REVIEW PAPER

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Responsible and Sustainable Lending by Financial Institutions: A Literature Review

S. Sachdeva, L. Ramesh
CHRIST (Deemed to be University), Bangalore, Karnataka, India

ABSTRACT

The **subject of the study** is to use an extensive literature review to evaluate how academic research on corporate social responsibility (CSR) is developing. The journals and papers in the ISI Web of Science, SCOPUS, and Taylor&Francis databases served as the foundation for this literature review. The **purpose of the study i**s to highlight essential papers, referenced journals' importance, and potential future study directions. Determinants that impact the CSR performance of an organization are governance, profitability, firm characteristics, and minimum expenditure. The impact of CSR has been measured using accounting-based market value, risk, excess return on a stock, and moral capital. All the variables are discussed with strongly supported literature and then concluded by giving a framework. The **novelty of our study** is that it analyses new research trends while concentrating on the CSR research frontiers. The **conclusion** identifies possible areas for scientists to further develop their expertise, including sustainable and responsible financing and ESG strategy.

Keywords: CSR; Moral capital; Excess return; Sustainable banking; financial companies

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INTRODUCTION

Corporate social responsibility (CSR) has been extensively used in the corporate and research areas. Initially, this concept was used by corporations to communicate with the outside world to ensure the quality of work and balance maintained in society. Over the years, this concept has been integrated into primary business activities [1]. The application of CSR has evolved from helping society to the strategic use of CSR activities [2] to improve business performance [3]. The application and the defining boundary have also changed from external to internal stakeholders [4]. In recent research, [5] has described the meaning of CSR as the responsibility of businesspeople towards society. H.R. Bowen [4] defines CSR as doing right and good things for internal and external stakeholders.

There is an increase in interest among academic researchers to find determinants and impact of CSR practices in various sectors like manufacturing, information technology, banking, and the hotel industry. It has been studied by [6] the determinants of CSR for non-financial companies. Also, CSR practices impact the financial performance of companies [7–9]. Researchers have mixed positive, negative, and neutral results on the organization's performance. Few studies exist on Indian financial companies (banks and NBFCs) due to strict regulation with separate RBI guidelines.

The motivation of this paper emerges from exploring the determinants and impact of CSR among financial companies. One such factor is corporate governance, which is researched as a determinant of CSR [10]. Also, CSR practices impact financial performance [7], the excess return of stock [11], and the moral capital of financial companies [2].

Contributions towards CSR activities by financial companies depend on numerous factors [6]. This paper's primary goal is to conceptualize a Corporate Social Responsibility (CSR) framework by conducting an in-depth review of existing literature. This paper's main purpose is to construct a CSR framework through an extensive literature review, organized into six sections: Introduction, Methodology, CSR Concept and Theory, Determinants, Impact on Financial Companies, and a Conclusion with limitations and future research directions.

CONCEPTUAL DEVELOPMENT AND REVIEW

This section covers the conceptual model's foundation and the CSR's theoretical background. This study explicitly covers the stakeholder theory of management studies related to CSR practices adopted by financial companies. Stakeholder theory addresses the premises of organizational stakeholders like employees, customers, regulatory authorities, the community, and others. In the subsequent section, all the aspects of the conceptual model are discussed concerning stakeholder theory. The ISI Web of Science, SCOPUS, and Taylor and Francis literature review databases used different keywords concerning CSR. Articles with more than 200 citations were examined as determinants and impacts of CSR in financial companies, and a model was created. The *Table* shows the list of searched keywords in databases.

Understanding corporate social responsibility

India comprises 28 states and eight union territories, evident in its diversified culture. The second most populated nation in the world requires citizens' welfare and is attempted by corporations in the country. Taking measures for the welfare of the citizens and community is not a new concept in India. It has been followed for ages. Considering stakeholder theory, India became the second nation (after Mauritius) to mandate corporate CSR spending.

Corporate social responsibility is called many other names by researchers and practitioners, like corporate responsibility, corporate sustainability, corporate citizenship, or responsible business. For the last seven decades, researchers have been contributing to this area, as per [12], CSR still has a long way to go. With evolving business policies, the concept of CSR has also been developing.

In 1980, the stakeholder theory of CSR was propounded by [13]. The primary proposition of this theory is that, in the long term, every business must consider its stakeholders. A stakeholder is the one who interacts with the business, and it is classified into two parts, i.e., internal and external stakeholders. Internal stakeholders include employees and customers, whereas external stakeholders include suppliers, the community, and regulatory bodies. Researchers strongly support the stakeholder theory [14]. Also, stakeholder theory has been empirically tested and proven by [13, 15–17] in financial performance and [2, 18] in moral capital and excess stock return.

The impact and determinants like transparency with stakeholders and profitability also help an organization become more successful and socially responsible. This strong evidence from the literature convinces researchers that there is still a broader scope for research in CSR.

Determinants

In this section, the determinants of CSR will be discussed. This study will determine the factors affecting the CSR score of financial companies. Corporate governance, profitability, firm characteristics, and minimum expenditure (2% of net profits) are the factors that affect the CSR of an organization. A description of these factors is as follows:

Corporate Governance

Honest reporting of the organization comes under the purview of the stakeholders' approach. Viewing corporate governance through a broader lens gives a clear vision of stakeholders [19]. The embedding of corporate governance has been conceptualized by CSR practices [10]. Various measures are taken into consideration.

Institutional Ownership

Institutional ownership in the stakeholder theory assumes that the more stakeholders in an organization, the more transparent the organization will be [20]. Researchers have widely used institution ownership as a determinant of CSR disclosure [21, 22]. A company with a diversified stakeholder pattern is considered more socially responsible [23].

Prior studies in developed economies [20] and developing economies [7] indicate that organizations with more diverse stakeholders tend to have better social performance. Top management holding more shares makes organizational decisions biased and tends to lower social performance [24]. Also evident from the Kenya bank study [25], the U.S. bank study [26], the Pakistan Bank study [27], and the Bangladesh bank study [28] there is a positive relationship between the independent board and CSR performance. However, [29] shows no relationship between institutional ownership and Indian Banking. Whereas [30] concluded a negative relationship between institutional ownership and CSR in Jordanian Banks.

Here, institutional ownership will be measured as the percentage of shares held by the board of directors in the organization [31]. Several studies use different scales to measure institutional ownership shares held by the company's three to five largest shareholders [32].

Table

List of Keywords Searched in Different Databases

No.	Keyword	Number of Articles	Number of articles with more than 200 citations
1	CSR or Corporate social responsibility	10464	42
2	Corporate governance	15493	167
3	Institutional ownership	7987	30
4	Directors of Company	9875	56
5	Profitability	9653	45
6	Return on assets	6745	34
7	Credit rating	3406	78
8	Market value	9841	78
9	Risk of financial companies	1023	42
10	Excess return and FAMA French	3983	65
11	Moral capital	567	12

Source: Authors' compilation.

Proposition 1: Institutional ownership has a significant relationship with CSR score.

CEO/ Chairman Duality

CEO/ Chairman duality refers to the same person holding both positions in a company or two different persons holding two positions [33]. This CEO/Chairman duality does not exist in government organizations. However, in a private organization, this situation can cause differences in steward relationship issues [34] because the CEO tends to be less inclined toward social issues. In contrast, the chairperson may consider it a strategic motive for the organization [28]. Whereas [22] consider it a positive relation between CEO/Chairman duality and social performance. However, most studies [35, 36] concluded a negative relationship between CEO/Chairman duality and the organization's social performance.

Proposition 2: CEO/Chairman duality significantly correlates with CSR score.

Board Size

Board size means the number of directors on the organization's board [37]. From a stakeholder point of view, a giant board will consist of more diverse members who favour social responsibility [30]. Hossain [29] argues that a giant board will have diverse thinking and perspectives about the organization's social performance, per resource dependency theory. Researchers from different markets show mixed results. U.S. commercial banks [22], Jordan Banks [30], and Indian banks [23] show the positive impact of larger board sizes on social performance.

Proposition 3: Board size has a significant relationship with CSR score.

Number of Independent Directors

As per the Companies Act 2013, the minimum number of independent directors in an organization is one-third of the total number of directors [23]. Also, their roles, responsibilities, and duties are mentioned in the Companies Act 2013. As per the previous [30], more independent directors lead to better social performance and, hence, better CSR score for the organization.

Proposition 4: The number of independent directors significantly correlates with the CSR score.

Profitability

The organization's profitability is directly linked with CSR performance [38]. The higher the profits, the better the CSR performance of an organization. Larger and more profitable organizations have more visibility among stakeholders, which helps them to be socially active and more responsible. We are measuring this proposition's profit after tax [29] and returns [27].

Profit after tax

Researchers present inconclusive results regarding profitability as the determinant of CSR performance. There are optimistic, pessimistic, and insignificant results. D. Hackston and M.J. Milne [39] argue that highly profitable organizations spend on socially responsible activities. However, few studies by [40] assert that organizations consider spending on societal activities as a financial burden, such as contributing to charity, developing society, or contributing to economically backward people.

Proposition 5: Profit after tax has a significant relationship with CSR score.

Return on Assets

Return on Assets (ROA) is a widely used parameter to measure financial companies' profitability [8] and found a positive relation between ROA and CSR performance. However, [41] contradicted the negative results and concluded that higher ROA reduces the organization's social performance.

Proposition 6: Return on assets has a significant relationship with CSR score.

Firm's Characteristics

Firm characteristics play a significant role in determining the level of CSR an organization employs. The following sections discuss firm type, firm age, size, and credit rating from a financial company's perspective.

Firm type

In India, financial companies are categorized as private and public organizations. A study by [23] on 50 companies in India concludes that public organizations are better regarding social performance. Similarly, studies by [42] show that public sector companies' performance is superior to that of the private sector.

Proposition 7: Firm type has a significant relationship with CSR score.

Firm age

Among firm characteristics, one critical variable is the firm's age. Previous researchers have concluded that long-established organizations perform better CSR [6]. Whereas there are findings from the research of [39] on established firms that are not concerned about social responsibility scoring based on previous literature studies.

Proposition 8: Firm age has a significant relationship with CSR score.

Firm size

Larger companies have more social visibility, making them more socially responsible [6]. Also, larger organizations have more resources to be socially active and responsible toward society [30]. Studies conducted by [29] conclude that larger organizations are better at social responsibility activities, leading to a better score.

Proposition 9: Firm size has a significant relationship with CSR score.

Credit rating

P. Sengupta [43] argues that a firm's credit rating and quality information disclosure play a vital role in investment decisions, which leads to strategic investment in CSR. N. Attig et. al. [44] argue that the benefits of credit rating are an intangible form of CSR score. S.A. Waddock and S.B. Graves [41] hold that a better credit rating leads to better social performance of an organization. S. El Ghoul et al. [14] argue that a low credit rating leads to a higher idiosyncratic risk for the firm, which results in less involvement in socially responsible activities [45]. H.-L. Chih et. al. [46] propound that better-performing companies are more inclined towards socially responsible activities. N. Attig et al. [44] conclude that by increasing firms' credit ratings, firms focus more on socially responsible activities.

Proposition 10: Credit rating has a significant relationship with CSR score.

Minimum Expenditure

The statutory requirement of CSR contribution as 2% of net profits under a prescribed set of conditions leads to the argument of whether an organization's CSR score is affected by mandatory contribution. As per [23], mandatory CSR does not reflect many benefits to the company's stock price. D.V. Moser et. al. [47] suggested that socially responsible investments should benefit shareholders, which can be increased when corporations pursue a visible agenda [48]. As a result, investors are prepared to consider a company's CSR initiatives before making an investment choice [49].

Proposition 11: Minimum expenditure has a significant relationship with CSR score.

Impact of CSR on Financial Companies

O. Weber et. al. [50], the financial sector has a significant economic and environmental impact; risk management concerns and stakeholder pressure drive the financial sector on a more sustainable path. In contrast to polluting industries, the financial industry has no direct impact on the environment or society through emissions or resource use. In analysing corporate financial performance, various metrics were used [49]. Studies commonly use accounting and market-based metrics for corporate financial performance, measuring short-term and future profitability [40, 52, 53]. Accounting-based parameters include return on assets, equity, and earnings per share [7, 48, 50]. Market value parameters like the book-to-market ratio and price-to-earnings ratio [23] are considered. To calculate the impact of CSR on the risk of financial companies, measures such as Z-score [54] and risk density are used. Then, to measure the impact of CSR on the stock market, the Fama French model [11] will be used.

Accounting Based Parameters

Management objectives and decisions choose accounting rules and regulations. In recent literature, accounting measurements of financial performance have proliferated. Return on assets, equity, and earnings per share are used by [55]. Accounting data is considered reliable and less susceptible to manipulation due to strict rules, external audits, and public accessibility [56]. On the other hand, accounting indices are backward-looking and dependent on convention and company choice; therefore, they might be skewed, incomparable, and susceptible to manipulation [57].

Proposition 12: CSR score has a significant relationship with financial companies' accounting-based parameters.

Market Value

Market-based performance measurements are less prone to managerial subjectivity, manipulation, or opportunism since they focus less on accounting figures or regulations [58]. External and independent evaluations of the firm's performance produce market-based indicators, which reflect investors' perceptions and expectations of the firm's future success [57]. Market metrics have limitations, as they focus on financial stakeholders, neglecting non-financial stakeholders affected by CSR [59]. Market metrics enable diverse benchmarks and data triangulation, promoting balanced and objective performance evaluations [14]. To measure the impact of market value, book-to-market ratio [60] and price-to-earnings ratio [7]. These indicators are widely explicitly used by financial companies.

Proposition 13: CSR score has a significant relationship with financial companies' market value.

Risk

According to the existing literature on sustainability, corporate sustainability minimizes idiosyncratic firm risk. However, in public debate, the true definition of sustainability is a broad concept that encompasses more than just environmental concerns. Instead, the term "sustainability" is frequently used interchangeably with CSR. According to the literature, CSR and corporate risk are negatively associated [61]. This research considers F. Neitzert and M. Petras [56] idiosyncratic and portfolio risks. Different Z-score specifications estimate default risk [62, 63]. The Z-score compares the standard deviation of return on assets with the bank's ROA plus its capital adequacy ratio (CAR). J.F. Houston et. al. [64] define CAR as the equity-to-total assets ratio. The risk density is a good approximation of portfolio risk. The amount of risk-weighted assets (RWA) over total assets recorded on the balance sheet determines risk-weighted assets [65, 66].

Proposition 14: CSR score has a significant relationship with financial companies' risk.

Excess Return on a Stock

Knowledge of the impact of business environmental performance on financial performance contributes to the argument over whether managers routinely miss profit opportunities by opting out of environmental protection [67]. Overall, current thought on the implications of corporate social responsibility on financial performance is equivocal [41, 68]. Examining positive, negative, and neutral effects, neoclassical microeconomics can support arguments for a detrimental impact. According to this, the underlying principle of shareholder wealth maximization is harmed because the operating costs of corporate environmental [69] or social activities outweigh their financial benefits (due to cost reductions through, for example, energy savings, waste reduction, or recycling). As a result, CSR can result in poorer earnings, company values, competitive disadvantage, and lower shareholder returns, leading [70] to claim that CSR has no purpose.

Proposition 15: CSR score has a significant relationship with financial companies' excess return on stock.

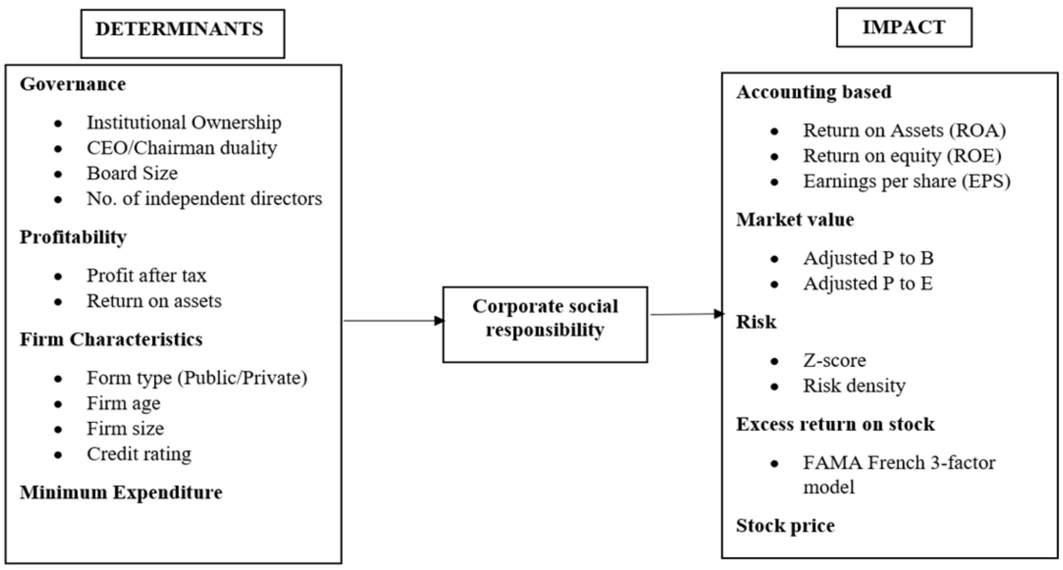

Fig. **Conceptual Framework of Determinants and Impact of CSR on Financial Companies**

Source: Authors' compilation of CSR Model of financial companies.

Moral Capital

Moral capital is the capital firms generate by doing something good for society. It covers the firm as insurance-like property and does not harm much during an adverse event. In this section, the impact of the CSR score will be checked against the moral capital of the firm, which a firm creates through involvement in community service, service development, or employee empowerment. There are few entirely generous contributions, and CSR efforts will be just one of several signals' stakeholders use to gauge a firm's altruistic inclination [2]. D.A. Kennett [71], furthermore, profit-making is the macro-institutional norm for business [2], which is well understood and accepted by public actors in a capitalist society.

Proposition 16: CSR score has a significant relationship with financial companies' moral capital.

EXPLAINING FRAMEWORK

The review adds to our understanding of the subject. A review of existing worldwide and national literature on CSR suggests that accounting-based measures, market-based measures, corporate governance, mandatory requirements, and moral capital are all crucial factors in encouraging the CSR activities of financial companies. A thorough review of secondary literature has aided in developing the study's theoretical foundation and concrete definition of corporate social responsibility. The links can be given as a conceptual model since exhaustive literature research gives logical, methodical, and consistent justification for selecting identified variables. Three main components that constitute the conceptual model for the present investigation are shown in *Fig.*

This proposed corporate social responsibility framework can be validated using quantitative analysis for financial companies. While quantitative analysis, the relationship between determinants and CSR score, panel data analysis can be used. Similarly, the relationship between impact and CSR score and regression analysis can be used. Various methods exist to calculate CSR scores, like qualitative data analysis, content analysis, etc.

CONCLUSION

CSR is a promising concept in corporate culture. This concept has been evolving for the last six decades. The future of corporate social responsibility in the financial sector is sustainable lending, responsible lending, and the ESG framework. After conducting an extensive literature review, it was concluded that financial companies are more responsible toward society. As they are into lending money to corporations, investing money in sustainable businesses and projects started by corporations is necessary. This research has been done explicitly with the financial sector because of the differences in their business operations.

Previous research on CSR and corporate financial performance has received mixed reviews. This research framework is divided into two steps. The first step is to determine the determinants of CSR, which explain the behaviour of different components of financial companies affecting CSR. The second step is to measure the impact of CSR on the performance of financial companies. By following the above-discussed propositions, the Figure 1 framework is presented. It summarizes the determinants and impact of CSR on financial companies. All these variables are taken into consideration after an extensive literature review.

The major limitation of this research is that there is no uniformly accepted CSR scale in India. ESG (Environment, Social, and Governance) is a suggested framework. However, not all companies report on the ESG framework. According to A. Bhatia and A. Dhawan [72], the Ministry of Corporate Affairs has mandated that the top 1000 companies in India report the sustainability report in the ESG framework. So, it becomes a challenge to calculate the CSR score.

As a result, an empirical investigation is required to identify relationships between the constructs. Despite the constraints, the findings have the potential to be extremely useful for academics and practitioners alike, as the findings show that CSR is more than just an abstract idea or a sign of passive views. It is, instead, a fundamental principle that may be translated into sustainable finance.

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ABOUT THE AUTHORS

Sakshi Sachdeva — Research Scholar, Christ (deemed to be University), Bangalore, Karnataka, India
https://orcid.org/0000-0002-8172-5913
Corresponding author:
sakshi.sachdeva@res.christuniversity.in

Latha Ramesh — PhD, Assoc. Prof., Christ (deemed to be University), Bangalore, Karnataka, India
https://orcid.org/0000-0002-9195-1367
latha.ramesh@christuniversity.in

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