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Corporate Social Responsibility and Financial Performance in Nepalese Commercial Banks

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ABSTRACT

This study aims to identify the relationship between corporate social responsibility and financial performance of commercial banks in Nepal. Out of the 28 commercial banks under the population, only 6 banks were selected as the sample for the study through purposive sampling technique comprising 2 government owned, 2 joint venture and 2 private commercial banks covering financial year ranges from 2016/17 to 2018/2019. The results indicate that CSR exerts positive impact on financial performance of the Nepalese government owned banks and provides great insights for management, to integrate the CSR with strategic intent of the business. In contrary it revealed negative impact on financial performance in joint venture banks. Furthermore CSR have significantly low positive impact on financial performance. The study concluded that the relationship between CSR and firm financial performance differs in every category of Nepalese commercial banks. This study can be used for further research regarding corporate social responsibility and financial performance in cross banking sector as well as cross country comparisons.

Key words: Corporate social responsibility; Financial performance; Commercial banks; Earnings per share.

Introduction

The role of business has evolved from a classical view of profit maximization to a contemporary view of social responsibility over the last few decades. Corporate social responsibility (CSR) has received special attention in the business environment and has become an integral part of business practice. CSR is a form of self-regulation and can be adopted by an organization as a part of their business model (Sheehy, 2012) and makes a company socially accountable to itself, its stakeholders and the public. A socially responsible business is expected to act in a way that is ethical, contributes anciently to minimizing the harms of the business operations and gain the maximum benefit associated with socially responsible goods and services (Sheehy, 2014). CSR-related activities include a firm's participation in cause marketing, donations and charity, social welfare, disaster relief, pollution control and transparency, which benefit the organization and add to the firm's long-term survival in the market. European Commission (2001) defined corporate social responsibility as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on the voluntary basis. According to Commission of the European Communities, Green Paper (CECGP, 2001), CSR has been structured in internal and external dimensions. The internal dimension is composed of four components: human resources management, health and safety concerns, adaptation to change and management of environmental impacts, and natural resources. Similarly the external dimension is also composed of four components: local communities, business partners (suppliers and consumers), human rights, and global environmental concerns. From the reputation perspective, an organization's communication with external parties about its level of CSR may be helpful to build a positive image with customers, investors, bankers, and suppliers (Fombrun & Shanley, 1990). Frederick et al. (1992) stated that organizations must be responsible for their actions on the environment. Furthermore (Adhikari et al. 2016) revealed that economic domain, which is followed by philanthropic, ethical and legal domains of CSR, is highly active. The study further stated that, in both qualitative and quantitative ratings, economic domain of CSR is predominant.

In the past, the purpose of the organizations was to raise the shareholders' value and earn a profit, but nowadays, organizations cannot exclude the community from their operations. At the same time, stakeholders are demanding that corporations should be socially and environmentally friendly (Oeyono et al. 2011). The corporate world can't succeed without taking cognizance of their immediate society (Maqbool & Zameer, 2018). Moreover

(Barnett, 2016; Choongo, 2017) identified that, CSR equips firms to build corporate image, gain legitimacy, adapt to opportunities, gain protection against external challenges and threats and maximize profits. Mishra & Suar (2010) argued that if one of such companies engages more in CSR than the other, consumers see such company's products to be better as there is one known positive thing associated with that firm than its counterpart. According to Barnett (2016), firms that gain favors of their stakeholders to sell their products for more and obtain their inputs for less leads to higher financial performance of such firms. Awan & Akhtar, (2014); Lee & Jung, (2016) investigated positive link between CSR and financial performance of firms. In contrary (Balabanis et al., 1998; Cortez et al., 2009) argued that higher investment in CSR leads to additional costs which put the firm at a disadvantage point against its competitors. This argument favors the classical view of CSR. Furthermore (McWilliams & Siegel, 2000; Hing, 2003) stated that CSR has no significant impact on financial performance. The financial statements as well as the annual reports of banking sector indicates that, banking sector of Nepal are also involving in different dimensions CSR activities. Corporate social responsibility is taking strong roots in developing countries including Nepal. Adhikari (2012) identified that the bank's CEO conditionally supports CSR and only profit making company can resume CSR activity. According to (Kurokawa & Macer 2008) the relationship between CSR and firm financial performance differs in every region and every industry. In this context the study aims:

- To identify the relationship between CSR and financial performance of Nepalese commercial banks.
- To analyze the impact of CSR on financial performance in different category of commercial banks.

Methodology and Results

The study has focused to identify the relationship between CSR and financial performance of Nepalese commercial banks. In this regards, the study has applied descriptive as well as causal comparative research design. Out of the 28 commercial banks under the population, only 6 banks were selected as the sample for the study through purposive sampling technique those have mentioned CSR expenses in their financial statements during 2016/2017 to 2018/2019 financial year. Data of the 2016/2017 to 2018/2019 financial years are used due to data availability and the sample has been comprised with 2 government owned, 2 joint venture and 2 private commercial banks. The study represents 21.42% commercial banks (6/28) which is enough to go for an analysis (De Vanus, 1996). Data on CSR and financial performance have been collected from annual reports of the banks representing the secondary sources. Earnings per share (EPS) is the accounting based measure that is used as an indicator of the bank's financial performance in this study. Descriptive as well as inferential statistics have been applied for the analysis of relevant information. To identify the linear relationship between CSR and financial performance in Nepalese banking industry, a linear regression model has been applied having dependent and independent variables. The regression model is represented as follows:

$$\text{Fin_P} = \beta_0 + \beta_1 \text{CSR} + \dots + e_t$$

Where: Fin_P = EPS (Earnings per share), CSR = Corporate social responsibility and e_t = error term

Table 1 Frequency and percentage of sample banks

Banks	Status	Frequency	Percentage (%)
Rastriya Banijya Bank Limited	Government owned	2	33.33
Agriculture Development Bank Limited			
Himalayan Bank Limited	Joint venture	2	33.33
Nepal SBI Bank Limited			
Bank of Kathmandu Limited	Private	2	33.33
Global IME bank Limited			
Total		6	100

Table 1 indicates equal number of the sample banks from each groups has been taken for the study and respective percentage due to the data availability of CSR expenses on their respective financial statements. According to table 2 the highest amount of Rs. 21873204.00 and lowest amount of 343108.00 as CSR expenses has been made by respective sample banks during the study period. The mean value of CSR expenses and EPS represents 7148410.55 and 8.95111 respectively followed by standard deviation of 6719275.70868 and 8.95111.

It reveals huge deviation in CSR expenses and EPS.

Table 2 Descriptive statistics

	Minimum	Maximum	Mean	Std. Deviation
CSR	343108.00	21873204.00	7148410.5556	6719275.70868
EPS	19.46	56.04	30.8928	8.95111

Table 3 presents sector wise CSR expenses and the EPS of the sample banks. The table indicates that government owned banks have contributed highest amount in CSR expenses and earned highest EPS. In contrary, the private banks have minimum contribution in CSR expenses followed by minimum EPS. The mean value of CSR expenses seems high in joint venture banks while low in private banks. In the context of EPS, the mean value appears high in government owned banks followed by joint venture and private banks. The standard deviation of CSR expenses appears high in government owned banks followed by private and joint venture banks.

Table 3 Descriptive statistics of sample banks by sector

Banks		Minimum	Maximum	Mean	Std. Deviation
Government Owned	CSR	950269	21873204	7489407	8646366
	EPS	30.26	56.04	38.33	9.83
Joint Venture	CSR	2032914	15769842	8943750	5596220
	EPS	23.11	37.13	31.08	5.64
Private	CSR	343108	15252615	5012075	6159870
	EPS	19.46	26.79	23.27	2.79

Table 4 presents the relationship between CSR expenses and EPS of the whole sample banks. The coefficient 0.393, at 95 percent level of confidence, indicates weak linear relationship among CSR expenses and EPS. Furthermore table 5 presents the sector wise relationship between CSR and EPS.

Table 4

Correlations		
	EPS	CSR
EPS	1	
CSR	0.393*	1

*Sig. =5%, **Sig. =10%

According to table 5 the correlation coefficient .704 of government owned banks, at 95 percent level of confidence, indicates strong positive linear relationship between CSR expenses and EPS while in private banks it seems moderate positive linear relationship. In contrary joint venture banks have weak linear negative relationship at 90 percent level of confidence.

Table 5

Correlations			
	CSR -GOVT	CSR-JVT	CSR-PVT
CSR -GOVT	1		
EPS-GOVT	.704*		
CSR-JVT		1	
EPS-JVT		-.332**	
CSR-PVT			1
EPS-PVT			.474*

*Sig. =5%, **Sig. =10%

Table 6 presents model summary of whole sample banks at 95 percent level of confidence. The value of R square indicates that approximately 16 percent EPS are explained by CSR expenses.

Table 6 Model summary

	β_0	β_1	R Square	F
Value	27.146*	5.241E-007*	0.155	2.930*

*Sig. =5%, **Sig. =10%

Regression equation:

$$\text{Fin_P} = 27.146 + 5.241\text{E-}07\text{CSR} + \dots + \text{et}$$

The β_1 coefficient 5.241E-07 of whole sample banks indicates the positive impacts of CSR expenses on EPS. It means in every millions of CSR expenses may lead 0.524 percent on EPS at 95 percent level of confidence. The sector wise model summary and impacts is presented in table 7.

Table 7 Model summary by sector

		β_0	β_1	R Square	F
Government Owned	Coefficients	32.338*	8.004E-007*	0.496	3.934*
Joint Venture	Coefficients	34.070*	-3.349E-007**	0.11	0.496*
Private	Coefficients	22.197*	2.141E-007*	0.224	1.157*

*Sig. =5%, **Sig. =10%

Regression equations:

$$\text{Government Owned Banks: Fin_P} = 32.338 + 8.004\text{E-}007\text{CSR} + \dots + \text{et}$$

In government owned banks, the EPS is explained by CSR expenses by 50 percent approximately. Furthermore the β_1 coefficient 8.004E-007 indicates the positive impacts of CSR expenses and EPS. Similarly that in every millions of CSR expenses may lead 0.804 percent on EPS at 95 percent level of confidence.

$$\text{Joint Venture Banks: Fin_P} = 34.07 + -3.349\text{E-}007\text{CSR} + \dots + \text{et}$$

In joint venture banks, the EPS is explained by CSR expenses by only 11 percent. Furthermore the β_1 coefficient -3.349E-007 indicates the negative impacts of CSR expenses on EPS. It means, in every millions of CSR expenses may lead to decrease 0.335 percent on EPS at 90 percent level of confidence.

$$\text{Private Banks: Fin_P} = 22.187 + 2.141\text{E-}007\text{CSR} + \dots + \text{et}$$

In private banks, the EPS is explained by CSR expenses by 23 percent approximately. Furthermore the β_1 coefficient 2.141E-007 indicates the positive impacts of CSR expenses and EPS. Similarly that in every millions of CSR expenses may lead 0.214 percent on EPS at 95 percent level of confidence.

Conclusion

The study has primarily sought to examine the relationship between CSR expenses and EPS of commercial banks in Nepal. Out of the 28 commercial banks under the population, 6 banks were selected as the sample for the study comprised with 2 government owned, 2 joint venture and 2 private commercial banks those have mentioned CSR expenses in their financial statements during 2016/2017 to 2018/2019 financial year. EPS has been used as an indicator of the bank's financial performance in this study. The findings indicate positive relationship between CSR expenses and EPS in sample banks but it differs in different category of banks. Government owned banks and private banks have positive relationship as well as impacts of CSR on EPS, which is in the line of (Lee & Jung, 2016). In contrary joint venture banks have negative relationship as well as impacts on EPS which lies in the line of (Balabanis et al., 1998; Cortez et al., 2009). The study concluded that the relationship between CSR and firm financial performance differs in every category of Nepalese commercial banks and lies with the study of (Kurokawa & Macer 2008). This study can be used for further research regarding corporate social responsibility and financial performance in cross banking sector as well as cross country comparisons.

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