The Impact of Corporate Social Responsibility on the Financial Performance in Nepalese Commercial Banks

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Abstract

The main purpose of this study is to examine the impact of Corporate Social Responsibility (CSR) on Return of Assets (ROA), Return of Equity (ROE) and Earnings per Shares (EPS) of commercial banks in Nepal. This study will be of immense use to the government, financial institutions and to other stakeholders. The data is obtained from the annual reports issued by the sample banks, and the study has covered the period of 2010-2018. The impact of ROE, ROE and EPS was tested on CSR. Similarly, to verify relationship between ROA, ROE, EPS and CSR the simple regression model was used. The regression model shows that ROA of Nepal Investment Bank and Standard Chartered Bank Nepal have no significant relationship with corporate social responsibility. ROE of Nepal Investment Bank has a significant relationship but Standard Chartered Bank Nepal has no significant relationship with CSR. Similarly, EPS of Nepal Investment Bank has a significant relationship but Standard Chartered Bank Nepal has no significant relationship with CSR. The study recommends that the financial institutions i.e. commercial banks should follow the directives given by the Central Bank (Nepal Rastra Bank) in the Monetary Policy for the F/Y 2016/17, in which Banks and Financial Institutions (BFIs) are asked to spend at least one percent of their profits in CSR activities and also CSR should be seen as an investment reported as such in financial statements of the financial institutions.

***Keywords**: (CSR) Corporate Social Responsibility (Donation, Education, Health Care, Sports, Culture and Social Services), ROA, ROE, EPS, FP.*

Introduction

Corporate social responsibility has become much popular in the last few years. Nowadays a large number of companies issue report on the Corporate Social Responsibility (CSR). The demand of people who affect the activities of the organizations (Stakeholders) is in increasing trend for the corporations to measure reports and improve their social, environment and economic performance. Each and every business enterprise operates within the society. The relationship that an enterprise has with the society in which it operates can be summed up under a concept referred to as Corporate Social Responsibility. Corporate Social Responsibility has been defined by different researchers in different ways. European Commission has defined corporate social responsibility as "as a concept which shows that the contribution of a various companies towards the batter society and cleaner environment". McWilliams and Siegel (2001) describe Corporate Social Responsibility as "Doing all those activities which are not forced by law of those countries in which they are running their business and which are not for the primary benefits of the business but for the society". Similarly, another researcher like Lea (2002) has defined CSR as "Corporate Social Responsibility is about all types of businesses and other organizations going beyond the legal obligations to how organizations interact with their employees, suppliers, customers and communities in which they operate, as well as the extent they attempt to protect the environment."

Beck *et al.*, (2010) revealed that banks play a pivotal role in the financial development and economic growth in emerging countries nowadays, there is an increasing recognition that banks should provide information regarding social, environmental and economic aspects of their operations. Shen *et al.*, (2016) stated that CSR activities are important for banks because CSR can improve the reputation of a bank and increase customers trust in recent years, there has been increasing interest in the concept of corporate social responsibility both from stakeholders and academic researchers' point of view.

Bowen, (1953) concluded that besides, there are no universally accepted definitions available. One of the first definitions of corporate social responsibility is, "a social obligation which pursues policies set, making decisions on the policies set, or to follow the lines of actions which are desirable in terms of aims and society values". Companies can gain great benefits from participating in CSR and that these benefits are the reasons for their engagement in corporate social responsibility which affects the financial performance of the firms or banks. Financial performance is measuring and analyzing the financial objectives of the firms to see whether they are accomplished or not within a specified time period. (Kotler *et al.*, 2005)

In today's competitive global world, organizations have to face many challenges to operate and earn profits. People have more knowledge concerning the organizations, their products and services and the way organization's operate their businesses. People are more conscious regarding the organization's work for the prosperity of the society as well as the environment in which they operate and earn profits. If a bank pays more attention to social responsibilities, the bank can get profits for themselves through better risk management, employee loyalty and higher reputation.Financial performance can be defined as the measurement of the financial position of a firm over a specified time period to know how efficiently a company is using its available resources to generate income. ROA, ROE, EPS, P/E Ratio etc. can be evaluated to measure the health of the firms. In the last decades, scholars have discussed the existence of the link between CSR and financial performance, without ever reaching an agreement. Mainly, there are two schools of thought: the neo-classical view and the behavior view. The first was started with Milton Friedman around the '70s. He was a convinced upholder that firms, and in particular managers, how to maximize the shareholders' value and that practices like CSR would just push them away from this goal (Friedman, 1970).

The relationship between CSR and financial performance represents the least understood area of CSR (Angelidis, Massetti & Magee- Egan, 2008). The prior studies have focused mainly on developed countries. There is less studies had been done on measuring the impact of corporate social responsibility and hence had not paid much attention on the corporate social responsibility. Furthermore, a number of researches had been conducted in many countries such as Kenya, Pakistan, Sri Lanka and Romania. Thus, in order to fill this gap, this study aimed to investigate the impact of corporate social responsibility on the financial performance in Nepalese Commercial Banks. Similarly, this study searched to identify the relationship between CSR and financial performance in the commercial bank.

Statement of the Problem

This study states the problem of previous empirical findings, generally a corporate social responsibility impacts on financial performance of the banking sector. According to Robins (2005), managers of banks are often faced with the challenge of determining how socially responsible their banks are, particularly with the increased competition in the banking industry. Hence, the promoters of CSR have argued that organizations should integrate economic, social and environmental concerns into their business strategies, their management tools, and their activities going beyond compliance and investing more on human, social and environmental capital (Belal & Momm, 2009; Perrini, 2006). Very few studies, however, have been conducted on the impact of CSR on the financial performance of commercial banks. The relationship between CSR and financial performance in the banking industry has not been investigated amply. The empirical evidence on the effect of CSR on a firm's financial performance has yielded mixed results.

Gariga and Mele, (2004) observed that a number of studies have yielded a positive correlation between CSR and financial performance. Studies conducted by Erhemjamts *et al.*, (2011) have also showed a positive correlation between CSR and financial performance. Another study conducted by Tsoutsoura (2004) in California also yielded a positive relationship. However, a study carried out by Abiodum (2012) returned an inverse relationship between CSR and financial performance in Nigeria.

There are some studies which have been done in the context of Nepal. Dhungel (2008) found a positive relationship between CSR towards community and financial performance. All banks which have made disclosure of social responsibility have done it on voluntary basis. Kafle (2014) showed a positive relation between CSR towards employee and financial performance of Nepalese commercial banks. There are plenty of empirical studies pertinent to the relationship between CSR and financial performance in the banking industry in the developed countries but from less developed countries remains scarce. So, this study attempts to explore the following questions:

- Is there a relationship between CSR and financial performance in the bank?
- What is the impact of CSR and financial performance in the Nepalese commercial banks?

Objectives of the Study

The basic objectives of the study are as follows:

- To examine the relationship between corporate social responsibility and financial performance.
- To measure the impact of corporate social responsibility on financial performance.

Review of Literature

The relationship between corporate social responsibility and financial performance has been widely researched in the developed countries and non-financial firms till date. There have been reviewed diverse studies regarding corporate social responsibility and financial performance about the banks. Today, the corporate social responsibility is considered most important factor for enhancing performance of banks and the corporate world is facing the corporate social responsibility. That's why different researchers and authors have carried out studies on CSR and financial performance in all over the world. The fundamental purpose of literature is to find the role played by CSR on financial performance of banks. Underlying literature focused the studies regarding the CSR and financial performance of banks of specific and panel of countries. In this study, I reviewed various research conducted by different scholars. Laskar and Maji (2017) conducted research on disclosure of corporate social responsibility (CSR) and financial performance: evidence from India. The result showed a positive impact of CSR on all the firms' performance.

Taksin (2015) conducted a study in Turkey and analysed the relation among corporate social responsibility and banks performance. The results showed bidirectional network among CSR practices and Turkish bank performance. Krasondomska (2015) also carried out a study on CSR disclosure in banking industry empirical evidence from Poland and concluded that the quality of CSR disclosure in 2011 was higher as compared to 2005 and also all banks tend to include CSR in management commentary. Rashman and Rashid (2014) described the relationship between corporate social responsibility and financial performance citing a case of Yamuna bank limited Bangladesh. The paper focused on quantitative research and all data related to cost/investment and expenditure. The researcher found that there is no significant effect of CSR on profitability in Yamuna bank limited of Bangladesh during the period of 2007 to 2012. Mallin and Farag (2014) investigated the relationship between CSR and financial performance in Islamic banks. They analyze the following results of CSR disclosure index in 90 Islamic banks from period 2010 to 2011. The results showed that CSR disclosure is determined by financial performance.

Akanhi and Ofoegbu (2012) examine the impact of corporate social responsibility on banks financial performance in Nigeria and concluded that there is positive relationship between ethical corporate social reasonability and organization performance. Weshah and Dahiyat (2012) described the impact of adopting corporate social responsibility on corporate financial performance evidence from Jordanian banks in Jordon. Under quantitative research they found that there is a significant relationship between levels of banks, bank size, level of risk, level of all advertising expenses and CSR. And also they defined that CSR is most important in the banking sector of Jordon. A study carried out by Islam and Ahmed (2012) to verify the linkage between corporate social responsibility and corporate financial performance in a banking sector of Bangladesh. In this paper, t-tests are used to show a difference between these two categories of banks with their ROA, EPS and P/E ratio. The results yielded that the average ROA ratios of the banks shows low corporate financial performance. So, it means that this could not be proved statistically.

Farook and Hassan (2011) examine the corporate social responsibility disclosure of Islamic banks and they found that there is smooth and balanced relationship in sterminent of Islamic banks CSR disclosure. Fasanya and Onakoya (2013) found that CSR is the basic tool for the financial development of the firm in terms of attaining higher profits by adopting the process of taking community and society welfare in considerations by the firm. Most of the studies were conducted on evaluating the effect of corporate social responsibility on firm's financial performance and showed a positive relationship between them. Some studies have been carried out in the context of Nepal. Dhungel (2008) showed a positive relationship between CSR towards community and financial performances. All banks have made disclosure of social responsibility on voluntary basis. Among the disclosed information are education/training, social welfare of underprivileged, arts, heritage and cultural protection, contribution on associations, clubs and other organizations, contribution to healthcare and environment. Similarly, contributions for child and women development, contributions for religious and spiritual, games and sports, natural calamities and blood donation were the most commonly reported CSR activities. Chapagain (2010) examined the relationship between managerial views of CSR and actual CSR performance. He found that the trends on CSR thinking had moved from philanthropy to the better stakeholder relationship and competitive or strategic advantage of the organizations and even nations. However, in the Nepalese context, the moral view on CSR is stronger than strategic view on CSR (Shrestha, 2016). Similarly, the actual CSR efforts are not as greener as the theoretical views. Responsibility towards government seems highest whereas lowest towards the society in both sectors. The analysis also shows that the overall CSR performances of companies are much more correlated to the moral view than the strategic view on CSR. In this regard, the government, pressure groups and other stakeholders are also required to further encourage socially responsible corporate behavior for more equitable and just society.

Similarly, Kafle (2014) found a positive relationship between CSR towards employees and financial performances of Nepalese commercial banks. The study was based on one of the leading private banks of Nepal and the data derived from the study provided a map of what, why, when, where and how the bank has been able to deliver its efforts for the upliftment of the society which ultimately adds to the development of the country. This study aims at examining the impact of CSR practices on the financial performance of commercial banks of Nepal. Likewise, it also examines the effect of motives of CSR practices towards financial performance of commercial banks of Nepal.

Hypothesis

Ho1: There is no significant relationship between CSR and ROA

Ho2: There is no significant relationship between CSR and ROE

Ho3: There is no significant relationship between CSR and EPS

Research Methodology

In this study, financial performance of Nepalese commercial banks is examined and the nature of the study is of quantitative research. All the findings of this study are based on the data collection from the annual reports.

Population and Sample Selection

There are 28 commercial banks in operation. Selected Commercial Banks are taken as a sample. They are Standard Chartered Bank Nepal, Nepal Investment Bank, the annual reports of selected commercial banks of Nepal have been used and a source of sample data, and the sample period is from 2010 to 2018.

Data and Data Collection Method

Data were collected from secondary source mainly from the annual report of the selected banks for the sample period from 2010 to 2018. Further, this study has focused on the Director's Reports, Balance Sheet, and Income Statements in their annual reports. Similarly, other sources like newsletters, Articles, Journals and Websites are also used.

The banks are selected on the basis of availability of data required for the study.

In this study, simple regression is used to determine the impact of corporate social responsibility on financial performance of commercial banks in Nepal.

Corporate donations, education, health care, sports, culture and social services served as proxies for corporate social responsibility, while returns on total assets, return on equity and earning per share served as proxies for financial performance.

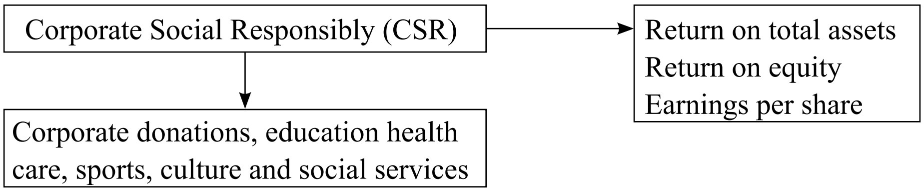

Figure 1: Conceptual Framework

Model specification

To achieve the objective of the study, the following functional models were formulated:

Model 1: This model expresses ROA is a function of CSR

ROA= □ (CSR)

$ROA = \beta_0 + \beta_1 \, (CSR) + \mu_1$……………………………………………………..….1

Model 2: This model expresses ROE is a function of CSR

ROE= □ (CSR)

$ROA = \beta_2 + \beta_3 \, (CSR) + \mu_2$…………………………..……….…….……..2

Model 3: This model expresses EPS is a function of CSR

EPS = □ (CSR)

$ROA = \beta_4 + \beta_5 \, (CSR) + \mu_3$…………………………..……….…….……..3

Where,

RoA = Return on Assets

RoE = Return on Equity

EPS = Earnings per Share

$\beta_0 + \beta_2$ & β_4 = Constant

$\beta_1 + \beta_3$ & β_5 = Coefficient

μ_1, μ_2 & μ_3 = Error Term

Data Analysis

The collected data were analyzed by using financial and statistical tools.

Discussion and Findings

Ho1: Return on Assets has no significant relationship on corporate social responsibility.

Table 1

Model Summary for Ho1

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.116[a]	0.013	-0.127	0.29465	0.013	0.095	1

a. Predictors: (Constant), CSR

Table 2

Coefficients for Ho1

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.115	0.127		16.616	0
	CSR	-2.382E-09	0	-0.116	-0.309	0.766

a. Dependent variable: ROA

Table 3

Model Summary for Ho1

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.299[a]	0.09	-0.04	0.37119	0.09	0.689	1

Table 4

Coefficient for Ho1

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.357	0.137		17.218	0
	CSR	3.464E-10	0	0.299	0.83	0.434

a. Dependent Variable: ROA

The result of Nepal Investment Bank data analysis above shows that the strength of the relationship between ROA and CSR is very poor at 11.60 percent. While the value of the coefficient of determination of.013 indicates that only 1.3 percent of the variation in ROA can be explained by the variations in CSR.

Moreover, the coefficient of regression (B) of -2.382 indicates that a relationship between the variables of the study is negative implying that the implementation of CSR has a negative effect on ROA in NIBL and vice versa.

Similarly, the result of Standard Chartered Bank Nepal data analyses shows that the strength of the relationship between ROA and CSR is 29.9 percent. While the value of the coefficient of determination of .09 indicates that only 9 percent of the variations in ROA can be explained by variations in CSR.

Furthermore, the coefficient of regression (B) of 3.464 indicates that the relationship between the variables of the study in positive implying that the implementation of CSR has a positive effect on ROA in SCB and vice versa.

Lastly, the regression result show the computed t-statistic for the coefficient of CSR NIBL is -.309, which is lower than the critical t-statistic of 1.76 at 0.05 level of significance. This means that the null hypothesis is not rejected and we conclude that ROA of NIBL has no significant relationship with corporate social responsibility. On the other hand, the regression result shows the computed t-statistic for the coefficient of CSR is .830, which is also lower than the critical t-statistic of 1.76 at 0.05 level of significance. This means that the null hypothesis is not rejected and we conclude that ROA of SCB has no significant relationship with the corporate social responsibility.

Ho2: Return on Equity has no significant relationship on corporate social responsibility.

Table 5

Model Summary for Ho2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.669[a]	0.448	0.369	4.0333	0.448	5.672	1

a. Predictors: (Constant), CSR

Table 6

Coefficient for Ho2

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	26.852	1.742		15.411	0
	CSR	-2.515E-07	0	-0.669	-2.382	0.049

a. Dependent Variable: ROE

Table 7

Model Summary for Ho2

Model Summary							
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.077[a]	0.006	-0.136	7.17679	0.006	0.042	1

a. Predictors: (Constant), CSR

Table 8

Coefficient for Ho2

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	23.454	2.647		8.862	0
	CSR	1.649-09	0	0.077	0.204	0.844

a. Dependent Variable: ROE

The result of NIBL data analyses shows that the strength of the relationship between ROE and CSR is 66.9 percent. While the value of the coefficient of determination of .448 indicates that about 44.8 percent of the variations in ROE can be explained by the variations in CSR.

Moreover, the coefficient of regression (B) of -2.515 indicates that the relationship between the variables of the study is negative which imply that the implementation of CSR has a negative impact on ROE and vice and versa.

Similarly, the result of Standard Chartered Bank data analyses shows that the strength of the relationship between ROE and CSR is 7.7 percent. While the value of the coefficient of determination of 0 .006 indicates that only 0.6 percent of the variations in ROA can be explained by variations in CSR.

Furthermore, the coefficient of regression (B) of -1.649 indicates that the relationship between the variables of the study in positive implying that the implementation of CSR has a positive effect on ROE in SCB and vice versa.

Lastly, the regression result shows the computed t-statistic for the coefficient of CSR is 2.382 which are higher than the critical t-statistic of 1.76 at 0.05 level of significance. This means that null hypothesis is rejected and we conclude that ROE of NIBL has a significant relationship with corporate social responsibility. On the other hand, the regression result show the computed t-statistic for the coefficient of CSR is .204, which is also lower than the critical t-statistic of 1.76 at 0.05 level of significance. This means that null hypothesis is not rejected and we conclude that ROE of SCB has no significant relationship with the corporate social responsibility.

Ho3: Earnings per Share have no significant relationship on corporate social responsibility.

Table 9

Model Summary for Ho3

Model Summary							
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.121[a]	0.015	-0.126	10.05954	0.015	0.104	1

a. Predictors: (Constant), CSR

Table 10

Coefficients for Ho3

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	38.787	4.346		8.925	0
	CSR	-8.496E-08	0	-0.121	-0.323	0.756

a. Dependent Variable: EPS

Table 11

Model Summary for Ho3

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.024[a]	0.001	-0.142	18.72915	0.001	0.004	1

a. Predictors: (Constant), CSR

Table 12

Coefficient for Ho3

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	57.232	6.907		8.286	0
	CSR	1.321E-09	0	0.024	0.063	0.952

a. Dependent Variable: EPS

The result of NIBL data analyses shows that the strength of the relationship between EPS and CSR is 12.1 percent. While he value of the coefficient of determination of 0.015 indicates that about 1.5 percent of the variations in EPS can be explained by the variations in CSR.

Moreover, the coefficient of regression (B) of -8.496 indicates that the relationship between the variables of the study is negative imply that the implementation of CSR has a negative impact on EPS and vice and versa. Similarly, the result of Standard Chartered Bank data analyses shows that the strength of the relationship between EPS and CSR is 2.4 percent. While the value of the coefficient of determination of 0 .001 indicates that only 0.1 percent of the variations in EPS can be explained by variations in CSR. Furthermore, the coefficient of regression (B) of 1.321indicates that the relationship between the variables of the study in positive implying that the implementation of CSR has a positive effect on EPS in SCB and vice versa. Lastly, the regression results show the computed t-statistic for the coefficient of CSR is -0.323, which is lower than the critical t-statistic of 1.76 at 0.05 level of significance. This means that null hypothesis is not rejected and we conclude that EPS of NIBL has a significant relationship with corporate social responsibility. On the other hand, the regression result shows the computed t-statistic for the coefficient of CSR is 0.063, which is also lower than the critical t-statistic of 1.76 at 0.05 level of significance. This means that null hypothesis is not rejected and we conclude that EPS of SCB has no significant relationship with the corporate social responsibility.

Conclusion

In this study, an untiring effort has been made to analyze the impact of corporate social responsibility on financial performance of listed banks in Nepal. This study considers accounting and market based indicators such as ROA, ROE and EPS in determining the impact of CSR on financial performance. The result of the simple regression for hypothesis 1 showed that ROA of Nepal Investment Bank Limited as well as ROA of Standard Chartered Bank Nepal has no significant relationship with corporate social responsibility. This result does not invalidate Return on Assets as financial performance indicators but implies that financial institutions have not been embarking on CSR positively. The result of hypothesis 2 showed that Return on Equity Nepal Investment Bank Limited has a positive significant relationship with CSR whereas ROE of Standard Chartered Bank Nepal has no significant relationship with CSR. This is in line with Tsoutsoura (2004), Kanwal et al (2013). This study shows that CSR impacts positively on the financial performance of the financial institutions. The result of hypothesis 3 revealed that Earnings per Share of Nepal Investment Bank Limited have a significant relationship with CSR, and Earnings per Share of Standard Chartered Bank Nepal have no significant relationship with the Corporate Social Responsibility. This study established that financial institution in Nepal do not actively engage in corporate social responsibility as it does not impact much on their financial statements. Even though, the central bank of Nepal (Nepal Rastra Bank) has stated in the Monetary Policy for the F/Y 2016/17, in which, Banks and Financial Institutions (BFIs) are asked to spend at least one percent of their profits in CSR activities and also CSR should be seen as an investment reported as such in financial statements of the financial institutions.

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