Walking the Talk: Opportunities for Nepali Businesses to be Ethical and Socially Responsible

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Abstract

High performing businesses around the world have realized that business ethics, and more specifically ethical business culture is central to competing and performing effectively in the market. Being ethical and responsible necessitates firms to fulfill all their responsibilities towards stakeholders. Unfortunately, Nepali businesses have fallen short of their obligations. In line with this, the purpose of the study is to examine the status quo on ethics and social responsibility for Nepali businesses. Methodology utilized includes empirical scrutiny of both qualitative and quantitative data. Data from multiple sources also point to the fact that Nepali institutions generally lag far behind their peers in promoting a culture of ethics. Based on scrutiny of the largest Nepali banks, this article makes the sober finding that Nepali businesses have talked the talk on ethics and responsibility, but have failed to translate much of that talk into action. More specifically, top management teams (TMTs) say endearing things on corporate social responsibility that is not followed through with CSR actions downstream. Although the implication of this study is primarily towards Nepal’s banks, it can easily extend to other Nepali businesses with similar business culture. Therefore, it is high time that Nepali businesses ingrain ethics and responsibility into their culture so that they too can minimize missed opportunities and become serious contenders in this competitive world.

Keywords: CSR, culture, ethics, profit, social responsibility
Introduction

“Chase the vision, not the money, the money will end up following you.” – Tony Hsieh, CEO of Zappos. By putting customers first and by reinventing the work culture to put employees in charge, the revolutionary Tony Hsieh of Zappos, the online shoe company, was able to increase revenue from a modest USD 1.6 million in 2000 to USD 1 billion by 2009. At a time when fears of dying from Corona virus were gripping most people, a prominent Nepali businessman, vice chairman of a Nepali conglomerate, was out selling China-made thermal guns (used to check fever in Corona virus patients) at black market prices and arrested. The owner of another prominent Nepali conglomerate and his family members were among several Nepalese businessmen indicted in the Panama Papers for using offshore accounts to launder money (Alecci, 2021). A government communication minister was caught on audio tape negotiating a fat commission with a business agent on a procurement contract for printing services. Instances of unethical conduct like this are unfortunately too many to count and happen too often in Nepal, where robust ethics and exemplary ethical behavior by decision makers is the exception and profit mongering is the norm. Nepali businesses, it seems, are mostly about making a quick buck without getting caught. In a country with exclusively relationship-based governance instead of rules-based governance, unethical business conduct often takes place at the behest of those with formal authority. There is never a dearth of news about unethical conduct from businesses and government stakeholders making the tabloids. Ultimately this has negatively impacted Nepali businesses as it has corroded the trust and goodwill of Nepali businesses and government stakeholders. This, is at a time when businesses around the world are upping the standards of their ethical culture and realizing that being ethical and responsible is good for business (Busch & Friede, 2018; Ethisphere, 2022).

This article examines the nexus between business ethics and responsibility for Nepali businesses by evaluating whether businesses are fulfilling their corporate social responsibility (CSR) obligations. Specifically, I examine two issues related to social responsibility. First, whether top management team (TMT) members’ words on social responsibility translate into concrete CSR actions from their organizations, and second, whether there is a relationship between corporate profits and CSR actions. By analyzing qualitative and quantitative data over 10 years for four commercial banks in Nepal, this study found that TMT’s words on CSR are not necessarily followed through with CSR action. Also, profits are not strongly indicative of CSR actions downstream.
Literature Review

Business Ethics and CSR

Businesses exist to serve the needs of society by offering goods and services. Historically, goods and services were exchanged in a barter system, where goods were exchanged with other goods of similar value, without using a medium of exchange, the money (Humphrey, 1985). Bartering generally done void of the middle man can be taken as the simplest type of exchange. However, business transactions have grown much more complex since and this has increased the scope for unethical behavior by businesses as well. Business ethics “guides the conduct by which companies and their agents abide by the law and respect the rights of the stakeholders, particularly their customers, clients, employees, and the surrounding community and environment” (Byars & Stanberry, 2018). Nepali business ethics and responsibility are pressing social issues that cannot be talked about by leaving the figurative elephant lurking in the background – Buddha. People from around the world flock to Nepal to celebrate and pay homage to Buddha - a towering personality in morality and ethics. However, Buddha and his precepts have been rendered ineffective in the Nepali context as pointed by multiple metrics of market-related institutions as shown in Table 1. Nepal's market-based institutional environment is poor compared to its neighbors India and China on every single index, as can be seen from the table. Nepali businesses cannot remain unaffected by the weak institutional environment in Nepal.

Table 1
Various Indices of Market Related Institutions in China, India, and Nepal.

<table>
<thead>
<tr>
<th>Publisher</th>
<th>Index *</th>
<th>Year</th>
<th>China</th>
<th>India</th>
<th>Nepal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transparency International</td>
<td>Corruption Perceptions Index</td>
<td>2021</td>
<td>66</td>
<td>85</td>
<td>117</td>
</tr>
<tr>
<td>Forbes</td>
<td>Best Countries for Business</td>
<td>2018</td>
<td>49</td>
<td>63</td>
<td>116</td>
</tr>
<tr>
<td>World Intellectual Property Organization</td>
<td>Global Innovation Index</td>
<td>2021</td>
<td>12</td>
<td>46</td>
<td>111</td>
</tr>
</tbody>
</table>

* Lower values indicate better institutional status

The Corruptions Perceptions Index, a ranking of perceived public sector corruption published by Transparency International, places Nepal at 117th place, far behind her neighbors China and India at 66th and 85th position (TI, 2021). Another index indicative of the friendliness of the environment for business, the Best Countries for Business, published by Forbes magazine places Nepal at 116th position, again far behind China and India coming
in at 49th and 63rd position respectively (Forbes, 2018). Global Innovation Index, the ranking of institutional capacity and success in innovation, places Nepal once again far behind China (12) and India (46) at 11th position (WIPO, 2021). All these indices point to weaker market institutions in Nepal compared to her neighbors China and India. Businesses in Nepal consequently operate in an institutional environment that is less robust compared to their neighbors. When market institutions are weak, it becomes difficult to achieve desired outcomes such as efficiency, transparency, and service guarantees. This is because institutions govern the behavior of organizations and individuals through the enforcement of rules, and regulations as well as the alignment of behavior with moral obligations, social expectations, and norms (Maguire & Hardy, 2009; North, 1990). Businesses, their executives, and employees often engage in behavior that is unethical and irresponsible because of multiple reasons, which I discuss next.

First, there is no common code of conduct followed by businesses worldwide. What is considered normal behavior for businesses to engage in varies from country to country. In China, Guanxi is seen as the key to doing business. Guanxi is about trust and mutual obligations between parties, which are based on personal, familial, social, business, and political structures (Wenderoth, 2018). In Guanxi, business people enter into mutual relations of reciprocity and obligation (Vanhonacker, 2004), and the danger is that this leads to issues of conflict of interest and other unethical behavior such as corruption and bribery. While Guanxi is normalized in China, and even expected of businesses, this level of personal relationship is likely seen as a red flag of unethical behavior for businesses in the United States.

Second, the different attitudes and behaviors towards ethics and responsibility by business people are partly due to the governance systems that countries fundamentally follow and promulgate (Wheelen & Hunger, 2012). Developed nations tend to have rule-based governance that promotes strict adherence to the rules and transparency. As a result, there are fewer opportunities to engage in unethical behavior, such as bribery and corruption. On the other hand relationship-based governance is found in developing nations where relationships take precedence over rules, and there is less transparency. As a result, there are higher opportunities for bribery and corruption in such countries. In Nepal, because the governance system falls categorically under relationship-based governance, opportunities for unethical behavior are high. And multiple indices point to consequences that support this point as seen in Table 1.
Yet another possible reason for unethical behavior may be because of differences in values between business people and key stakeholders (Wheelen & Hunger, 2012). For some managers profit maximization at any cost may be the goal, and they may shirk from acting responsibly and ethically to pursue their goals. Behavior that is solely about profit maximization at any cost could eventually condition managers to engage in unethical and illegal actions. Such behavior may be even considered normal by the managers over time, failing to consider that it may be unethical or illegal.

**Corporate Social Responsibility (CSR)**

CSR and CSR accountability are topics of emerging importance in management research (Tamvada, 2020). Although in Milton Friedman’s view, the responsibility of a business is solely to become profitable without deception or fraud (Friedman, 2007), business responsibilities have since grown in scope as well as significance. These days managers are under pressure to fulfill CSR obligations from multiple stakeholder groups (McWilliams & Siegel, 2001). CSR is commonly understood as existing at four levels – economic, legal, ethical, and philanthropic – with economic responsibility forming the foundation upon which legal, and then ethical, and finally philanthropic responsibilities rest (Carroll, 1991). In this article, I define CSR as “company actions that promote social good, which are beyond the immediate interests of the firm and what is required for the firm by law” consistent with other authors (McWilliams & Siegel, 2001; Rodriguez et al., 2006). This means I include in CSR those actions where the company goes beyond mere compliance and engages in efforts that champion a social agenda. Economic and legal aspects of CSR concern maximizing shareholder value and complying with relevant laws and regulations respectively and are not the concern of this study. Therefore, actions such as paying taxes owed to the government, following government rules, or providing timely returns to shareholders are not included in my definition of CSR. Instead, in this study I focus on the remaining two, ethical and philanthropic responsibilities of a business. The ethical responsibility of a business includes fulfilling generally held beliefs about behavior in society (Wheelen & Hunger, 2012). These are actions that society values but are not legally binding. Philanthropic responsibilities include giving back to society, such as funding community health programs, supporting literacy programs, tackling homelessness, etc.

CSR is becoming increasingly important for businesses around the world, in the developed as well as the developing world (Bidari & Djajadikerta, 2020). Also, governments around the world are increasingly making CSR a legally binding issue. Businesses are waking up to CSR regulations that hold them accountable to regulatory institutions (Tamvada, 2020),
and Nepali businesses are no exception. For example, the Government of Nepal's Central Bank, Nepal Rastra Bank (NRB) introduced a regulation requiring banks and financial institutions (BFIs) to contribute at least 1% of net profit towards CSR functions since FY 2016/17 (NRB, 2022b).

**CSR in Nepali Businesses**

Several studies have looked at the issues of CSR in Nepali businesses. CSR has been studied by authors in different contexts - CSR disclosures in banks (Bidari & Djajadikerta, 2020), the effect of organizational culture on CSR - strategy relationships in public, private, and multinational companies (Upadhaya et al., 2018), CSR reporting practices in banks (Upadhyay-Dhungel & Dhungel, 2013) to name a few. However, extant research is unclear about two issues of concern. First, whether managers just talk the talk or walk the talk when it comes to CSR, and second, whether corporate profits translate into concrete CSR actions downstream.

According to Upper Echelon Theory, the top management team (TMT) influences strategic decisions and implementation, including the decision to allocate resources (Hambrick, 2007; Hambrick & Mason, 1984). As such the issues TMTs prioritize and give attention to in their official communication are important from the point of implementation. When TMTs mention CSR in their communication to stakeholders, it signals the importance of CSR to the TMTs. Therefore, I am interested in examining whether members of TMT are true to their words and follow their words with actions. Consequently, I want to investigate the relationship between TMT’s CSR mention and their organization’s CSR spending. We hypothesize the following relationship between TMT’s CSR mention and CSR spending.

**H1. TMT's CSR mention is significantly related to the organization's CSR spending.**

Organizations face pressures from various stakeholders in the society to devote resources and fulfill their demands (McWilliams & Siegel, 2001). Since ignoring the relationship with stakeholders in society can be costly, engaging in CSR activities is one way corporations manage optimal relationships with them. As corporations make a profit, they have more resources at their disposal to expend on important areas. As CSR is becoming increasingly important for organizations around the world, developed or developing (Bidari & Djajadikerta, 2020), it is only reasonable to assume that a portion of the profit goes towards CSR initiatives such as addressing pressing social needs, and bettering the status quo of social issues. Therefore, I hypothesize the following relationship between corporate profit and CSR spending.

**H2. Corporate Profit is significantly related to an organization's CSR spending.**
Research Methodology

A unique data set was prepared for this study by utilizing qualitative and quantitative data. Both qualitative and quantitative data were collected from annual reports of commercial banks in Nepal for the past decade. Annual reports are a bank’s official information prepared for the most important of the stakeholders including the shareholders and the government’s regulatory body. Annual reports are a comprehensive source for getting information about a company in terms of performance, strategy, and governance. Financial statements in the annual reports are checked by independent auditors to ensure an unbiased and accurate representation of the company’s financial reality. Consequently, bank’s annual reports have been used as a valid source of data by researchers (Bidari & Djajadikerta, 2020; Khan, 2010). The period of data is from the fiscal year 2011/12 to 2020/21, i.e. a decade.

Content analysis was used to code TMT mention of specific terms in the annual report. Content analysis is a qualitative data analysis technique used to categorize content (words, phrases, and ideas) from a document, and the coding of content is used to derive frequencies of usage (Stemler, 2000). Qualitative together with quantitative data is analyzed to empirically test the relationship between corporate profits and the corporation’s social responsibility expenses and TMT’s CSR mention.

IBM’s Statistical Package for the Social Sciences (SPSS) Version 23 was the data analysis software utilized in the study. Analytic methods included calculating sample descriptive statistics and Pearson Correlation coefficient for the variables.

Context

Financial sector forms the backbone of a country’s economy and CSR is of paramount importance for the financial sector as a result. In Nepal, the financial sector is one of the biggest sectors of the national economy in terms of the capital market, with the banking and insurance sector comprising more than two-thirds of the capital market (NRB, 2022a). Nepal’s commercial banks have been a dominant financial institution in the society for over three decades. The banking sector in Nepal is therefore not only significant to the economy, but it is also significant in terms of jobs provided and taxes paid to the government. However, existing research is inadequate in answering questions of the obligations and responsibilities of Nepali banks towards the broader society. Therefore, my context is to study social responsibility in the banking sector of Nepal.

Sample

The four largest commercial banks in Nepal without government ownership were included in the study. These banks are the largest in Nepal in terms of two metrics - deposits from
customers and loans provided to the customers - based on unaudited 4th Quarter Data for the fiscal year 2021/22 (NRB, 2022b). Annual reports for the last decade (FY 2011/12 to 2020/21) were accessed through each bank’s official website. This provided data on the last ten years for each of the banks. Sample statistics of the banks are presented in Table 2.

Table 2
Sample Statistics of the Nepali Commercial Banks.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Age (Years)</td>
<td>23.3</td>
</tr>
<tr>
<td>Average Number of Employees (2021)</td>
<td>2,696</td>
</tr>
<tr>
<td>Average Corporate Profit (NPR)</td>
<td>1,972,788,250</td>
</tr>
<tr>
<td>Average CSR Expenses (NPR)</td>
<td>10,084,836</td>
</tr>
<tr>
<td>Average CSR Mention</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Variables

**Corporate Profit.** Corporate profit is operationalized as the net profit in Nepali Rupees (NPR) made by the organization for the fiscal year. Net profit is measured as the amount of money a business earns after deducting all operating, interest, and tax expenses from the revenue earned over a given period. Net profit amount is mentioned in financial statements and highlighted throughout the annual reports. The average net profit of the banks for FY 2011/12 to 2020/21 was NPR 1.97 billion.

**CSR Mention.** CSR mention is operationalized as the number of times the term “social responsibility” is mentioned by TMT in the annual report. Content analysis has been used previously in CSR research (Gamerschlag et al., 2011; Stemler, 2000). More specifically, CSR mention is obtained by counting instances of the exact term “social responsibility” mentioned in three documents within the annual report - the message from the chairman of the BOD, the message from the CEO, and the BOD's report to shareholders. TMT for this article includes the board of directors (BOD) and the chief executive officer (CEO). Instances of deviation from the exact term “social responsibility” are not included in the count for the sake of simplicity. CSR mention is set to 1 at the lowest limit. The average CSR mentioned by TMTs in the banks for FY 2011/12 to 2020/21 was 3.3 times.

**CSR Expenses.** CSR expenses are measured as the amount of money (NPR) spent towards CSR initiatives for the fiscal year by the organization. These expenses are generally listed within the financial report titled “Other Operating Expenses” and/or within the “Corporate Social Responsibility” section of the annual report. Corporations generally mention the taxes
paid to the government among their CSR actions. However, for the sake of this study, obligations fulfilled towards the government, such as taxes paid to the government are not included in CSR expenses. CSR expenses in the study are solely financial costs incurred because of the organization's efforts at altering the status quo for the upliftment of society and the nation. For the calculation of CSR expenses, I lag the time between profit and CSR expenses by 1 year. Therefore, FY 2011-12 net profit corresponds to FY 2012-2013 CSR expenses. The average CSR expense of the banks for FY 2011/12 to 2020/21 was NPR 10.9 million.

Results

Pearson correlation coefficients were calculated between the variables to test the two hypotheses. The correlations for the variables used in the study are presented in Table 3. Results show that the correlation between CSR mention and CSR expenses is not significant (r=0.0, p>0.05). This indicates that there is no relationship found between TMT’s CSR mention and CSR expenses. In other words, it means that TMT’s CSR mention does not translate into actual CSR efforts. Therefore, Hypothesis 1 is not supported. Results also show that the correlation between corporate profits and CSR expenses is moderately positive (r=0.57) with a significance of p<0.05. Even without a time lag of 1 year between CSR expenses and net profit, the correlation between the two variables stays similar with r=0.54 and a significance of p<0.05. Therefore, Hypothesis 2 is supported. This means that the net profit of the banks is moderately related to their CSR expenses. So, there is a relationship between net profits and money spent on CSR actions by banks.

Table 3

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. CSR Mention</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Corporate Profit</td>
<td>-0.21</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>3. CSR Expenses</td>
<td>0.00</td>
<td>0.57</td>
<td>1.00</td>
</tr>
</tbody>
</table>

**Bold** value indicates significance at the p<0.05 level

DISCUSSION

In this study, I sought to answer questions that have not received enough attention in CSR research. Whereas prior CSR research in Nepal has looked at the nature of corporate social disclosures (Bidari & Djajadikerta, 2020), CSR reporting practices (Upadhyay-Dhungel & Dhungel, 2013), CSR and strategy relationship (Upadhaya et al., 2018), and the
budget allocation for CSR (NRB, 2021), so far there has been no research connecting manager’s words with actions. Therefore, first I tested empirically whether managers’ words on CSR are followed through with CSR actions. Actions speak louder than words. Words are meaningless if not followed through with action. Too often managers make promises that turn out empty, and over time such behavior erodes the credibility and goodwill of their companies. Ethically responsible managers should follow their words with actions. My study using content analysis of managers’ words from annual reports found that in the Nepali bank context, managers’ words do not translate into concrete actions when it comes to the organization’s CSR. Second, I examined whether corporations’ profits make them more likely to spend on CSR activities. To answer this question I examined whether profits were directly related to CSR expenses in the Nepali bank context. Using a one-year lagged measurement of CSR expenses, I found that there is a moderate relationship between net profit and CSR expenses.

**Conclusion**

Culture in Nepali business is more often checkered with instances of unethical behavior than it is not, and popular media reminds us of this almost every day. However, research shows that being ethical and responsible is good for business (Busch & Friede, 2018; Ethisphere, 2022). This research suggests that Nepali businesses have ample room for improvement when it comes to being more socially responsible. More specifically, this study found that managers in Nepali banks do not follow their words with actions when it comes to CSR. Also, profitability of Nepal banks did not necessarily make them highly charitable; instead there was a moderate relationship between profitability and CSR expenses. Ideally, in an organizational culture where ethics and CSR are prioritized, managers would follow their words with actions, i.e. they would walk the talk on matters including CSR. Also, higher profitability would lead to more giving, i.e. profits would be distributed fairly to all the stakeholders through higher CSR spending. If Nepali businesses become more ethical and responsible, it can be a win-win for everyone - the businesses and their stakeholders.

Like any study, this study too has its limitations, and this signifies further room for improvement for forthcoming studies. First, this study is based on data from four commercial banks in Nepal for over a decade. The sample size and context is a possible limitation of this study. New research can incorporate a bigger sample size and a wider context to test the hypotheses and see if the results are robust to the new data. Second, I use content analysis as a way of capturing the manager's attention. This can however also be done through face-to-face interviews. New research can use both content analysis and interviews to supplement
each other. Another possible limitation is that the independent and dependent variables both come from the same source, the bank’s annual report. However, in my case, this is a non-issue because the independent and dependent variables are temporally separated, and there is no sampling bias to affect the results.

**Implications**

The immediate implications of this study are to Nepali banks, one of the important pillars of the national economy. However, the implications can easily extend to other Nepali businesses with similar business culture. Ethics and CSR are important for modern businesses to succeed and prosper (Ethisphere, 2022) and based on this study’s findings one can only surmise whether Nepali businesses are lacking in this context. Bluntly speaking businesses in Nepal are in dire straits, and for reasons too many. One major reason that starkly stands out is that Nepali industries across the spectrum struggle to invest in research and offer innovative products and services compared to their peers in neighboring countries (WIPO, 2021). However, business culture plays a key role in a business’s performance and this includes being ethical and socially responsible. More specifically, whether a business culture is rooted in principles of ethics or not determines the business's ability to attract and retain customers, employees, and stakeholders, and increase performance. Managers should take note of this and set an ethical and responsible culture, be willing to share good fortune with all the stakeholders, and follow up on promises made.
References


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