such cases, organizations may pursue CSR activities to fulfill ethical obligations or meet stakeholder expectations, but these efforts do not lead to measurable changes in key financial metrics like ROA, ROE, net profit, or profit margin. This neutrality may arise when the costs of CSR initiatives balance out potential benefits or when CSR is not effectively integrated into the company's core strategy. Additionally, if customers and investors do not weigh CSR heavily in their decisions, its financial impact may be minimal. As a result, while CSR may enhance a company's public image and meet regulatory standards, it might not generate notable financial advantages or disadvantages, leading to a stable, neutral relationship with financial performance.

Table 3: Summarizes the findings of selected studies on CSR and Financial Performance

CSR and Financial Performance	Authors	Country	Variables	Control Variables	Methodology	Outcomes
Neutral	(Cho Et Al., 2019)	Korea	Return on assets was used as a proxy for profitability, and Tobin's Q was used as a proxy for firm value.	No Control Variables Were Included.	CSR Performance was analyzed using correlation and regression methods.	The Results Indicate that CSR Performance is partially positively correlated with profitability and firm value.
	(Garg Et Al., 2021)	India	Stock Returns	Financial ratios of the Dupont model are considered as control variables that include net profit margin ratio (NPMR), asset turnover ratio (ATR), and financial leverage (FL).	Data from four years (2016–2019) for a sample of 426 Indian firms listed on the national stock exchange (NSE) were used to apply the OLS regression method.	The findings indicate that mandatory CSR expenditure holds limited relevance for Indian firms, as shown by its insignificant positive effect on stock returns. Consequently, the market does not place substantial value on mandatory CSR spending by listed firms and perceives such expenditures as potentially misaligned with shareholder interests.

2.4. Synthesis of conflicting findings in CSR-financial performance literature

The relationship between CSR and financial performance has been the subject of extensive academic inquiry, yielding mixed results across different contexts, industries, and methodologies. A significant body of research supports a positive association, arguing that CSR spending enhances profitability, return on assets (ROA), return on equity (ROE), and firm value by improving reputation, stakeholder trust, and operational efficiency (e.g., (Coelho et al., 2023; Oware & Mallikarjunappa, 2022). However, contrasting evidence suggests a negative relationship, where mandatory CSR expenditure may burden firms financially, particularly when perceived as compliance-driven or misaligned with strategic goals, leading to reduced profitability or shareholder value (Mahmuda & Muktadir-Al-Mukit, 2023; R. Sharma & Aggarwal, 2022). Still, some studies identify a neutral or insignificant effect, indicating that CSR efforts, while ethically commendable or legally mandated, may not substantially impact financial outcomes, especially when not integrated into core business strategies (Cho et al., 2019; Garg et al., 2021). These divergent findings may stem from varying sample sizes, periods, control variables, firm characteristics, and national CSR policies. In India's context, Section 135 of the Companies Act, 2013, has institutionalized CSR spending, particularly in the banking sector, providing a unique setting to reassess this relationship. Our study addresses these gaps by examining the impact of mandatory CSR in Indian banks, offering a sector-specific perspective within a regulated environment to help reconcile the theoretical and empirical inconsistencies in the existing literature.

2.5. Contextualizing CSR-financial performance linkages in the Indian banking sector

The Indian banking sector operates within a distinctive regulatory and socio-economic framework that shapes the dynamics between CSR and financial performance (K. Kumar & Prakash, 2018; Ozili, 2015). With the enactment of Section 135 of the Companies Act, 2013, India became the first country to mandate CSR spending for eligible companies, including banks (Jumde, 2021). Unlike firms in other sectors, banks play a pivotal role in promoting inclusive growth, financial literacy, and rural development - areas closely aligned with the CSR activities outlined in Schedule VII of the Act (Amponsah et al., 2023). As financial intermediaries, banks have both the reach and responsibility to contribute to national development objectives, making CSR not just a compliance requirement but a strategic tool (Prior & Argandoña, 2009). This sectoral uniqueness may explain why some Indian studies report a stronger or more positive relationship between CSR expenditure and financial metrics such as ROA, ROE, and net profit (Mohammed et al., 2025). Moreover, the reputation-sensitive nature of banking increases the relevance of socially responsible practices in maintaining stakeholder trust, customer loyalty, and long-term profitability. However, not all banks experience uniform outcomes, as the impact of CSR can vary based on bank size, governance quality, resource allocation, and alignment between CSR initiatives and core business strategies (Aracil, 2019; Banker et al., 2023; Jizi et al., 2014; Khan, 2010; Ogungbade, 2021). Our study leverages this unique institutional setting to explore how mandatory CSR influences the financial performance of Indian banks, contributing nuanced insights to the broader CSR-finance discourse.

2.6. Voluntary CSR, mandatory CSR, and financial performance

A debate may also emerge regarding Voluntary versus Mandatory CSR and their respective connections to a firm's financial performance. Voluntary CSR initiatives are undertaken by companies on a discretionary basis, typically motivated by ethical values, stakeholder expectations, or a desire to enhance reputation. These efforts can positively influence financial performance by building brand loyalty, improving customer satisfaction, and attracting socially conscious investors. When companies engage in meaningful voluntary CSR, they often see increased revenues and profitability, as consumers prefer businesses that reflect their values (Aleksić et al., 2024). However, if not strategically aligned with business goals, such initiatives may strain financial resources without yielding significant returns.

In contrast, mandatory CSR refers to legally required activities imposed by regulations or government policies. This form of CSR can impact financial performance in various ways: while compliance helps avoid legal penalties and protect reputation, associated costs may initially reduce profitability. Over time, however, adherence to regulations can improve operational efficiency and strengthen stakeholder relationships, potentially enhancing financial outcomes (Koundal et al., 2024; Oware & Mallikarjunappa, 2022; Thakur & Shah, 2024). Companies that view mandatory CSR as an opportunity rather than an obligation may leverage it for a competitive edge, thereby boosting financial performance.

The financial effects of voluntary and mandatory CSR can vary significantly. Voluntary CSR, when aligned with business strategies and stakeholder expectations, often improves financial performance through increased sales and brand loyalty. Meanwhile, mandatory CSR may involve short-term costs but can provide long-term benefits by ensuring compliance, mitigating risks, and enhancing operational efficiency (Tulcanaza-Prieto et al., 2020). The ultimate impact of both types on financial performance depends on their integration into corporate strategy and alignment with stakeholder interests.

2.7. Conceptual framework of the study

This study aims to assess the impact of CSR spending on the financial performance of Indian banks in both the public and private sectors, using profitability and market valuation as metrics to gauge financial performance.

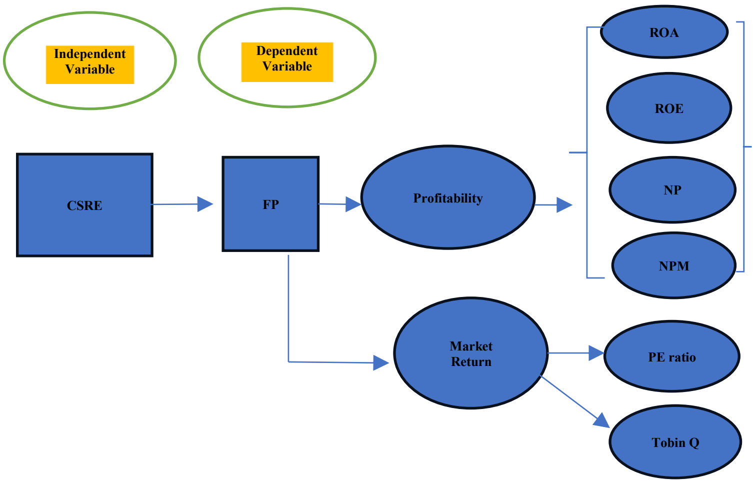

Fig. 1: Conceptual Framework for the Study

Source: Authors.

Return on Assets (ROA), Return on Equity (ROE), Net Profits (NP), and Net Profit Margin (NPM) are used as profitability measures, while the Price-Earnings (P/E) Ratio and Tobin's Q are used as market return. According to stakeholder and agency theories, there should be a positive correlation between a company's social performance and its financial performance. However, this connection is not always evident. The study aims to identify the specific relationship between CSR spending and financial performance in banks, focusing exclusively on the banking industry.

2.7.1. Hypothesis development

According to the study framework, the following hypotheses are proposed (see Figure 1):
H1: There is a relationship between the profitability and CSR expenditure of banks.
H2: There is a relationship between market return and CSR expenditure of banks.

3. Data and methodology

3.1. Data collection and variables

A total of 12 banks, comprising 6 public sector banks and 6 private sector banks, were chosen for analysis (see Appendix 1). Since CSR expenditures became mandatory for firms in India after 2013, the study examines 10 years from 2014 to 2024, yielding a total of 120 observations. Data on financial performance were gathered from each bank's annual reports and CSR reports. To examine the proposed relationships, PLS-SEM analysis was conducted using the statistical software Smart PLS. This software was utilized to estimate the parameters of the measurement and structural models and to produce the corresponding bootstrap estimates.

3.2. Measurement of financial performance

Table 4: Description of Variables

Variable Description	Variable	Proxy
Dependent Variables	Profitability	Return on assets (ROA) of banks (2014-15 to 2023-24) Return on Equity (ROE) of banks (2014-15 to 2023-24) Net Profits (NP) of banks (2014-15 to 2023-24) Net Profit Margin (NPM) of Banks (2014-15 to 2023-24)
	Market Returns	Price earnings ratio (PE) of banks (2014-15 to 2023-24) Tobin Q of banks (2014-15 to 2023-24)
Independent Variable	CSR expenditure	CSR expenditure of banks (2014-15 to 2023-24)

Source: Authors.

The dependent variable in the model is the financial performance of the banks (refer to Table 4). Financial performance indicators are represented by both profitability and market return. Profitability is measured using Return on Assets (ROA), Return on Equity (ROE), Net Profit (NP), and Net Profit Margin (NPM), while the Price-Earnings (P/E) Ratio and Tobin's Q are utilized as indicators of market return, following the studies of (George et al., 2023; Kaimal & Uzma, 2024; Okafor et al., 2021; Tulcanaza-Prieto et al., 2020). The study by (Maqbool & Zameer, 2018) employed factor analysis to minimize trade-offs among different measures of financial performance. A primary requirement for conducting factor analysis is a strong correlation among the variables. Our checks reveal a significantly high correlation between Return on Assets (ROA), Return on Equity (ROE), Net Profit (NP), and Net Profit Margin (NPM), making it suitable to perform factor analysis and treat these as a single factor—profitability. In contrast, the Price-Earnings (P/E) ratio does not show a high correlation with the other variables, while Tobin's Q exhibits a significant positive linear association with ROA, ROE, NP, NPM, and P/E. Thus, Tobin's Q and P/E are considered the second factor, i.e., market returns. Another way to assess the suitability of the data for factor analysis is through the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy, which ideally should be above 0.6. The KMO value obtained from our analysis is 0.769, exceeding the acceptable threshold for factor analysis. Additionally, the variables passed Bartlett's test of Sphericity, further confirming their appropriateness for factor analysis.

The next step involves conducting (Rotated) factor analysis, which has identified two performance factors. Return on Assets (ROA), Return on Equity (ROE), Net Profit (NP), and Net Profit Margin (NPM) collectively constitute the first factor, labeled 'Profitability,' due to their high factor coefficients under factor 1. The second factor, representing 'Market Returns,' comprises the Price-Earnings (P/E) ratio and Tobin's Q, both of which exhibit high factor coefficients under factor 2. The latent root criterion is employed for factor extraction, removing any factors with an Eigenvalue of less than 1. The Eigenvalues for Profitability and Market Returns are 3.654 and 1.026, respectively.

4. Results and discussions

Table 5 presents the descriptive statistics for the variables utilized in the study. The average CSR expenditure is 99.3077 crores, with a range from 0 to 945.31 crores, highlighting significant disparities in CSR spending among banks in India. Some banks have reported no CSR expenditures for several years due to financial losses, while others have made substantial contributions to CSR activities. This disparity is reflected in the banks' Return on Assets (ROA), Return on Equity (ROE), Net Profit (NP), and Net Profit Margin (NPM), which exhibit a range of values from negative to positive. This suggests that as CSR expenditures decreased, the profitability of the banks also declined. Additionally, this relationship appears to influence the Price-Earnings (P/E) ratio and Tobin's Q of the banks.

Table 5: Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
CSRE	120	.00	945.31	99.3077	168.88844
ROA	120	-4.71	3.67	.5760	1.22039
ROE	120	-50.99	25.00	4.3007	14.08923
NP	120	-15116.29	61076.62	6583.4122	13027.26208
NPM	120	-68.48	29.37	7.3151	16.02478
P/E ratio	120	-38.55	548.50	28.4415	64.87612
Tobin Q	120	.00	2.27	1.0537	.32197
Valid N (listwise)	120				

Source: Authors.

4.1. Construction of a composite index of financial performance

To eliminate trade-offs among various indicators of financial performance, a composite index is created using factor analysis (Maqbool & Zameer, 2018). A key requirement for conducting factor analysis is a strong correlation among the variables. The correlation matrix of the variables is presented in Table 6, which indicates a significantly high correlation among Return on Assets (ROA), Return on Equity (ROE), Net Profit (NP), and Net Profit Margin (NPM). This high correlation makes it suitable for factor analysis, allowing these variables to be grouped as a single factor. While the Price-Earnings (P/E) ratio does not exhibit a strong correlation with the other variables, Tobin's Q demonstrates a positive relationship with them. Thus, Tobin's Q can be identified as the second factor.

Table 6: Correlation Matrix

		ROA	ROE	NP	NPM	P/E RATIO	TOBIN Q
ROA	Pearson Correlation	1	.922**	.515**	.970**	.060	.574**
	Sig. (2-tailed)		.000	.000	.000	.516	.000
	N	120	120	120	120	120	120
ROE	Pearson Correlation	.922**	1	.571**	.950**	.084	.465**
	Sig. (2-tailed)	.000		.000	.000	.361	.000
	N	120	120	120	120	120	120
NP	Pearson Correlation	.515**	.571**	1	.593**	-.003	.315**
	Sig. (2-tailed)	.000	.000		.000	.970	.000
	N	120	120	120	120	120	120
NPM	Pearson Correlation	.970**	.950**	.593**	1	.068	.519**

	Sig. (2-tailed)	.000	.000	.000		.463	.000
	N	120	120	120	120	120	120
	Pearson Correlation	.060	.084	-.003	.068	1	.142
P/E RATIO	Sig. (2-tailed)	.516	.361	.970	.463		.122
	N	120	120	120	120	120	120
	Pearson Correlation	.574**	.465**	.315**	.519**	.142	1
TOBIN Q	Sig. (2-tailed)	.000	.000	.000	.000	.122	
	N	120	120	120	120	120	120

**. CORRELATION IS SIGNIFICANT AT THE 0.01 LEVEL (2-TAILED).
Source: Authors.

Another approach to assess the suitability of data for factor analysis is the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy. The ideal value for this test is 0.6. In our analysis, the KMO value obtained is 0.769, which exceeds the acceptable threshold for conducting factor analysis. Additionally, the variables must meet the criteria of Bartlett's test of Sphericity to be suitable for factor analysis.

Table 7: Factor Analysis (Rotated)

Variable	Factor 1	Factor 2
ROA	.957	.065
ROE	.945	.051
NP	.699	-.121
NPM	.971	.045
PE	.011	.968
Tobin Q	.305	.621
Eigen values (Total)	3.645	1.026
Percentage of variance	60.90	17.09
Cumulative percentage of variance		77.99
Kaiser-Meyer-Olkin Measure of Sampling Adequacy= .769	Bartlett's test (Chi-Square) = 719.551,	sig= .000

Table 7 shows that the Chi-square value for the test is 719.55, which is highly significant at $p < 0.01$, indicating that not all variables have the same variance. This suggests that the data is suitable for factor analysis. The (Rotated) factor analysis presented in Table 7 has identified two performance factors. The first factor, labeled 'Profitability,' includes Return on Assets (ROA), Return on Equity (ROE), Net Profit (NP), and Net Profit Margin (NPM), all of which exhibit high factor coefficients under factor 1. The second factor, 'Market Returns,' consists of the Price-Earnings (P/E) ratio and Tobin's Q, both showing high and positive factor coefficients under factor 2. The latent root criterion is applied for factor extraction, which excludes factors with an Eigenvalue of less than 1. The Eigenvalues for Profitability and Market Returns are 3.645 and 1.026, respectively. The cumulative percentage of variance indicates that these two factors account for 77.99% of the total variance. The profitability and market returns can be expressed using the factor score coefficient matrix shown in Table 8. By using Z to denote the vector of standardized values of the performance variables (ROE, ROA, NP, NPM, P/E, and Tobin's Q) that have been factor analyzed, we can represent profitability and market returns as follows:

$$Profitability = 0.264\ Z1 + 0.262\ Z2 + 0.205\ Z3 + 0.270\ Z4 – 0.067\ \mathrm{Z5} + 0.153\ \mathrm{Z6}$$

$$Market\ returns = -0.006\ Z1 - 0.19\ Z2 - 0.167\ Z3\ \text{-}\ 0.026Z4 + 0.936\ \mathrm{Z5} + 0.250\ \mathrm{Z6}$$

Table 8: Factor Score Coefficient matrix

	Components	
	1 (Profitability)	2 (Market Return)
ROA	.264	-.006
ROE	.262	-.019
NP	.205	-.167
NPM	.270	-.026
P/E ratio	-.067	.936
Tobin Q	.153	.250
Extraction Method: Principal Component Analysis.		
Rotation Method: Varimax with Kaiser Normalization.		

Source: Authors.

4.2. Testing the model

The second phase of testing focused on examining the relationships between Corporate Social Responsibility Expenditure (CSRE), market return, and the profitability of the bank. Table 9, titled "Individual Indicator Reliability (Factor Loadings)", evaluates how well each observed variable represents its corresponding latent construct in the PLS-SEM model. The factor loading for CSRE is 1.000, indicating it is treated as a single-item construct. The Profitability construct is measured using four indicators - Net Profit (0.845), Net Profit Margin (0.926), Return on Assets (0.883), and Return on Equity (0.904) - all of which show high loadings, demonstrating strong reliability and internal consistency. For Market Return, Tobin's Q shows excellent reliability with a loading of 0.986, whereas the PE Ratio has a notably low loading of 0.305, suggesting it may not adequately capture the underlying construct and may require further validation or potential reconsideration in future analyses. Overall, the table confirms that most indicators meet the acceptable threshold, supporting the robustness of the measurement model.

Table 9: Individual Indicator Reliability (Factor Loadings)

	CSRE	Market Return	Profitability
CSRE	1.000		
NP			0.845
NPM			0.926
PE Ratio		0.305	
ROA			0.883
ROE			0.904
Tobin Q		0.986	

Source: Authors.

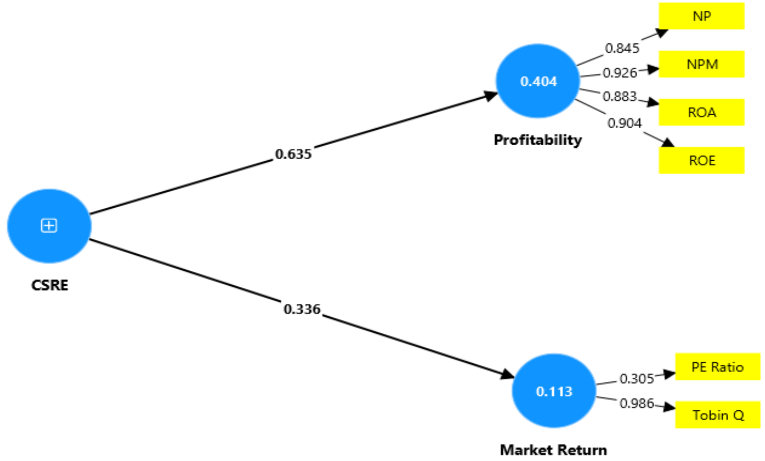

Fig. 2: Measurement Model Depicting the Influence of Corporate Social Responsibility Expenditure on Bank Profitability and Market Return.

Source. Authors.

Table 10: Internal Consistency, Reliability, and Convergent Validity

Factor	Cronbach's Alpha	Composite Reliability (Rho_A)	Composite Reliability (Rho_C)	Average Variance Extracted (Ave)
Market Return	0.248	0.798	0.640	0.533
Profitability	0.924	1.081	0.938	0.792

Source: Authors.

Table 11: Discriminant Validity Assessment: Fornell–Larcker Criterion

	CSRE	Market Return	Profitability
CSRE	1.000		
Market Return	0.336	0.730	
Profitability	0.635	0.482	0.890

Source: Authors.

The measurement model estimation results presented in Figure 2 and detailed in Tables 10 and 11 provide a comprehensive assessment of the reliability and validity of constructs used to evaluate the impact of Corporate Social Responsibility Expenditure (CSRE) on Financial Performance (FP) in the PLS-SEM framework. Table 10 evaluates internal consistency reliability and convergent validity. The Profitability construct shows excellent reliability, with Cronbach's Alpha (0.924), Composite Reliability (Rho_C = 0.938), and Average Variance Extracted (AVE = 0.792) all exceeding recommended thresholds. These values suggest strong internal consistency and high convergent validity, meaning the indicators used effectively measure the construct. In contrast, Market Return shows weaker reliability: its Cronbach's Alpha is low (0.248), although Composite Reliability (0.640) and AVE (0.533) are just above acceptable thresholds. This suggests that the construct may need refinement, particularly by reconsidering or replacing weak indicators such as the PE Ratio (as indicated earlier). Table 11 assesses discriminant validity using the Fornell–Larcker Criterion, which ensures that each construct is distinct from others in the model. The square root of AVE for each construct (the diagonal values: CSRE = 1.000, Market Return = 0.730, Profitability = 0.890) is higher than its correlations with other constructs, fulfilling the criterion. For example, the correlation between CSRE and Profitability is 0.635, which is lower than the AVE square root for Profitability (0.890), confirming that each construct is uniquely measured. Together, these tables confirm that the measurement model for CSRE's impact on FP is statistically sound for Profitability, while Market Return shows modest validity and may benefit from further refinement.

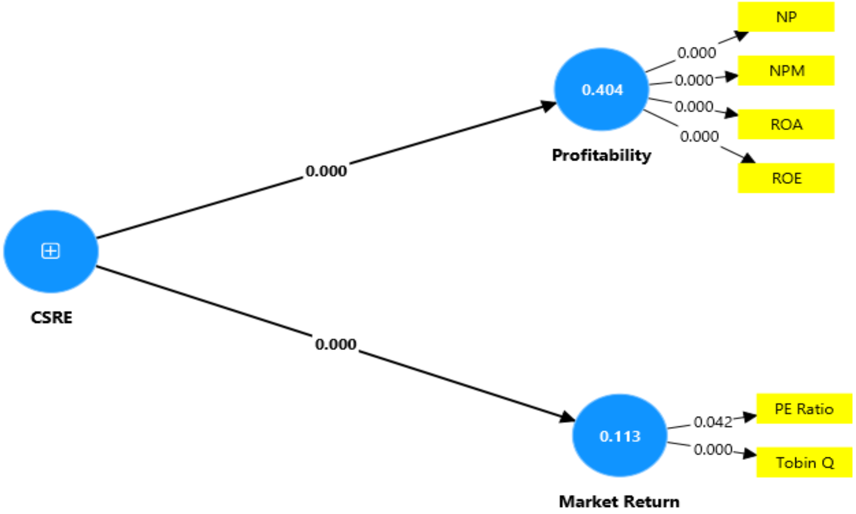

Fig. 3: Structural Model Showing the Significant Effects of CSR Expenditure on Profitability and Market Return in Indian Banks.

Source. Authors.

Table 12: Mean, Standard Deviation, T-Statistics, and P-Values

	B values	Sample M	SD	T statistics	P values
CSRE -> Market Return	0.336	0.348	0.064	5.293	0.000
CSRE -> Profitability	0.635	0.637	0.043	14.854	0.000

Source: Authors.

Figure 3 and Table 12 present the structural model estimation results, highlighting the impact of CSRE on the FP of Indian banks. The path coefficients (B values) indicate a positive and statistically significant relationship between CSRE and both dimensions of financial performance: market return (0.336) and profitability (0.635). The stronger effect on profitability suggests that CSR initiatives contribute more directly to internal financial measures such as ROA, ROE, and NPM than to market-based metrics like Tobin's Q and the P/E ratio. The high t-statistics (5.293 for market return and 14.854 for profitability) and low p-values (both 0.000) confirm the significance of these relationships. Additionally, the low standard deviations indicate the stability of the estimates. Overall, the results underscore that CSR spending not only fulfills regulatory and social responsibilities but also enhances a bank's financial performance, particularly its profitability. Overall, the results confirm Hypothesis H1 & H2, suggesting that increased CSR spending positively affects financial performance, primarily by enhancing profitability metrics, with a secondary impact on market returns.

5. Discussion

The findings of this research reflect similar results from previous studies. In this sample, the authors identify direct positive statistically significant relationships between CSRE and the performance of firms, measured by Return on Assets (ROA), Return on Equity (ROE), Net Profit (NP), and Net Profit Margin (NPM), as well as market return metrics represented by the Price-Earnings (PE) ratio and Tobin's Q. While a positive significant relationship was anticipated by the hypothesis, the data indeed supported this expectation, confirming both hypotheses indicated in table 16. The results reveal a robust positive relationship. The reasons for CSRE's direct positive effect on profitability were examined by (Loor-Zambrano et al., 2022; Vuong & Bui, 2023), who found that CSR significantly impacts profitability by enhancing brand image, fostering customer loyalty, and improving employee morale. Studies indicate a clear link between CSR initiatives and corporate success. In India, several regulatory frameworks have been established to promote environmental protection, consumer rights, employee welfare, and fair business practices. The Environment Protection Act of 1986 sets pollution control standards, while the Consumer Protection Act of 2019 safeguards consumer interests and provides a grievance redressal mechanism. The Factories Act of 1948 focuses on ensuring worker health and safety, and the Companies Act of 2013 mandates CSR for eligible companies. The Securities and Exchange Board of India (SEBI) oversees the securities market to ensure transparency and protect investors, while the National Green Tribunal (NGT) addresses environmental disputes and enforces compliance with environmental regulations. Finally, the Right to Information Act of 2005 promotes transparency and accountability in governance. Collectively, these frameworks encourage ethical and sustainable business practices throughout the country. In India, while some banks initially refrained from disclosing their CSR expenditures, they have gradually aligned with the nation's CSR policy and now report their CSR activities, enhancing transparency and accountability in their social contributions (George et al., 2023). The pursuit of business success and profit often overshadowed other crucial aspects, such as employee welfare, consumer rights, environmental protection, and fulfilling obligations to suppliers, investors, and the state.

Table 13: Verification of the Relationship Between Variables in the Structural Model

Hypothesis	Assessment	Conclusion
H1: CSRE -> Profitability	14.854*	Accepted
H2: CSRE -> Market Return	5.293*	Accepted

When Indian banks began investing in Corporate Social Responsibility (CSR) initiatives, they initially encountered significant costs related to implementing sustainable practices, community development projects, and environmental efforts. However, over time, the benefits of these investments became clear. CSR initiatives improved the banks' reputations, fostered stronger relationships with customers, and increased trust among stakeholders. Furthermore, these efforts promoted financial inclusion, environmental sustainability, and social welfare, positively impacting the broader economy. As CSR became a fundamental part of their strategies, banks not only enhanced their market positions but also contributed to India's long-term economic and social development objectives. This suggests that a more advanced level of CSR practices within companies correlates with increased profitability. Thus, the authors validated their first (H1) and second hypotheses (H2). This finding is significant and aligns with previous research (George et al., 2023; Kaimal & Uzma, 2024; Okafor et al., 2021; Oware & Mallikarjunappa, 2022; Tulcanaza-Prieto et al., 2020), demonstrating that responsible business practices lead to higher profitability and market returns, positively influencing overall business performance.

5.1. Short-term financial implications of mandatory CSR for small and less profitable banks

CSR aims to promote long-term sustainability and stakeholder goodwill. Its mandatory implementation can pose short-term financial challenges - particularly for smaller and less profitable banks. These institutions often operate under tighter capital constraints and have limited financial buffers, making it difficult to absorb additional outflows related to CSR compliance. The statutory requirement to allocate a percentage of net profit toward CSR can reduce already slim profit margins, divert funds from core banking activities, and increase operational strain. Moreover, in periods of low profitability or economic downturns, mandatory CSR spending may be viewed as a non-strategic burden rather than an investment (Kim et al., 2024; Ma et al., 2024; D. Sharma & Chakraborty, 2024). For small and mid-sized banks, this could delay or disrupt technological upgrades, branch expansion, or credit disbursement plans. While larger banks may leverage economies of scale and brand visibility to offset CSR-related costs, smaller banks may struggle to realize immediate returns, making the financial impact of CSR more pronounced in the short run. Therefore, understanding these transitional costs is critical to forming balanced CSR strategies that are both equitable and effective across different bank sizes.

6. Conclusion

In this study, the authors aimed to explore the relationship between Corporate Social Responsibility (CSR) and financial performance in organizations from a developing country. Previous research worldwide has examined this relationship, yielding varied results, including positive, negative, neutral, direct, and indirect correlations. Profitability and market return were used as proxies for financial performance in this analysis, as literature indicates a strong positive relationship between CSR expenditure and profitability, along with a significant relationship with market return. The study's key findings reveal direct positive statistically significant relationships between CSR expenditure and the profitability of companies, as measured by Return on Assets (ROA), Return on Equity (ROE), Net Profit (NP), and Net Profit Margin (NPM). Additionally, CSR expenditure is positively related to market return, as indicated by the Price-to-Earnings (PE) ratio and Tobin Q. This suggests that CSR spending, as outlined in Schedule VII of the Companies Act, 2013, correlates positively with the financial performance of firms. The authors confirmed both the first and second hypotheses. These findings align with previous research conducted in countries such as Ecuador, the US, and India. While CSR may not generate immediate profits, it serves as a valuable long-term investment that enhances brand reputation and fosters loyalty among employees, customers, and communities. Ultimately, CSR benefits both businesses and the wider economy by promoting sustainable growth and social impact.

6.1. Policy recommendations for effective CSR in banking

To make CSR a strategic tool rather than a compliance burden, banks must adopt innovative, need-based approaches rooted in ground realities. First, banks should move beyond symbolic donations and focus on community-centric initiatives like digital financial literacy, women's entrepreneurship support, and micro-credit programs tailored for rural and semi-urban populations-areas where financial exclusion is most severe. Integrating CSR with core banking services-such as linking CSR funds to skill development tied to self-employment loans-can generate both social and economic returns. Banks should also invest in green infrastructure, such as paperless banking, solar-powered branches, and financing for clean energy startups. On the regulatory side, policymakers need to recognize the uneven capacity of banks. Smaller or low-profit banks often struggle to meet mandatory CSR targets, especially in years of financial distress. Thus, policies should allow flexibility in CSR allocation during downturns, while offering incentives like tax credits or CSR impact ratings to reward high-performing institutions. Moreover, regulators can mandate impact-based reporting instead of mere expenditure reporting, encouraging banks to prioritize quality over quantity in CSR activities. These practical and innovative measures will help align CSR with the developmental goals of the economy, creating long-term value for both society and the banking sector.

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Appendix 1

Public banks	Private banks
State Bank of India	Housing Development Finance Corporation (HDFC)
Punjab National Bank	Industrial Credit and Investment Corporation Of India (ICICI)
Bank of Baroda	Axis bank
Indian bank	IndusInd bank
Bank of India	Industrial Development Bank of India (IDBI)
Central Bank	Bandhan bank