

MANDATORY CORPORATE SOCIAL RESPONSIBILITY IN NEPAL: AN ANALYSIS OF COMMERCIAL BANKS

Sudip Wagle¹, Dr. Ajeya Kumar Gupta²

¹*Research Scholar, Department of Business Administration, DDU Gorakhpur University, Gorakhpur, India*

²*Professor, Faculty of Commerce & Management, DDU Gorakhpur University, Gorakhpur, India*

Email: ¹sudip.wagle@gmail.com, ²ajeya.gupta@gmail.com

Abstract—*This study aims to find out the relationship between mandatory CSR (adopted by banks) activities and their Performance in Nepal. Survey based structured questionnaire has carry out. The analysis was conducted from both by smart PLS as well as from SPSS software. The results confirmed that Nepalese banking executives are highly dominated by the male in gender, middle aged people and a long-worked experience. Moreover, there is no significant relationship between mandatory CSR activities of commercial banks and their Performance, except two domains, in particular, used the CSR fund (UCSR) and contribute to the social project (CSP). Along with this, the Carroll pyramid model, especially its legal components, has not yet been supported by the banking industry. Furthermore, this study has important implications for policy makers, civil society, and further researcher to know more about the mandatory CSR effectiveness in Nepal.*

Keywords—*Carroll pyramid model, Commercial Bank Performance, contribute to the social project, Mandatory CSR, NRB Circular.*

INTRODUCTION

Corporate Social Responsibility (CSR) is an important business strategy that contributes to sustainable development. It is an ongoing commitment by the business to behave ethically to improving the quality of life of workers as well as the local community and the society (Holme & Watts, 2000). Globally, CSR has much attention, it has turned into a legal norm in developed countries as well developing countries including Nepal. Along with that, since 2017 CSR has mandated by the act in Nepal. Robbins & Coulter (2007) described that CSR plays a significant role beyond making only profit. It protects the stakeholder concerns and improves the environmental issues where the organization carries out its sole operation. However, Chen, Hung & Wang, (2018) found that spending of CSR is largely driven by socio-political factors rather than the economic considerations. The banking sector can play a prime role in establishing CSR concepts in the Nepalese business industry. Among the listed companies, commercial banks are more elevated in terms of CSR disclosure of activities in Nepal (Wagle, 2020). Moreover, a few commercial banks have given CSR space on their reliable websites. Other than that highlights CSR activities on as a voluntary basis in their annual reports (Poudyal, 2020). Keeping in view, by utilizing the CSR strategy banking sectors can enhance their reputation as well as performance in the society.

In modern instance, Carroll's pyramid is famous for CSR model, by moving CSR activities which four domains, carry as, economic, legal, ethical and philanthropic (Carroll, 1991). Economic domain indicate to be profitable; legal domain refers obey government laws and regulation; ethical domain concerns to do what is just and fair, but avoid harm and finally philanthropic domain explains to be a good corporate citizen. In developing countries, legal and ethical responsibilities seem to have a lower priority (Visser, 2005b). People's Per capita income indicator shows below than average. In that situation, obligatory CSR is being worthless for the nations. In the same line, at that time, Most of the entrepreneurs of Nepal are against to the government policy towards making CSR as it's mandatory. However, the increasing trend of awareness towards CSR by people demonstrates when CSR imposed on at the right time (Chaudhary, 2017).

Now, knowing the relevance of mandatory CSR in Nepalese economy, it is necessary to fill the gap by doing a research on these circumstances. Nepal Rastra Bank (NRB) has issued circulars to banking sectors, about the mandatory CSR activities with its domains, based on this situation, study focused on the mandatory CSR activities carried out by

commercial banks in Nepal and their performance which was ever not been tested.

This study has three main issues. First, it demonstrated the socio-demographic status of an executive. Second, it examines the significant relationship between moderating variables (sex, age group) while adopting a mandatory CSR by an executive. Finally, it examines the relationship between the mandatory CSR domains and test a significant them of banks and their performance.

REVIEW OF LITERATURE

CSR in Nepal

Corporate Social Responsibility (CSR) practices are not a new phenomenon in Nepalese business history. Traditionally, there was a belief between Nepalese business and industrial community that business should benefit from sellers, buyers, and the society. Religious believes is still remains in Nepal. If somebody exploits too much, the person will have in the hell, if somebody reward, then will enjoy in the heaven after his/her death, if somebody makes a religious contribution then get appreciation from the society (Wagle, 2018). So, from the beginning CSR in Nepal, CSR was in the form of philanthropic model, constructing a dharamsala, or a temple, a school, or a health post, digging well for drinking water, etc. The family members continued the activities that their ancestors had initiated and, in some cases, added some more social activities benefiting society.

In the past century of history, few business communications have contributed their wealth to build educational institutions, temples and dharamsalas. Hundreds of acres of Guthi land have donated by some property owners in the name of Gods and goddesses. This historical evidence of the participation of the business community is more philanthropic in nature. The country Nepal started modern manufacturing industries after the First World War (1914–1918) corporate became more liable to pay fair taxes to the government. Tax used for the social welfare and development (Shah, 2012). Some corporate houses in Nepal are involved in CSR activities consistently throughout the year from their establishment (Sharma, 2016). Companies like the Chaudhari Group, Nepal Telecom, Ncell, Panchakanya Group, and some commercial banks selectively gain the limelight in the CSR scene of Nepal. Nepal Business Initiative (NBI) formed in 2003 from non-government scheme to organize seminars on CSR. Moreover, Federation of Nepal Chamber of Commerce and Industry (FNCCI) announces 18 points business code of conduct in 2004. Now CSR was made mandatory for industries, banks and financial institutions (BFIs) as governed by the Industrial Enterprises Act (IEA) 2016 and Nepal Rastra Bank circular from Act 2017 onwards.

CSR and Bank's Performance

The overall performance of the banks in terms of CSR found as satisfactory (Khanal, 2019). CSR has a positive effect on bank reputation (Chalise, 2014). Orazalin (2019) from Kazakhstan shows that, CSR reporting practices of commercial banks were satisfactory except in terms of environmental issues. Mahbuba (2013) a case from Dutch Bangla Bank Ltd and Mehedi Hasan Tuhin (2014) from 10 listed Bangladesh bank, in their study, shows that, significant positive relationship between CSR and profitability. Priyadarshini & Gomati (2018) results outcomes that there is no significant relationship between the CSR and Private banks firm's performance (Net Profit after tax, Return on Equity, Return on Assets and Earning Per share) in India however, from Indonesia, Mukhtaruddin, Ubaidillah, Dewi, Hakiki, & Nopriyanto, (2019) conclusions that CSR has a significant negative impact on firm value. Moreover, Basnayake & Abeyasinghe (2015) from Sri Lankan domestic, commercial bank Industry, confirm a negative relationship between CSR disclosures and financial performance. Poudyal (2020) confined that in Carroll CSR pyramid except ethical responsibility, all (economic, legal and philanthropic responsibility) CSR domains have a positive influence on firm performance i.e., brand image. However, Bird, Mukherjee & Duppati (2017) conducted research on mandatory CSR in Indian perspectives, they found that the negative effect between the mandatory (legislation) CSR and the Firm's profitability.

Although, lots of work has been done in CSR from different nations, there was not seen any consistency regarding mandatory CSR and banks performance. From the discussion, CSR activities have a both positive and negative impacts on the bank's performance. However, there were not any studies regarding the relationship between the mandatory CSR activities and bank performance in Nepal. Therefore, this study aroused the desire in this regard by hypothesizing as follows:

H1: There is a significant and positive relationship between mandatory CSR activities in commercial banks and their performance.

DATA AND METHODS

This study is based on Primary source and followed by descriptive research design, to find out the relationship between mandatory CSR activities and their performance, this study was conducted from the executives of commercial banks that are operating in Nepal. The data collected via a questionnaire survey that mailed to each bank’s spokesperson. Spokespersons play an important role in getting information about the bank to the public queries. First, the researcher contacted all the respondents via phone and took a verbal consent, after that mailed the questionnaire link to them and request to participate to fill a form. After 15 days of previous mailed, researcher again sent a reminder note to them, those who were not responding. Finally contacted again via a phone call to the last remaining respondents to follow up and make sure to complete the survey. Five-point a Likert-type scale data used for measuring the CSR activity adopted by executives in their banks on a scale i.e., 1 to 5. Where 1 for strongly disagrees, 2 to disagree, 3 for Neutral, 4 to agree and 5 for strongly agree. All collected data checked by manually for its completeness and consistency. Collected data were performed by using Partial Least Squares (PLS) smart program software and SPSS software for some statistic. To mention the reliability and validity of the respondent questionnaire, Cronbach’s alpha was measured which found to be 0.757, that is high enough to “acceptable” in most social science research study.

RESULTS AND DISCUSSION

The information was collected from the respondents participated. The consolidated details of Demographic information of the respondents were shown below in chart 1,2,3 and 4.

Chart 1: Depicts the sex of the respondents

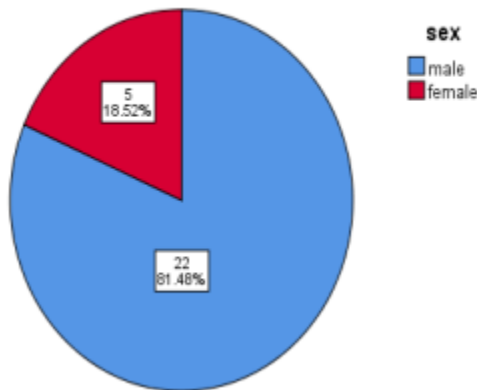


Chart 2: Depicts the age group of the respondents

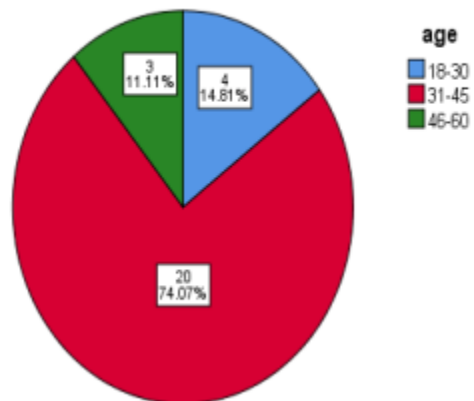


Chart 3: Depicts the respondents years of working experience in the same bank

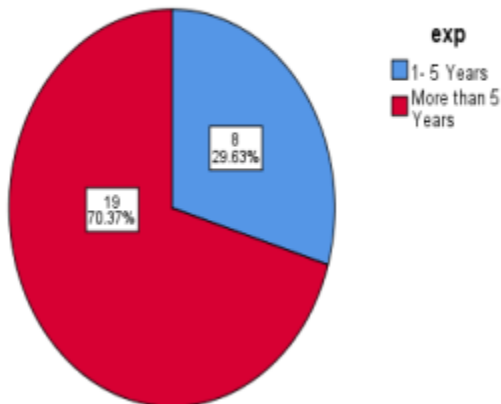


Chart 4: Depicts the respondents in position

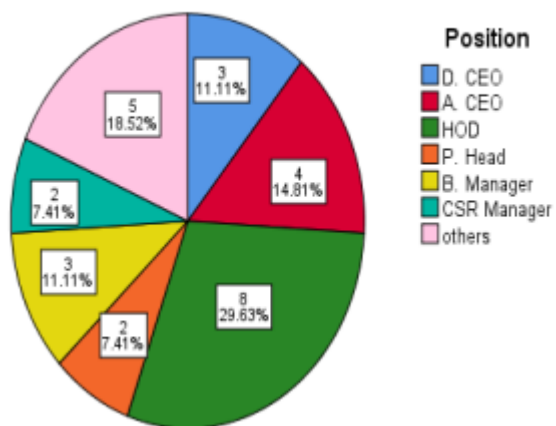


Chart 1 shows gender status, that male respondents were highly dominated in commercial banks in Nepal. Chart 2, 3 shows their age and working experience, most of them were participated from middle-aged group and working for a long time. Finally, chart 4 shows respondents’ position and their accountability, most of them filled up the questionnaire form through their focal department, Some filled up by themselves; however, a few have handed over to their assistant.

Table 1
Independent Sample Test by Gender

<i>Sex</i>	<i>Number</i>	<i>Mean</i>	<i>SD</i>	<i>T-value</i>	<i>P-value</i>
Male	22	3.77	0.869	-0.064	0.950
Female	5	3.80	0.837		

Note: *p<0.05, N = 27

Source: Questionnaire survey, 2020

Table 1 indicates the t-test, while p-value > 0.05 that, the null hypothesis was accepted. Therefore, there was an insignificant relationship between sex and mandatory CSR activities in the bank.

Table 2
One way ANOVA test for testing equality of mean Mandatory CSR procedures across the Age group of the respondents

<i>Types of the Age Group</i>	<i>Mean</i>	<i>SD</i>	<i>N</i>	<i>F-Value</i>	<i>P-Value</i>
18–30	3.50	1.732	4	0.824	0.451
31–45	3.90	0.641	20		
46–60	3.33	0.577	3		
Total	3.78	0.847	27		

Source: Questionnaire survey, 2020

Table 2 indicates that a one-way ANOVA to compare the effect of types of age group is insignificant on mandatory CSR procedures at the 5 percent level of significance i.e., p-value > 0.05.

Table 3
The Structural Model Test of Direct Relationships

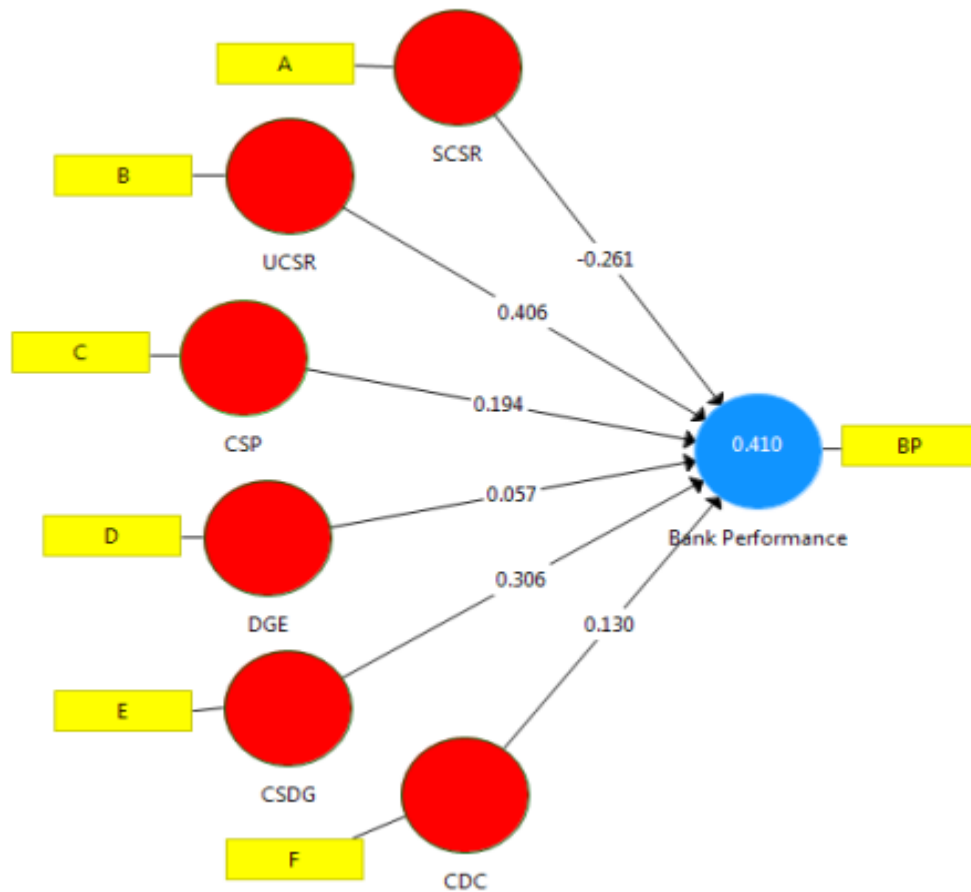
<i>Relationship CSR domains</i>	<i>Beta Coefficient Value</i>	<i>P-Value</i>	<i>Significance Level</i>	<i>VIF</i>
SCSR —> BP	-0.261	0.589	Nonsignificant	1.688
UCSR —> BP	0.406	0.009*	Significant	2.845
CSP —> BP	0.194	0.003*	Significant	3.213
DGE —> BP	0.057	0.132	Nonsignificant	1.347
CSDG —> BP	0.306	0.152	Nonsignificant	2.440
CDC —> BP	0.130	0.295	Nonsignificant	1.083

Note: *p<0.05, N = 27

Source: Questionnaire survey, 2020

Table 3 as well figure 1 outcome shows that the coefficient of determination, i.e., R-Square value is 0.410, it represents 41 percent of variation in the dependent variable (Bank performance) that combined relationship of independent variables (Mandatory CSR domains). It shows the higher significant situation among the variables. From VIF, there was not a high correlation among the independent variables, while $VIF < 10$ represented well enough to fit the model. Besides, among the mandatory CSR domains only separate CSR Fund (SCSR) has a negative effect on Bank performance. Moreover, the results of direct relationship tests, all path coefficients are non-significant between all Mandatory CSR domains and Bank performance, except for the direct relationship between using CSR Fund in subsequent year (UCSR) and contributed in different social project (CSP) to Bank performance. Among the Mandatory CSR domains, out of six only two domains have significantly and positively influenced Bank performance. Thus, hypothesis (H1) is not completely supported. In support to this outcome, profits declined or negative impact due to mandatory CSR disclosure activities (Bird et al., 2017; Chen et al., 2018; Wang, Cao & Ye 2018; Hsu & Chen, 2020; Bhattacharyya & Rahman 2020). As opposed to this outcome, mandatory CSR activities had a positive impact on firm’s profitability (Nair & Bhattacharyya 2019; Shanmugam & D S, 2019).

Figure 1: Results of the Hypothesized direct relationships



CONCLUSION

This study has clarified the conditions and its implementation of mandatory corporate social responsibility situation in the commercial banks in Nepal. For that, questionnaire survey has conducted among to all the commercial banks. The collected data were analyzed with the help of statistical analysis by using both PLS and SPSS software.

The study results exposed that, Nepalese banking executives were dominated by male gender, most of them from middle aged, working for a long time. The main concentration of the paper was to make the relationship between mandatory

CSR activities of commercial banks and their performance. In this regard, six domains of mandatory CSR activities were tested, out of them, only two domains (UCSR & CSP) have significantly and positively influenced the bank performance. So, in conclusion say that hypothesis (H1) is not completely supported i.e., insignificant. Along with this, the Carroll pyramid model, especially its legal components, has not yet been supported by the banking industry in Nepal. This outcome provides the fruitful thoughts to the government, concerned executives, civil society, conscious citizens, and the new generation which help them to gain more knowledge in future.

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