

## **Corporate Social Responsibility and Financial Performance of Commercial Banks in Nepal**

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### **Abstract**

*Corporate social responsibility plays a very important role in the banking sector and it is the most valuable asset of any. The funds collected from the account holders are used for organization. When profitable banks perform the long last, they perform the task better. Because now a days dynamic business environment, where banks are presented with challenges regarding profit in the banking sectors. This paper analyze the effects of CSR on the financial performance of commercial banks in Nepal. The target population of the study has been 20 commercial banks out of only 10 banks are sample using the judgmental sampling technique. All secondary data collected from sample banks through annual reports between 2015 and 2023. Causal comparative research design are applied to analyze. Analyze is carried out by SPSS 26 version. Dependent variables return on assets, return on equity. Whereas the independent variables are cultural heritage, education, health, financial literacy, and environmental protection. The finding of the study is cultural heritage, and educations are positive and environmental protection, and health are negative significant relationship between ROA and cultural heritage, health, financial literacy, and education are significant relation with ROE. Similarly cultural heritage, education, health, and environmental protection are significant impact on ROA and cultural heritage, education, health, and financial literacy are significant impact on ROE.*

**Keyword:** Commercial banks, corporate social responsibility, cultural heritage, education, environmental protection, financial literacy

### **Introduction**

Corporate social responsibility (CSR) represents the idea that institutions should run their end carry out activities in ways that reflect values and standards that benefit society as a whole and also the Natural Environment. The NRB guidelines identify four main CSR priority areas: education, Environment, cultural heritage and health. However, CSR goes

well beyond these specific fields, including financial education, emergency support, improvement in infrastructure, environmental sustainability, donations, and sponsorship programs, and other forms of community support.

The definition of corporate social responsibility was therefore considered to be a framework of principles, social and moral values response mechanisms, policies, and programs, and measurable outcomes for business organizations execute when interacting with society. The words corporate social responsibility come into play. Corporate Social Responsibility a combination of merging the ideas of corporate, social, and responsibility. CSR covers managing relationships with a institution's stakeholders through ethical and responsible practices. Responsibly refers to treating key stakeholders in a manner that conforms to globally accepted standards.

Carroll (1979, 1991, 1999) has noted that the 19th century saw a great rise in a focus on concepts of corporate social responsibility and applications in the European Union and globally. Throughout the 20th century, corporate responsibility efforts focused mainly on homegrown firms in major countries. As of today, corporate Social Responsibility is strong in developed countries; in countless examples of innovation in addition to growth, are also being witnessed in the growing markets. CSR is comprised of activities that companies do beyond the laws. For the successful implementation of the CSR activities, “Its core principles will need to integrate with the goals of the business, while the employees will need to these ideals (McWilliams & Siegel, 2001).

CSR is an established notion in the banking industry. It significantly influences financial performance measures including earnings per share, net income margin, dividend per share, return on assets, return on equity, net interest income and total organizational profits. These financial metrics provide information about the organization's benefits, Limitations and overall capability, it gives quite a well-rounded view of where it stands in the sector.

The focus of this research has been on understanding the impact of corporate social responsibility on the financial performance of Nepalese commercial banks. Financial tools used in this study are return on assets and return on equity, because these measures assess the CSR expenditures incurred by the selected commercial banks. Moreover, the study gives valuable insights into corporate social responsibility to different audiences such as citizens, government agencies, oversight organizations, workers, stakeholders, competitors, customers, suppliers, scholars, students, and other parties.

The main objective of the study have been to examine the role of corporate social responsibility in the financial performance of Nepalese commercial banks. The study uses a sample of eleven commercial banks randomly chosen from among the total of twenty operating in Nepal. The performance of the selected banks in terms of finance is divided into two groups: the independent factors, which include cultural heritage, education, environment, financial reading, health, and literacy, and the dependent factors, which

include return on assets, return on equity. Several crucial issues to be investigated are highlighted below.

The dependent and independent variables that are CSR-related and were used in this research to determine the impact on the: financial performance of commercial banks in Nepal. It aims to fill the knowledge gap of addressing specific research questions and reflecting upon difficulties found in current yearly reports Corporate Social Responsibility (CSR) refers to the concept that companies should conduct their operations in a manner that reflects values and principles beneficial to society and the environment. The NRB directive outlines four primary CSR focus areas: education, environment, cultural heritage, and health. However, CSR extends beyond these categories, encompassing areas such as financial literacy, disaster relief, infrastructure development, sustainability, charitable donations, sponsor-ships, and other community contributions.

### **Literature Review**

Yadav (2014) studied how corporate social responsibility is related to the position of Indian corporations. The research used a primary method of conducting a survey to gather data from a total of 100 consumers. The findings revealed that for those companies that take up socially responsible business policies. The practices adhere to upright values and raise their reputation, which enhances their economic results.

Djalilov et al (2015) contention that “corporate social responsibility is the business” is based on the idea that as the world approach which has a positive effect on the performance of banks in developed, developing, and transition countries economies. For CSR to be effective, this practice should be continued for a long period and should be in line with total strategy of the bank. The study showed a negative correlation between return on assets and return on equity with CSR for the two periods, implying that banks in transitional economies, as opposed to stable ones, tend to focus more on philanthropy economies. The results confirm the reciprocal relationship between CSR and Banking Performance.

Hossain and Khan (2016) found corporate social responsibility (CSR) in the banking sector, focusing on Hong Kong and Shanghai Banking Corporation (HSBC) Limited. The study selected five locations of HSBC at random, using 45 subjects for sampling. The data was collected from the year 2010 to 2014 to identify CSR investment patterns. Mathematics was also utilized for assessing the expansion to CSR expenditure in different sectors such as education, environment, culture, and other sectors. The An investigation revealed that the determinants of quality of life, including education, environment, culture, and positive links to the bank’s economic performance. CSR among Nepalese commercial banks represents the required and voluntary commitment of banks to allocate no less than 1 percent of their net earnings toward initiatives that support Social welfare, financial inclusions, environmental conservation, and community growth are some of the key areas where the program has the ability to intervene.

prescribed by Nepal Rastra Bank. CSR in these Nepalese institutions signifies the fulfillment of responsibilities to stakeholders - customers, staff, communities, and society-through education, healthcare, and environmental causes, along with economic progress for all. CSR in Nepalese commercial banking represents social responsibility on the part of banks for national advancement.

Ashraf et al. (2017) examined the impact of corporate social responsibility (CSR) on performance of banks in various Asian countries. The results of the model used are in line with the findings of past literature findings, with all elements supporting return on assets, suggesting that it performs well for this study. In addition, return on equity shows significant positive correlation role of corporate social responsibility.

Dutt and Grewal (2018) conducted a research to analyze corporate social role in the Indian banking system, focusing on SBI. This research was both Being descriptive and exploratory in nature, it involves primary as well as secondary data collection methods. It focuses analyzed data from fiscal years 2014 to 2018, with variables including CSR healthcare investments, education, environmental conservation, skill development, and livelihood development. This report examines types and expansions in SBI's CSR Expenses

Simionescu and Dumitrescu (2018) analyzed the empirical link between the corporation social responsibility activities and financial performance. In CSR activities, examined included improvements to social and economic development, health, as well as issues related to education. Results demonstrate the positive and statistically significant relationship between CSR practices and financial performance relationship.

Naik (2020) examined the impact of corporate social responsibility on financial outcomes, based on the "core assumption that CSR and financial success are related. Return on assets and return on equity functioned as the dependent variables in this research. The research focused on ten leading firms selected from 100 firms between the years 2014 and 2017. An evaluation, employed the regression methods on the given information. The most notable findings found that the CSR-financial performance linkage is reliable and statistical Significant, offering possible benefits to varying parties.

Nguyen et al. (2022) conducted a study on Vietnamese commercial banks and found that corporate Social responsibility spending and reporting have a positive impact on financial performance in a bank. Results. CSR's positive impacts on the conservation of the environment and the workers were also revealed through the study. Obligations, although there was no significant effect on the community roles.

Bikrant and Rawat (2023) also researched the relationship between corporate social responsibility (CSR) and financial performance in Indian companies. This study explores what motivates CSR activities, the approaches used for CSR execution, and how the CSR practices relate to a companies' financial achievement. It offers very crucial insight for businesses, Policy makers and stakeholders who seek to incorporate CSR into their practice.

Findings reveal a complicated relationship between CSR and measures of financial performance. The study means CSR positively influences return on assets and return on equity.

Li et al. (2024) conducted a study on corporate financial performance (CFP) in China, highlighting the positive association between adopting corporate social responsibility (CSR) practices and government assistance. The results showed a non-linear relationship between CSR and CFP, with characteristics such as reputation, productivity, and referral business, affecting this relationship. The impact of CSR on financial performance of companies varies according to CSR implementation levels. The study appears to show that there are higher levels of creativity and logic in theoretical there must be approaches made to better comprehend the possible nonlinear relationship of CSR and corporate financial performance.

It investigated the dependent and independent variables of CSR-related issues on the financial performance of commercial banks in Nepal. The paper aims to address a research gap by dealing with specific topics and highlighting challenges arising from recent annual reports.

### Methodology

This research examined the impact of corporate social responsibility (CSR) and financial performance of Nepali commercial banks using a descriptive and causal-comparative research design. Between the years 2015 and 2023, the secondary data for conducting the quantitative study have been collected based on the annual reports of specific banks. Financial performance ratios such as the return on asset and return on equity are obtained from such reports, and such reports also analyze CSR initiatives. Areas such as health, education, environment, financial literacy, and culture. An ordinary least squares regression model has been applied to analyze the data, and Windows 2012, The calculations have performed in Excel, SPSS version 27, and visits have been made to relevant branches of Nepal's commercial banks when CSR data is unavailable. The study only reviewed commercial banks in Nepal, while other types of banks have excluded. Ten of the nation's twenty commercial banks are selected through non-probability judgment sampling. Banks considered for the study included Agricultural Development Bank, Citizens Bank Limited, Everest Bank Limited, Himalayan Bank Limited, Kumari Bank Limited, Laxmi Sunrise Bank Limited, Machhapurchhre Bank Limited, Nepal SBI Bank Limited, NMB Bank Limited, Sanima Bank Limited.

### The Model

The following econometric model is utilized to achieve the study's goal.

$$y = \alpha + \beta x + \varepsilon$$

Where:

X is the explanatory variable vector,  $\varepsilon$  is the error term, Y is the outcome variable,  $\alpha$  is a Constant, and  $\beta$  is an explanatory variable coefficient.

These are the regression models:

$$ROA = \beta_0 + \beta_1CH + \beta_2E + \beta_3EP + \beta_4FL + \beta_5H + Et \dots\dots\dots I$$

$$ROE = \beta_0 + \beta_1CH + \beta_2E + \beta_3EP + \beta_4FL + \beta_5H + Et \dots\dots\dots II$$

Where,

ROA = Return on Assets

ROE = Return on Equity

CH= Cultural Heritage

E= Education

EP = Environmental Protection

FL= Financial Literacy

H = Health

$\beta_0$  = Intercept

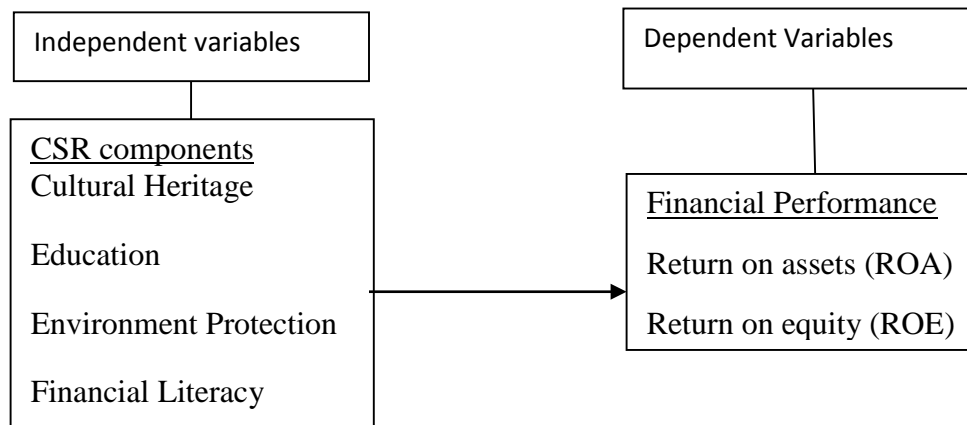
$\beta_1$  to  $\beta_7$  = Coefficient parameters

Et = Error term

### ***Conceptual Framework***

Theoretical framework describes a conceptual model of how various aspects are connected to one another. The above-mentioned approach for deriving semantic representations will now be applied to the identification of the ‘corporate social’ part of the responsibility initiatives in the areas of charitable donations, legal expenses, employee health insurance, advertising, entertainment, and disaster relief. Furthermore, the framework shows there is a strong correlation to improved financial performance and participation in CSR activities. Education, health, finance, and environment protection, people, and planet, are considered the four key pillars of corporate social responsibility. The Nepali commercial banks provide voluntary CSR reporting

Malik and Nadeem (2014) investigated the impact of corporate social responsibility (CSR) on Financial performance of Pakistani banks. CSR is driven by factors which remain independent such as social welfare, health, education, and donations. ROA, ROE, NPM, and EPS are utilized for measuring financial performance. On the same note, Ashraf et al. (2017) examined the effect of CSR on the performance of financial institutions both theoretically performance of Asian banks. Social welfare, education, health, and protection, and public donations were the independent factors; ROA, ROE, EPS, and PER were the dependent variables. By regression analysis and correlation, in researches to examine the effect of CSR on the performance of banks.

**Figure 1 .Conceptual Framework**

Source: Malik and Nadeem(2014), and Ashraf et al. (2016).

### Descriptive Analysis

The statistical procedures that refer to the explanation of data activities or fundamental traits are known as description statistics. The process further encompasses estimation, significance testing, and trend analysis by mean, standard deviation, and maximum and minimum values.

Table 1. *Descriptive Analysis of Variables*

Variables	Mini	Maxi	Mean	Std. Dev
ROA	0.14	3.12	1.48	0.48
ROE	3.43	24.53	13.89	4.34
CH	0.00	17.83	11.17	5.08
E	9.00	18.11	13.95	1.89
EP	0.00	17.96	10.86	4.77
FL	0.00	17.85	11.84	4.71
H	9.13	17.59	13.37	2.42

Note: Annual Report of Sample Banks

In this table, there are five variables, namely cultural heritage, education, environmental protection, financial literacy, and health. These variables are set with a certain range and minimum and maximum scores ranging from 0.00 to 9.13 and 3.12 to 24.53, including significant variation across each variable. A positive outlook is indicated with mean scores of 1.48 for ROA and 13.89 for ROE, suggesting positive conditions. Deviations are recorded with a range from 0.48, recorded under ROA, and 5.08 for cultural heritage. A relatively high deviation is recorded under cultural heritage, suggesting more divergent views among

people compared with those having more consistent outcomes, including those concerning financial performance. A positive sentiment is observed across the independent variable.

This is table show of the five variables along with their corresponding minimum, maximum, mean, and standard deviation values. The values for ROA range from 0.14 to 3.12, with a mean of 1.48 and a standard deviation of 0.48. This indicates that there is a high level of financial performance. The results for ROE range from 3.43 to 24.53, with a mean of 13.89 and a standard deviation of 4.34. This shows that there is stronger financial performance. The results for cultural heritage range from 0 to 17.83, with a mean of 11.17 and a standard deviation of 5.08. This shows that there is a positive perception of the banking sector. Likewise, all other variables illustrate that there is a strong position for the banking sector in Nepal.

### Correlation Analysis

Table 2. *Correlation Analysis of Dependent and Independent Variables*

Variables	ROA	ROE	CH	E	EP	FL	H
ROA	1						
ROE	.696**	1					
CH	.487**	.458**	1				
E	.448**	.460**	.280**	1			
EP	-.401**	-0.19	-.351**	-0.106	1		
FL	0.18	.317**	0.164	.199*	-.291**	1	
H	-.577**	-.587**	-.415**	-.271**	.328**	-.205*	1

Correlation matrix shows the result of correlation between the explainable variables and the explanatory variables. Correlation matrix shows the result of the correlation of the dependent variables to the independent variables. CH (.696\*\*), E (.448\*\*) have strong positive significant relation with ROA, EP (-0.401\*\*) H (-.577\*\*) have moderate negative significant relation with ROA whereas FL (0.18) show positive insignificant relation with ROA. Whereas on the same pattern based on ROE, CH (.458\*\*), E (.460\*\*), FL (.317\*\*) show moderate significant positive relation whereas H (-.587\*\*) show significant negative relation whereas Env. (-0.19) show negative insignificant relation to ROE. Moreover, more variables show positive significant relation to ROA & ROE.

### Regression Analysis

Table 3. *Regression Analysis of Variables*

Variables	B	T	S	VIF
Constant	1.50	3.65	0.00	
CH	0.02	2.31	0.02	1.34
E	0.07	3.60	0.00	1.15
EP	-0.02	-2.37	0.02	1.27



FL	0.00	-0.51	0.61	1.14
H	-0.07	-4.33	0.00	1.32
<b>R<sup>2</sup> = 0.50</b>	<b>Adj. R<sup>2</sup> = 0.48</b>	<b>F = 18.77</b>	<b>P = 0.000</b>	

The table below demonstrates the regression analysis between the independent variables and the return on assets (ROA) as the dependent variable. The results show that the cultural heritage (CH) and educational (E) factors have a positive and significant relationship with the ROA, and the environmental protection (EP) and health (H) factors have a negative and significant relationship with the ROA. The financial literacy (FL) factor has a positive but insignificant relationship with the ROA. The VIF value for all the factors reaches below 10, which implies the absence of multicollinearity problems in the analysis. The R-squared value of 0.50 indicates the determination coefficient, which measures that 50% of the ROA variation can be explained with the help of the variables in this regression model. The adjusted R-square value of 0.48 represents the determination coefficient, which measures the 48% explanation of the ROA variation, after considering the number of variables. The F-statistic of 18.77 gives the significance of the model, and its p-value of 0.000 indicates the significance of the model, which means at least one of the variables predicts the ROA significantly.

Table 4. *Regression Analysis of Variables*

Variables	B	t	Sign.	VIF
Constant	10.75	2.91	0.01	
CH	0.19	2.56	0.01	1.34
E	0.60	3.34	0.00	1.15
EP	0.09	1.25	0.21	1.27
FL	0.16	2.22	0.03	1.14
H	-0.76	-5.07	0.00	1.32
<b>R<sup>2</sup> = 0.50</b>	<b>Adj. R<sup>2</sup> = 0.48</b>	<b>F = 18.88</b>	<b>P = 0.00</b>	

This table shows the results of the regression between independent variables and return on equity as the dependent variable. Cultural heritage, education, and financial literacy have a positive impact, which is significant, on ROE, while health has a negative and significant effect. Environmental protection positively affects ROE but insignificantly. All the VIF values are less than 10, so there is no multicollinearity effect. The R<sup>2</sup> value of 0.50 explains that the model variation in ROE explained by independent variables is 50%. The adjusted R<sup>2</sup> of 0.48 shows that after adjustment for the number of variables, 48% variation in ROE explained by the overall model. The F-statistic with a value of 18.88 and a p-value of 0.00 shows the significance of the overall model. Since the p-value is 0.000, the overall model is

significant. This implies that at least one of the independent variables is a significant predictor of ROE.

### **Discussion**

This research work is conducted to examine the effect of corporate social responsibility on financial performance of commercial banks in Nepal. It covered two dependent variables and five independent variables. It analyzed their effect and relationship. It has been found that financial literacy has no effect on return on assets (ROA) and return on equity (ROE). The results have been found to be in accord with various researches carried out by Husted & Salazar (2006), Djalilov et al. (2015), Naik (2020), Bikrant & Rawat (2023), and many more relative studies. It has been found that both returns on assets and returns on equity have a direct relationship with corporate social responsibility (CSR). Hypothesis of this research work matches to Hossain & Khan (2016) and Rai (2019) regarding direct relationship between independent and dependent variables.

Studies conducted by Hossain & Khan (2016), Ashraf et al. (2017), Simionescu & Dumitrescu (2018), and Rai (2019) revealed a positive significant relationship between education and return on assets. Later, Ashraf et al. (2017) found a negative significant relationship between education and return on equity. From the study, the results agree with literature, as education has been found to be positively significant to the financial performance of the firm. Furthermore, the study by Hossain & Khan (2016) as well as Nguyen et al. (2022) revealed a positive significant relationship between environmental protection and return on asset, whereas Ibrahim (2021) revealed that environmental protection has a positive, insignificant impact on both ROA and ROE.

### **Conclusion**

Corporate social responsibility (CSR) is yet to develop significantly as a concept, especially within countries that are underdeveloped. Without the ability to at least recoup their outlays, there is no need for a business to consider importance to CSR. This paper explores the impact that CSR has on the financial performance of commercial banks within Nepal. From the research, it is found that CSR programs such as those related to cultural heritage, education, environmental, financial, as well as health, have a significant impact, especially on the financial performance measured as return on assets and equity. As a conclusion to this paper, the contributions that CSR make are important to the banking sector, as they promote economic development rather than financial planning. This paper increases knowledge related to the financial strategies adopted by commercial banks operating in Nepal. Future research studies related to CSR programs affecting the financial performance of commercial banks have also been made possible by this research. From this research, it is found that the impact that CSR has on financial performance varies among commercial banks operating within Nepal.

## Scope of Future Research

Indeed, the increased profitability of banks may help in ensuring smooth functioning. This research particularly concentrates on the role of corporate social responsibility in ensuring profitability. The research will particularly concentrate on the role of the discussed factors in a very straightforward manner. On the other hand, there are many future research areas that may particularly focus on the discussed role from a different point of view and may particularly focus on a different field using the same concept. Moreover, there are many future research areas that may particularly focus on the role of the discussed factors together with many other factors in the study. Moreover, the role of the discussed factors in the study may particularly focus on a very interesting role concerning the difference between the discussed factors and others.

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