Corporate Social Responsibility and Financial Performance in Nepalese Commercial Banks

Top Lal Panthi
Lecturer
St. Xavier's College Maitighar, Kathmandu, Tribhuvan University, Nepal
E-mail: panthibro@gmail.com

Abstract

In this study, the effect of corporate social responsibility on total assets, proxy of financial performance with a mediating variable number of employees in Nepalese commercial banks, has been examined to fulfill the objective of identifying the size, trend and status of corporate social responsibility and analyzing the effect of CSR with a mediating variable number of employees on total assets. An aggregate level of CSR with a mediating variable number of employees have been applied as the independent variable and total assets have undertaken as the dependent variable in the research framework. Panel data sets from seventeen Nepalese commercial banks for ten years have been observed and tested using correlation coefficients and regression models under the approach of descriptive and analytical research design, to determine the effect of CSR with a mediating variable number of employees of the organization on the total assets. The findings postulate that the increasing trend of CSR expenditure made by the banks and total assets have a significant positive relationship. From the analysis, it has concluded that there is a positive relationship between the variables and the impact of CSR on total assets, symbolizes increasing in CSR leads to an increase in the financial performance of the organization. Furthermore, it raises the public image of the firm and attracts more investors which creates sustainable growth over the competition. This study demands the implication of CSR practices for all the business organization even if not mandatory from the concerned department.

Key words: corporate social responsibility, financial performance, commercial banks

Introduction

The concept of Corporate Social Responsibility (CSR) has grown effectively, it has a long and varied history which enhances positively to the development of stakeholders and business organizations mutually in the global market. It is becoming one of the major...
subjects in financial studies (Lähdesmäki & Suutari, 2012). It is possible to trace and see the footprints of CSR thought throughout the world as evidence of the business communities’ concern for societal benefit (Carroll, 1979). Business organization can accomplish the expectations of society through performing corporate social responsibility activities for the benefit of stakeholders (Adewale & Rahmon, 2014). Business organizations which adopt corporate social responsibility for its direct benefits to the society can generate mutual benefit to both society and business organization itself. Business organizations participate in corporate social responsibility activities, improve their goodwill, reputation, offer their product in an ethical manner, presenting concern for the environment, increasing its competitiveness which makes able to face the danger of losing the market share (Jitaree, 2015). Furthermore, Corporate social responsibility improves productivity, increases profit and offers better access to capital (Aras, 2010).

Many studies have examined the association between corporate social responsibility practices and financial performance. Some studies quantified that corporate social responsibility and financial performance have a negative relationship, some studies stated, corporate social responsibility impacts positively financial performance and few studies investigated mixed results in the developing countries. CSR activities negatively impacts the company’s profitability (Sharma & Agrawal, 2022), but there are positive and significant result corporate social responsibility and financial performance using organizations’ age as a partial determinant in Nepalese banking sectors (Bidari & Djajadikerta, 2020). Found mixed results study conducted on CSR and firms’ financial performance (Wagle, 2020). CSR and other control variables such as age and size of the organization has a positive impact on financial performance (Ramzan & Amin, 2020). However, CSR-related research in Nepalese commercial banks was difficult to be found, few research has been conducted applying a qualitative analysis only. This study is an example of quantitative study of CSR and an eye opener to the businesses houses in Nepal also throughout the globe. While CSR issues are appealing a great deal of attention in the developed country there is an essential for more research into CSR in the developing country.

The study of the effect of CSR on financial performance is becoming increasingly important to a broad range of corporate stakeholders, such as investors and strategic managers around the globe. Different methodological approaches have been developed in order to assess CSR performance, such as content analysis of annual CSR disclosure, single and multiple-issue CSR indicators and reputation indices. As the concepts of CSR and financial disclosure have been emerged together (Perrini, 2005). The main or general objectives of the study are to examine and analyze various components of CSR and its relation to Total Assets proxy of financial performance in the Nepalese commercial banks. Therefore, the specific objectives of the study have been incorporated below:
1. To assess the size, trend and status of CSR practices and their trend in the Nepalese commercial banking sector.
2. To examine the relationship between CSR and TA.
3. To analyze the effect of CSR on TA proxy of financial performance.

In this study, the researcher with the necessary skills on how to carry out a comprehensive research study and coming up with findings and well-articulated conclusions. Similarly, the study fully examines the size, trend and status of CSR in Nepalese commercial banks which leads to improve financial performance. This study helps organization in predicting the future performance of organization; allowing management to develop ways of improving CSR strategies; which is strategic issue for form’s survival, growth, competitiveness and profit maximization in this era of dynamic and ever-increasing competition.

This study traces the defined structure prescribed by the publisher. Basically, the study involves abstract, key words, introduction, review of literature, materials and methods, results, discussions, conclusion and references.

Review of Literature

CSR has been a subject of intense controversy and interest between shareholders’ theory and stakeholders’ theory over the past three decades in terms of sustainable values and voluntary approaches to development. This debate is an outgrowth of the explosion of different conceptualizations of CSR. Basically, CSR is based on the concept of stakeholder theory (Aupperle et al. 1985).

Frederick (1960) referred to CSR as willingness of the organization to use the resources for the interests of the society. The counterpoint to Friedman’s view is developed the iron law of responsibility, by Davis (1960), which holds that the social responsibilities of businessmen need to be commensurate with their social power (Frederick, 1960).

CSR affects the performance of the organization in different ways. It helps to increase the financial performance so that the company will grow rapidly and gain maximum revenue in the market. Adopting an appropriate culture of CSR and satisfying stakeholders will help definitely able to beat competitors (Aupperle et al. 1985). A high degree of CSR may permit a firm to have relatively low financial risk (McGuire et al.1988).

As increasing attention to CSR activities contributes positively to the financial performance of the organization. CSR practices encompass rural development, poverty eradication, women empowerment, health care, education, training to enhance skills for self-employed, environment protection, etc. Furthermore, the researchers using market-
based variables and their theory define a consistent relationship between CSR and financial performance (Wood & Jones, 1995). CSR issues a company chooses to focus on and the quality of its products and its general beliefs about CSR, as essential moderators of consumers' responses to CSR (Sen & Bhattacharya, 2001).

Creating a strong business and better world are not conflicting goals, they are both essential ingredients for the long-term success of the business also only one responsibility of the business is: to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game (Friedman, 2009).

CSR and financial performance lead to management strategies that have been very noticeable and successful for every business area and size. As a consequence of such behaviors of firms, relevant activities have offered a powerful and creative stepping stone for sustainable values and development (Schwartz & Saiia, 2012).

The empirical results show that perceived CSR practices of firms had significant direct effects on employee well-being and organization (Yu & Choi, 2014). The interaction between CSR on TA proxy of financial performance is positively and statistically significant (Sun, 2012). CSR practices in Health and Education had a positive and significant effect on TA and EPS (Okwoma, 2012). Study results also show a positive relationship between CSR disclosure and the future financial performance of Islamic banks (Platonova et al. 2016).

Corporate Social Responsibility is a process with positive impact through its activities on the environment. (Pradhan & Chaudhary, 2020). It has been noticed as evidence from the last three decades that companies’ CSR activities breadth of CSR disclosure has increased simultaneously with the rising of stakeholder demands. (Chauvey et al. 2014). Moreover, theoretical assertions confirm that competitive advantage mediates the association between intellectual capital and financial performance (Jain et al. 2017).

The empirical evidence of conducting CSR activities shows the existence of a positive and statistically significant relationship between CSR practices and financial performance (Simionescu & Dumitrescu, 2018). Growing interest of CSR demonstrates a positive relationship of CSR on financial performance and argues that firms that implemented CSR strategies could obtain better resources, better employees, easy to market products and services could create unforeseen opportunities (Platonova et al., 2018).

Business organizations are expected to satisfy social responsibility along with their economic responsibility, disclosure of their social impacts and higher levels of accountability (Amran, 2017). A positive relationship between CSR engagement in firm efficiency and productivity, and corporate socially responsible acts focused on servicing
the local (Newman et al., 2020).

There is a broad consensus among the employees about a positive relationship between the company’s efforts to promote CSR and its long-term financial performance (Adhikari et al., 2016). According to Chapagain (2020), though Nepalese companies are not paying adequate attention to community and environment-related issues, the size of the firm tends to affect the level of CSR practices in the Nepalese context though the difference in CSR practices.

Among the various theories of CSR shareholder and stakeholder theory are regarded as major dealing theory. Shareholder theory addresses CSR as a burden of financial performance whereas ‘stakeholders’ theory advocates that the wide acceptance of CSR is due to its chain benefits toward both shareholders and stakeholders. As the business world evolves with globalization and advanced technology, CSR has developed into a multi-facet disciplinary subject (Low, 2016).

The proposed model for this study is developed based on the framework consisting the most important variable corporate social responsibility (independent variable) that affects financial performance (dependent variable). Waddock & Graves (1997) recommended that CSR and firm’s performance are affected by firm size (total sales, total assets and number of employees) and year of operation. Number of employees seems to play an important role because, due to some evidence, small companies cannot adopt CSR activities to the same extent as large can do so. (Bowman & Haier, 1975) explained that positive changes in the level of corporate social responsibility result in an increase in company’s total assets. (Bidari & Djajadikerta, 2020) study conducted through the content analysis has postulated positive and significant relationship between the corporate social responsibility disclosure and financial performance.

The most common CSR practices in Nepalese commercial banks are education, sports, the welfare of the underprivileged, arts, heritage, culture, clubs, trusts, health care, environment, child, women development, religious, spiritual, natural and other calamities, blood donation, rural development and others (Upadhyaya et al. 2013). Banks have an objective viewpoint about CSR activities. They are concentrating mainly on education, health, Socio-economic development, contribution to relief, sports, religious activity, rural development, tree plantation funds as their core CSR activities and also show that high contribution in CSR activities high percentage growth in financial performance (Narwal, 2007).

The following conceptual framework has been drawn after the assessment of literature, theory and case study, which explores the relationships between CSR and TA.
Figure 1

*Conceptual framework*

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>Dependent variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trend of CSR</td>
<td>TA</td>
</tr>
<tr>
<td>Number of Employees</td>
<td></td>
</tr>
</tbody>
</table>

Figure 1 postulates the specification of the model involves the inclusion of TA as the dependent variable and corporate social responsibility as the independent variable (Dhungel, 2008). It is also to be noted that the current strategy involves TA as the dependent variable and CSR as the independent variable. (Carroll, 1999) revealed that business contributions of financial resources or executive time to the arts, education, or the community as philanthropic CSR, also also institutional ownership, and public ownership significantly affect the company’s financial performance (Dianita & Rahmawati, 2011).

**Research Design**

This study has adopted descriptive research design to describe the variables of the study and comparative research design has been applied to analyze the relationships between independent variable CSR and dependent variable total assets. The proposed hypothesis of this study has significant impact of corporate social responsibility on the total assets proxy of financial performance.

**Population and Sampling**

Seventeen Commercial banks out of twenty-six commercial banks listed in NEPSE about 65% samples of total population have been selected as sample for the study and based on quantitative analysis using cross-sectional data set of ten years since 2009/2010 to 2018/2019 has been undertaken. This study includes all commercial banks established as per the NRB records at the mid-July, 2019. There were 27 commercial banks by the end of fiscal year 2019. All 27 commercial banks are the population of this study.

To make homogenous study, at least 10 years’ data were collected for analysis. So, there are 23 commercial banks which have 10 years' data of CSR activities. Out of 23, six banks have huge fluctuate amount of CSR expense and percentage in financial indicators expenses in comparison to remaining banks. So, to make more consistent and reliable impact of data, these six banks were considered as outliers and omitted. Finally, only 17 commercial banks were chosen for study, which comprises about 63% samples of total population. Annual reports of the related banks have been used to collect and observe
secondary data for the total assets, number of employees and amount contributed as CSR have been collected and reviewed from NRB reports and bulletins of Banker's Association of Nepal.

**Data Collection Procedure**

Annual reports of related banks and NRB reports have been used to collect the amount of CSR expensed in different forms likewise education and sports, disaster contribution, religious activity, social economic development, health and hygiene and others then after accumulated as aggregate level and used logarithm for stabilization and to reduce the influence of outliers. The ratio scale is used to measure the scale of observed quantitative data as the amount expending on various forms of corporate social responsibility and total assets indicator of financial performance in various development banks in Nepal to compare the differences and the relative magnitude of numbers in dependent and independent variables.

**Data Analysis Tools and Techniques**

Multiple regression and correlation using statistical package for social science (SPSS) has been used as tools of analysis including several statistical tests of significance. The study has used descriptive statistics, correlation analysis along with statistical tests of significance such as t-test, F-test, Adjusted $R^2$, $R^2$, D.W, a test of autocorrelation and multicollinearity.

**Results**

The subject of corporate social responsibility (CSR) is becoming increasingly important as communities, employees and socially conscious clients expect firms to demonstrate they are good corporate citizens. However, while CSR research in banking sectors has accelerated in recent years, it remains fragmented and conceptualized and there is little understanding of the relationship between CSR and financial performance, components of CSR, the types of CSR strategies employed and the strategic motivations behind them.

These days' corporate social responsibility practices in Nepal are gaining importance than ever before and these practices are continuously increasing. Globalizations, competition, workforce diversity, cross cultural literacy, value-based education and other many factors are the driving forces for the concentration towards the implication of CSR in Nepalese commercial banking sector. In this study seventeen commercial banks have been selected with the objective of analyzing status and trend of CSR in commercial banking sector in Nepal.
Table 1

Corporate Social Responsibility and Total Assets in Million and Number of Employees

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR</td>
<td>33.60</td>
<td>38.18</td>
<td>33.52</td>
<td>42.25</td>
<td>47.40</td>
<td>83.75</td>
<td>92.05</td>
<td>96.27</td>
<td>96.28</td>
<td>104.26</td>
<td>67.46</td>
<td>0.13</td>
</tr>
<tr>
<td>TA</td>
<td>1042123</td>
<td>1134076</td>
<td>1357694</td>
<td>1588493</td>
<td>1848068</td>
<td>2225933</td>
<td>2811424</td>
<td>3290901</td>
<td>3880439</td>
<td>4560344</td>
<td>2373949</td>
<td>0.18</td>
</tr>
<tr>
<td>EMP</td>
<td>12813</td>
<td>13222</td>
<td>13937</td>
<td>13839</td>
<td>14285</td>
<td>14692</td>
<td>15411</td>
<td>17402</td>
<td>19407</td>
<td>21489</td>
<td>15650</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Source: Compiled from the balance sheets of various commercial banks, annual reports, NRB reports and newsletter of Banker’s association from 2009/10 to 2018/2019

Table 1 and line graph 1 shows average annual expenses for the CSR activities is Rs.67.46 million and average total assets were Rs. 2373949.43 million in selected Nepalese commercial banks during the period of 2010 to 2019. In 2010 the total CSR expenditure was Rs. 33.60 million and total assets Rs 1042123.81 million and both amounts increased to Rs. 104.26 million and Rs 4560344.47 respectively in 2019. That represents CSR, total assets and the number of employees is in an increasing trend with average annual growth of 13 percent, 18 percent and 2 percent, respectively every year.

Table 2

Relationship among Corporate Social Responsibility, Total assets & Number of employees

<table>
<thead>
<tr>
<th>TA</th>
<th>CSR</th>
<th>EMP</th>
</tr>
</thead>
<tbody>
<tr>
<td>TA</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>CSR</td>
<td>.744**</td>
<td>1</td>
</tr>
<tr>
<td>NOE</td>
<td>.726**</td>
<td>.423**</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed). N=170

Table 2 Bivariate Pearson Correlation Coefficients of financial performance indicators as dependent variables and explanatory variables were observed for seventeen commercial banks sample firms during the period of 2009/10 through 2018/19. Bivariate Pearson's Correlation Coefficient between two variables CSR and TA for analyzing corporate social responsibility of 170 observations at the 0.05 level (2-tailed).

The result shows that the trend of CSR and total assets have a positive correlation i.e., 0.744 and 0.726 with the number of employees. It indicates that an increase in corporate social responsibility and the number of employees significantly leads to increase the in total assets of commercial banks.

The effect of CSR and Number of Employees on Total Assets

The regression analysis model has been used to explain the relationship among the dependent variable TA proxy of financial performance and explanatory variable trend of CSR and number of employees of the organization as mediating variables. The regression result is obtained using the time series autoregressive procedure in SPSS version 20 to
eliminate the effect of multicollinearity. This can adversely affect choice of predictors and hence the validity of the model (Gujarati, 1995).

**Table 3**  
*Regression Analysis*

<table>
<thead>
<tr>
<th></th>
<th>B</th>
<th>t</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>3.102</td>
<td>27.322</td>
<td>0.00</td>
</tr>
<tr>
<td>CSR</td>
<td>0.481</td>
<td>12.692</td>
<td>0.00</td>
</tr>
<tr>
<td>NOE</td>
<td>0.498</td>
<td>11.939</td>
<td>0.00</td>
</tr>
</tbody>
</table>

$R^2=0.759$, $Adj.R^2=0.756$, $F$-stat=262.980, $F$-sig=0.000 & $D. W=0.884$, $VIF=1.218$

*a. Dependent Variable: Total Assets*

Table 3 represents the regression coefficient of the variables in CSR and employee of the organization in terms of size of the organization as independent variables explain only 76 percent to the TA. The remaining 24 percent is explained by other variables which have not been included here in this study $F$-stat. is 262.980 and $F$-sig. is 0.000, which means the model is fit. There is a positive and significant relationship between TA and trend of CSR as well as the number of employees.

This study employed an econometric model intending to analyze the relationship between CSR and TA.

$$TA= 3.102 + 0.481 CSR + 0.498 NOE + \ldots + \epsilon$$

Where,

- $TA =$ Total Assets
- $CSR =$ Corporate Social Responsibility
- $NOE =$ Number of Employees
- $\epsilon =$ Error term

This model describes the direction and magnitude of the relationship between the dependent variable $TA$ and independent variable $CSR$ with a mediating variable number of employees in the organization. The positive sign of the coefficient shows, the positive impact of CSR and a number of employees on TA. The sign and the absolute value of the correlation coefficient between dependent variable total assets ($TA$) and independent CSR is positive i.e., 0.744 and 0.726, meaning that aggregate CSR and the number of employees of the organization have strong positive relationship on Total assets ($TA$). On the other hand, the regression result shows that the positive beta coefficient of CSR and the number of employees both on total assets i.e. 0.481 and 0.498 respectively, means If aggregate CSR expenses increases by one million, total assets ($TA$) increase by 0.481%. The regression coefficient also shows the presence of regression as the $F$-test is significant.
at more than 99 percent confidence limit. Similarly, the coefficient of determination $R^2$ is 0.759 indicating that 76 percent of the variations in TA are explained by the variation of the regressors included in the model. Finally, D. W=0.884 indicates there is no autocorrelation detected in the sample.

Analyzing the coefficient of the independent variable in the model, the statutes of hypothesis appear as follows.

$H_1$ There is significant positive relationship between CSR and the TA

The positive sign of the coefficient shows, positive impact of CSR on TA. The sign and the absolute value of correlation coefficient between the dependent variable Total assets (TA) and independent CSR is positive i.e., 0.759, meaning that aggregate CSR positively impacts on Total assets (TA). The regression model shows that the t-statistics 12.692 and 11.939 and P-value 0.000< 0.01, significant at 1%, level for CSR and number of employees. So, fail to reject the alternative hypothesis meaning that CSR has a positive significant impact on TA.

Discussions

This study has identified that the components of CSR in Nepalese commercial banks are education and sports, disaster sector, religious activities, socio economic development, health and hygiene sectors and other sectors through the many literatures and disbursement structure of corporate social responsibility. This study is consistency with the study of (Upadhyay et al. 2013).

The size of disbursement in the corporate social responsibility in a total is increasing during the period of study. It was Rs. 33.60 million in 2010 which has been increased progressively to Rs. 104.26 million in 2019. Table no.1 shows on an average, there is an increment of Rs. 0.33 million every year.

The result of correlation coefficient and regressions analysis, TA on CSR shows that a significant positive impact on total assets at 0.01 level with the model of goodness of fit along with other indications $R^2=0.759$, Adj.$R^2=0.756$, F-stat=262.980, F-sig=0.000 & D. W=0.884, VIF=1.218.

The main purpose of this study is to analyze components and size of corporate social responsibility and their relation to TA proxy of financial performance in order to fulfill the research gap in Nepalese context and the decision regarding corporate social responsibility whether affect financial performance or not in Nepalese commercial banks. This study new issues of corporate social responsibility and TA proxy of financial performance in Nepalese commercial banks. There are various CSR practices around the world but there is a great disparity in CSR perceptions across the industry and regions. In this regard various theories were developed regarding corporate social responsibility. This
study has identified components of corporate social responsibility in Nepalese commercial banks are education and sports, disaster sector, religious activities, socio- economic development, health and hygiene sectors and other sectors through the many literatures and disbursement structure of corporate social responsibility which is consistency with the study of (Upadhay et al. 2013),the most common CSR practices in Nepal are education, training, welfare of underprivileged, arts, heritage, culture, association, clubs, trusts, health care, environment, child, women development, religious, spiritual, games, sports, natural and other climates, blood donation, rural development and others(Hou, 2018), education, socio- economic development and health sectors are defined as the sector of CSR in commercial banks and (Narwal,2007),suggests that banks have an objective view-point about CSR activities. They are concentrating mainly on education, health, socio- economic development, contribution to relief, sports, religious activity, promotion of cultural heritage, rural development and tree plantation funds as their core CSR activities and also shows that high contribution in CSR activities high percentage growth in financial performance.

The next objective of this study is to analyze the effect of a CSR on TA in selected Nepalese commercial banks. Study shows a significant and positive association between CSR and TA which is consistent with the study conducted using an enhanced sample, industry -specific control groups and using new statistical tools entitled CSR and financial performance (Cochran et al.1984).The study reveals a significant and positive association between CSR and financial performance (Sun,2012), and the study advocates that the empirical evidence shows the existence of a positive and statistically significant relationship between CSR practices and financial performance (Simionescu & Dumitrescu, 2018).

Conclusions
This study has numerous implications for different business managers and organizations. Results of the study can simplify their decision-making regarding CSR campaign also government official and policy makers, it may provide valuable insights for designing policy instruments in order to create a win-win situation between business organizations & society. Eventually for the academic community, it can contribute providing direction for the future research work in the same area and other areas including other countries.

Also, this study will encourage bank authorities to look positively towards corporate social responsibility. Similarly, future researches should include public companies other than banks. Their contribution to social responsibility may bring a lot of changes in the society. Therefore, it also requires to include more variables and inclusion of more varieties of companies.
The study has a two-fold benefit. To begin with, the aim of this research is to contribute to the current literature by exploring the various components of CSR and the relationship of CSR to financial performance in the Nepalese commercial banking sector. Secondly, the researcher expects that the findings of this study can provide business practitioners with insights into how to influence and motivate their stakeholders through CSR practices and culture. Thirdly, this study helps organizations in predicting the future performance of organizations; allowing management to develop ways of improving CSR strategies; which is strategic issue for firm’s survival, growth and profit maximization in this competitive and dynamic era.

References


