

**RELATIONSHIP BETWEEN BANK CHARACTERISTICS  
AND CORPORATE SOCIAL RESPONSIBILITY IN JOINT  
VENTURE COMMERCIAL BANK OF NEPAL**

**A Thesis Submitted**

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## CERTIFICATION OF AUTHORSHIP

I certify that the work in this thesis has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the reference section of the thesis.

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Anil k.c.

March, 2019

## RECOMMENDATION LETTER

It is certified that this thesis entitled **Relationship between Bank Characteristics and Corporate Social Responsibility in Joint Venture Commercial Bank of Nepal** submitted by Anil K.C. is an original piece of research work carried out by the candidate under my supervision. Literary presentation is satisfactory and the thesis is in a form suitable for publication. Work evinces the capacity of the candidate for critical examination and independent judgment. Candidate has put in at least 60 days after registering the proposal. The thesis is forwarded for examination.

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## **ABSTRACT**

*This study aimed at finding Relationship between bank characteristics and CSR. The descriptive and analytical research design has been used for this study. This study is based on primary data .Primary data and information has been collected through questionnaires. There was taken 140 as a sample from seven joint venture commercial banks. The sample data of seven joint venture commercial banks have been analysis using regression model. In this study arithmetic mean, Frequency analysis, standard deviation, correlation, regression and multiple regression analysis has been used by using SPSS(statistical package for social science) and excel. Community oriented CSR activities, environment oriented CSR activities and total / combined CSR activities of joint venture commercial bank of Nepal were dependent variables while bank age , bank size and bank profitability have been taken as independent variable.*

*The age of the bank is computed from the date of establishment until the current year, similarly the size of the bank determined based on the core capital and profitability measured according to ROA.*

*In general, the result suggests that Nepalese banks have performs more community oriented CSR activities than other types of CSR. Bank size is found to be significant, and it is a positive predictor to the extent of environmental and overall CSR activities may be due to industry effects. Bank age is found to be significant and negative to the extent of community, environment as well as combined CSR activities in the Nepalese joint venture commercial banks. From the findings, it can be concluded that within the Nepalese joint venture commercial banks, age does not matter in CSR. Profitability is found to be significant, and it is a positive predictor to the extent of community oriented CSR activities. Thus, it can be concluded that more profitable banks disclose more CSR information than less profitable banks. Overall, the employee's perception is CSR means relationship of business with society and environment. The joint venture commercial bank mainly adopt CSR program to improving relations with institutions of bank. Therefore, the investment in CSR could be beneficial to all stakeholders, which minimizes the social risk.*

*Finally, the findings suggest that Nepalese joint venture commercial banks performed all aspect of CSR activities. The findings are, thus, beneficial for future study as well as to the banking authorities to assess the level of CSR made in their best in future.*

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## ABBREVIATIONS

BA	:	Bank age
BFI	:	Bank and Financial Institutions
BP	:	Bank profitability
BS	:	Bank size
CCSR	:	Community oriented CSR
CG	:	Corporate Governance
CSR	:	Corporate social responsibility
CSR	:	Corporate social responsibility disclosure
ECSR	:	Environment oriented CSR
ROA	:	Return on assets
ROE	:	Return on equity
TCSR	:	Total/ combined CSR activities
	:	Standard deviation

# CHAPTER-I

## INTRODUCTION

### 1.1 Background of the study

Today's globalized and very well informed world forces managers to think about corporate social responsibility (CSR). There are two broad sets of justifications for public sector actors in middle and low-income countries to engage with CSR: defensive and proactive. The two are not mutually exclusive: a policy initiative that initially has a defensive justification may quickly become part of a proactive strategy of engagement. The defensive justification relates to minimizing the potential adverse effects of CSR on local communities, environments and markets when it is imposed through international supply chains and investment. Governments of some major middle-income economic powerhouses such as China have undertaken a variety of initiatives to ensure that CSR practices with impact in their countries are tailored to national economic and social interests (UN, Department of Economic and Social Affairs, 2007).

On one hand, business has been increasingly viewed as a major cause of social, environmental, and economic problems during the recent years, and companies are widely perceived to be prospering at expense of the broader community (Porter, Kramer, 2011). On the other hand, managers are aware of the fact that the implementation of CSR activities into corporate activities can constitute a significant competitive advantage for the company. Therefore, corporate social responsibility has been a widely discussed. Corporate social responsibility (CSR) is how companies manage their business processes to produce an overall positive impact on society. It covers sustainability, social impact and ethics and done correctly should be about core business - how companies make their money - not just add-on extras such as philanthropy. Companies need to answer to two aspects of its operations. Firstly, the quality of management in both terms of people and processes (the inner circle). Second, the nature and quantity of management impact on society in the various areas.

Corporate social responsibility lies at the centre of the circles. A company brings its business with a main objective for making profit. But because it is a part of the society itself, it has its certain obligation and responsibility towards it. So now its

concern values, objectives, and decision are based on something more than the pursuit of profits (Shah, 2012). There has been an escalation in the scrutiny of the business practices of firms in developing countries in recent years, with increasing demands for better corporate social responsibility. This is largely related to growing stakeholder awareness and activism as more and more firms from emerging economies become part of the larger global supply chain, and the differences in employee working conditions between firms in developed and developing nations are becoming more apparent (Muttakin and Khan, 2015).

Research studies on CSR, are characterized by three kinds of empirical research. There are descriptive studies which report on the extent and nature of CSR with some comparisons between countries and periods. Secondly, explicative studies, focus on the potential factors influencing levels of CSR reporting. Thirdly, there are studies on the effect CSR information has on various users with an emphasis on market reaction (L. and W.A.N., 2017). This study is explicative, as it analysis whether firms age, size, profitability, types of ownership, and structure of organization are potential factors influencing the CSR activities practices by Nepalese joint venture Commercial Bank.

Traditionally, in the United States CSR has been defined much more in terms of a philanthropic model. Companies make profits, unhindered except by fulfilling their duty to pay taxes. Then they donate a certain share of the profits to charitable causes. It is seen as tainting the act for the company to receive any benefit from the giving. CSR refers to business practices involving initiatives that benefit society and environment. Although CSR is widespread and commonly practiced in the international level, it is at an infant stage of development in the Nepalese context. Environmental effects, volunteering, philanthropy, and ethical labor practices are a few aspects of responsibility that many international business companies are practicing (Naupane, 2018).

In Nepal Corporate sectors have not integrated CSR activities, but on the present as per the law minimum 1 % of the profit of institutions should be used as the CSR. Following set of in cases of banks and financial institutions (BFIs), Circular no. 11/073/74, issued by Nepal Rastra Bank (NRB), the Central Bank of Nepal (The NRB Circular 2073). And thanks to the NRB circular that also sets restrictions on the use of CSR funds. The banking sector can play a leading role in establishing CSR concepts

in Nepalese business and corporations. It is obvious that CSR has many advantages for the banking sector as it helps enhance the bank's reputation and financial performance. Since a bank's reputation is a determining factor to retain old clients and attract new ones, it can eventually enhance the bank's financial position. Nepalese corporations aware about what CSR is but have a mixed understanding and perspective as to the way it should be carried out. Most have philanthropic prospective while some have stakeholder prospective. As compare to the developed countries CSR in Nepal is still in its initial stage and carrying out CSR activities don't have any specific rules or regulation. Therefore the status of CSR is not very satisfactory but it is increasing and most firms are taking it positively by trying to take their social responsibility more seriously. With good governance and adequate government role, CSR can be highly improved and the Nepalese society can be made much better (Shreshtha, 2018).

## **1.2 Statement of the Problem**

Corporate social responsibility (CSR) is doing business on responsible manner. It is one of the important business approaches that contribute to sustainable development by delivering economic, social and environmental benefits for all stakeholders. One of the significant achievements in the second half of the 20th century in the corporate sector has been a shift in focus from neoliberal capitalist way of generating profit for shareholders towards the advanced neoliberal concept of making profit in a sustainable manner for the stakeholders (Singh, 2015). Milton Friedman's concept of business, there is one and only one social responsibility of business" to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" is being modified as corporations becoming more responsible towards society through its corporate social responsibility (CSR). There remains tremendous opportunity and curiosity about how CSR can be taken forward in the country. The question then becomes one of how to further understand CSR in a much more in-depth manner, incorporating this into core business objectives, looking at modalities for both internal and external CSR and implementation ([Rosenkrantz, 2014](#)).

In Nepal commercial banks play crucial intermediary role that create public trust and confidence among the participant in banking system. This sector being considered a highly trusted sector, any lacking in the system or failure in the governance would attract adverse effect in public trust and economic environment of the country. Nepal is a one of the developing country. It has been struggling to maintain macroeconomic for couple of years now. Low growth rate, high unemployment, balance of payment deficit, ballooning trade deficit, high and sticky inflation are some of the pressing existing macroeconomic challenges. However, the commercial banks are growing in numbers in which pressurized the central bank to effective supervision for the protection of rights of customers and implementation of CSR practices.

In Nepal not only the laws determine the CSR. There are different factors to determining the CSR on Nepalese banking sector. The characteristics of the bank also one determine factor on level of CSR. This study fuscous on how the firm's characteristics like goal, age, size, profitability, types of ownership, investment sectors and structure of organization impact on level of CSR activities of joint venture commercial bank. This study here tried to add following research questions:

- What is the status of CSR practices in Nepalese joint venture commercial bank?
- How the age of bank (Nepalese joint venture commercial bank) impact on CSR?
- What is the relationship between bank size and CSR activities in Nepalese joint venture commercial bank?
- How does the bank profitability impact to CSR activities of Nepalese joint venture commercial bank?

### **1.3 Purpose of the study**

The main purpose of the study is to identify present status of corporate social responsibility on the Nepalese joint venture commercial banks. Specifically, this study has the following purposes:

- ✓ To identify the major CSR activities of joint venture commercial bank of Nepal

- ✓ To examine impact the bank age on CSR activities in Nepalese joint venture commercial bank
- ✓ To assess the relationship between bank size and CSR activities in Nepalese joint venture commercial bank
- ✓ To examine the impact of bank profitability on CSR activities of Nepalese joint venture commercial bank

#### **1.4 Significance of the study**

Corporate Social Responsibility is bright side of a coin. It to be understood contributed part of profit of an organization to the development of society, employee and environment followed by its shareholders and stakeholders as well. Till 1984, financial sector was closed to private sector and foreign investors. The government of Nepal started to liberalize the financial sectors in the first half of 1990s. Private sector invested huge amount into the financial sector especially after restoration of democracy in 1990. Most of the commercial banks as well as joint venture banks came into during the decade of 1990s.

Nowadays in Nepalese context, CSR is increasing tremendously particularly during the recent years. This study may be helpful to the investors, Institutions, government bodies; public as well as other stake holders as it analyze how the bank characteristics impact corporate social responsibility on the joint venture commercial banking industry of Nepal. The study's findings have implications for preparation of further CSR policy. It may help to evaluate the bank characteristics impact on level of CSR. The bank characteristics are like goal, age, size types of ownership, profitability, investment sectors, structure of organization etc. This study may be significant to help the banking institutions as well as financial institutions, government agencies, stockholders, employees and other stakeholders to know the practices of corporate social responsibility according to the bank characteristics. So the study is significant as it may analyze the impacts of CSR which may help overall stakeholders.

Regulatory bodies are preparing harder rules to enhance the CSR rules and regulations for the banks and financial institutions that meet the international standards. This rule primarily focuses on CSR practice and its impact on determining the financial performance of commercial banks in Nepal. As the Nepalese financial scandals in such organizations is increasing day by day. This



situation in Nepalese commercial banks has been the emerging issues at present and such issues considered to have the large impact on the performance of the banks.

### **1.5 Limitations of the Study**

Each and every work has its own sort of limitations involved in the process of performing the task. Same way this research also has some limitations which could not be ignored. This study is related to the level of corporate social responsibility. It will show relationship between firm's characteristics and CSR. Although it has some limitations:

- | J The research is based up on the individual opinion of respondent regarding the problem. Since, some collected information from primary data are individual opinion, bias may be unavoidable some times.|
- | J Although sample size is large enough, yet, some sort of statistical sample errors may not be ignored. E.g. sample may not represent the population perfectly which causes problem and generalization of the result or outcome.|
- | J The sample in this research is limited to joint venture Commercial Banks ("A" class) of Nepal. The results may not be valid to other commercial bank and other class of banks such as development bank, cooperative banks and finance companies. Thus, the findings from this thesis cannot be generalized to the overall Nepalese banking sector due to limited sample.|
- | J The independent variables size and profitability are measured only by core capita and ROA respectively. Bank size can be measured in many ways such as a number of employees, total assets, and the number of branches whereas net profit after tax and ROE can measure bank performance. Such factors were not investigated in the study, which may provide different findings.

Lastly, this thesis examines the factors affecting CSR disclosure in Nepalese banking sector and may not be generalized to other developing nations' banking sectors. Country specific factors and the banking cultures may affect the disclosure level in different countries.

### **1.6 Chapter Plan**

The study has been organized into five chapters. The chapter one to five consists of introduction, review of literature, research methodology, presentation and analysis

of data and summary, conclusion and recommendations respectively. Rationale behind this kind of organization is to follow a simple research methodology approach.

#### i. Introduction

This first chapter consists of background of the study in which the studies' background is described. The problems of statement and research questions are formulated which supports to clear about the objectives of the study. Then the objectives of the study are point out and significance of the study is described. Finally the limitations of the study are described and this chapter ends.

#### ii. Literature Review

It includes a discussion of the conceptual framework and review of major empirical works. The conceptual frame work, analysis and review of related literature incorporated in this chapter provide a strong framework for next chapters.

#### iii. Research methodology

This chapter includes the research design, justification for choosing the population, Sample, nature and source of data, data collection procedure, data processing and analysis tools.

#### iv. Data presentation and analysis

This is the fourth chapter of this study. This chapter includes data presentation, data analysis, and major findings of the study. It consists of presentation and analysis of data to indicate quantitative and qualitative fact on issues.

#### v. Summary conclusion and recommendation

It indicates summary, conclusions and recommendations of the study. This chapter presents the major findings in comparison them with theory and other empirical evidence to some extent possible. It also offers recommendations and several directions for future research. Bibliography and appendix have also been incorporated at the end of the study.

## CHAPTER – II

### LITERATURE REVIEW

In this section, the review of the former studies made relevant to this study is done under the two topics. They are: theoretical review and empirical review. The theoretical review is based on the review of various books relevant to this study and empirical review is based on the review of former dissertations, articles and theses which are relevant to this study. This chapter primarily deals with study of various work, research papers, journals, articles that has been done or that is undertaken regarding the relationship between firm's characteristics and CSR and related subject matter nationally as well as internationally. It is the advancement of existing work of various researchers and academicians; and thus is the in-depth study of the subject matter. It starts with search of various works that is performed which is related to the topic and which add certain knowledge to the existing one. In addition to independent studies carried out by well-known experts and others are also taken into consideration. The literature review is basically divided into two topics:

- ) Theoretical Review|
- ) Empirical Review|

#### **2.1 Theoretical review**

There are many theories have been developed in the world related to CSR. Mainly agency theory, stakeholder theory and resource dependency have been reviewed in this chapter.

##### **2.1.1 Classical View Theory**

This theory is considered as a traditional perception of trying to avoid performing CSR activities so as to maximize profit for the owners of business (shareholders). Friedman (1970) propounded this theory and supported this classical view on CSR by his statement the responsibility of business is to maximize profits, to earn a good return on capital invested and to be a good corporate citizenship obeying the law no more and no less. To go further in a deliberate fashion is to exceed the mandate of business. It is to make what amounts to an ideological stand with someone else's money and possibly to engage in activities with which many stakeholders would not agree. This expressed an extreme thought in the capitalist's economic system where

business organization are only concerned with maximization of profit for shareholders by conducting their activities within the limits set by the law. Under this theory managers are expected to focus only on profit maximization because they are the agents of the shareholders and should strive towards maximization of shareholders wealth through profit motive (Herremans et al, 1993). A proponent to this theory (Levitt, 1983) stated that the primary objective of business organizations is to maximize profits through aggressive competitive strategies in whatever way that the law accepts to ensure survival of the business, while social welfare should be left for the government to handle. Similarly, one of the main reasons why businesses try to avoid commitment to CSR initiatives is due to the small nature of direct economic benefit derived from it at the expense of a colossal amount of resource commitment to CSR activities. In the process of CSR implementation additional cost of introducing and maintaining a new environmental protection policy will be incurred and the business organization will be in a competitive disadvantaged position, therefore since commitment to philanthropic responsibility denotes additional costs and competitive disadvantage, the financial performance of the company will also be negatively affected. This situation is also explained by (Aupperle et al, 1985) where they came to the conclusion that there is a negative relationship between CSR commitment and financial performance in the short run because of additional expenditure resulting to loss. According to (Burke & Logsdon, 1996) economic benefit should be the target or focus of all CSR policies because CSR initiatives should serve as an avenue of getting profit maximization to shareholders, where profits are unattainable CSR activities should be stopped.

Blowfield & Frynas (2005) cautioned on excessive commitment to philanthropic responsibility which signifies diverting shareholders wealth to non economic activities hence leaving the main objective of business unachieved. Friedman's classical view on CSR has generated a lot of interest by scholars leading to conducting empirical studies to validate the argument been proposed. The scholars are trying to bring a form of conformity between profit maximization (economic objective) and CSR activities (non economic objectives) by stating that CSR leads to increase in financial performance at the long run (Garriga and Mele, 2004; Carroll & Shabana, 2010). Similarly in this regard, (Margolis & Walsh, 2003) examined 127 published empirical studies which focused on the relationship between CSR

commitment and corporate financial performance and concluded that majority of the studies showed a positive relationship.

### **2.1.2 Agency theory**

Agency Theory explains the relationship between the agent as the party managing the company and the principal as the owner, both bound in a contract. An owner or principal is as the party who evaluates the information and the agent is as the party who runs the activities of management and decision making. Agency theory arises because of the separation of functions between the owner and the manager; this is because the capital needs of the company cannot be provided by only one owner. Conflicts may occur between the interests of shareholders and managers. Managers tend to prioritize individual interests than the interests of shareholders.

This refers to a situation in the process of conducting business where the owner of the business organization (principal) utilizes the expertise of an agent (appointed manager) to perform some tasks on his behalf (Heath & Norman, 2004). This express the relationship between the agents (managers) and the principals (Shareholders/Investors), the managers are acting as agents to the shareholders, they are the ones responsible for decision making and implementing it in running the affairs of a business organization, and they also are having access to information that even the owners cannot get (Fama & Jensen, 1983). One of the major issues or fundamental problem that this form of legal relationship presents to the principal is the need to have a constant scrutiny on each step taken by their agent, therefore the principal also needs financial information update at regular basis to help in monitoring the gains achieved from delegating responsibility to the agent (Hendriksen & Breda, 1992). The agency theory literatures are all focusing on how to maintain the relationship between the agent and the principal so that owners and managers can all get what they expect due to the benefits of proper delegation of authority to agents.

### **2.1.3 Stakeholder Theory**

Stakeholder Theory is the basic theory used to understand diversification, Corporate Social Responsibility and Corporate Governance, so that the company's operations not only operate for its own sake. Companies must be able to provide benefits to stakeholders (Ghozali and Chariri, 2007). Disclosure of Corporate Social

Responsibility becomes important, as stakeholders need to evaluate and know the extent to which companies implement Corporate Social Responsibility.

This theory focuses on the relationship between the business organization and any single individual or group of people or functional bodies that are involved in the process of achieving organizational objectives. Stakeholders can be defined as any group or individual that can affect or be affected by the process of achieving business objectives. A stakeholder as defined by (Clarkson, 1995) is any person or group of people that are having an ownership right or any form of interest or claim on an organization. Starik (1995) include humans and non-human entities in his definition of stakeholders. He regarded the natural environment as the non-human stakeholder because of the implications and relevance it has on CSR policies. Jones (1995) classified stakeholders into two groups; primary and secondary groups. The primary group consists of those who influence the survival of the organization in a direct manner, their continuous participation keep the organization surviving.

The organization depends solely and directly on the participation of its primary stakeholders. The Organization can only survive if its managers utilize their skills in creating valuable products to satisfy its shareholders, customers, suppliers, investors, employees, and government. Secondary stakeholders are the group that does not have a direct impact on achievement of organizational objectives, their role is less in importance, impact and the survival of the organization does not depend on their participation. The stakeholder's theory is the extension of objectives beyond profit maximization to include the rights and claims of non-shareholders (Mitchell et al, 1997). The theory is mainly classified into three classes; descriptive, instrumental, and normative. The descriptive explain how to manage or communicate with stakeholders, the normative deals with how to treat stakeholders, and instrumental deals with the relationship between stakeholders and corporate performance (Donaldson & Preston, 1995). Since a business organization is having different types of stakeholders it would be very difficult to have all their different demands attended to at the same time as expressed in (Mele, 2008).

Despite the criticism which the stakeholders theory receives like serving as an excuse for managerial opportunism, destruction of business accountability in an attempt to satisfy all stakeholders which is impossible as noticed in (Jensen, 2000), the theory is

supported by empirical studies which indicates that a lot of organizations engage in CSR to serve stakeholders demands . The stakeholder's theory according to (Pirsch et al, 2007) broadened the objectives of business organizations apart from profit maximization to include satisfying stakeholder's needs as objectives of business organizations. Blair (1995) and Clarkson (1995) explained that stakeholder's theory specifies how to implement CSR not leaving it as an abstract terminology. Under this theory managers are expected to specify their stakeholders and target each group with a certain policy to ensure its responsibilities are settled. This approach in implementing CSR initiatives in the long run leads to success in achieving organizational goals. Corporate performance is measured by the way an organization satisfies its stakeholders because there is a positive relationship between stakeholder's satisfaction and corporate performance (Ruff et al, 2001).

#### **2.1.4 Institutional Theory**

Scott & Christensen, (1995) conducted study as an external factor that influences the way an organization act. Institutional theory is having a link with the way an organization perform its CSR practice because one of the drivers to CSR performance is the pressure exerted by stakeholders and competitors, the organization need to meet multiple demand expected from it and act according to accepted norms in the industry, because organizational legitimacy and survival could be at stake if an organization fail to conform with acceptable institutional norms (Dimaggio & Powell, 1983). Similarly, conformity with accepted institutional norms is positively related with accessibility to resources and achieving organizational legitimacy (Oliver, 1991). Normally, an organization accepts and interprets features or practices that are institutionalized or regarded as acceptable acts to be a social unit that operates within an industry (Scott, 2008). Therefore, institutional theory deals with how organizational decisions are formed, negotiated and transformed into reality by observing what the industry or competitive environment upholds. The activities of a corporate body is shaped by the dominant organization within the field it operates (Brammer et al, 2012).

The process of trying to conform to institutional norms and practices makes an organization to imitate what others are doing so as to be socially acceptable; this is known as isomorphism which can be either institutional or competitive. There are

three motivating factors which leads to isomorphism they are; coercive mechanism, normative mechanism and mimetic. The last one which is mimetic mechanism is as a result of the voluntary urge to imitate other competitors expecting they have an acceptable standard (Amran et al, 2012). Normative mechanism is when imitation is regarded as a necessity to conform to certain requirements for being within the institutional framework like guidelines from professional bodies and academic centers. Coercive mechanism relates to imitation by force, or persuasion, or invitation to sign an agreement. This happens when an organization relies on another organization and cannot stand independently on its own. The main aim of institutional theory is the institutionalization of behavior. According to this theory, institutions can influence organizational behavior amidst its counterparts within the same industry.

### **2.1.5 Instrumental Theory**

Instrumental theory looks at CSR from the perspective of a strategist aiming to take CSR practice as an indispensable opportunity to exploit and get benefits for the business organization. This theory emphasizes on linking CSR practices with profit maximization to benefit different stakeholders. Burke and Logsdon (1996) noted that economic benefits derived from implementation of CSR policies show how an organization is effective in using the instrumental/strategic theories of CSR. When an organization utilizes CSR commitments to support its core business activities and accomplish its missions effectively accompanied by getting a substantial high yields then CSR assumes a strategic.

Position in the decision making process of that organization. Classical view theory and instrumental/strategic theory are similar when it comes to supporting wealth maximization as a sole responsibility to shareholders. The only difference between the two theories is that classical is an extreme position on profit motive at the expense of satisfying the community, while instrumental theory tries to adopt or execute CSR commitments once it can be a strategic point for increase in reputation and wealth maximization (Garriga & Mele, 2004). A lot of studies support the instrumental CSR theory because there is a positive relationship between CSR practice and financial performance. Therefore, instrumental theory supports engaging in CSR practices if it leads to profitability and good image creation or reputation. Johnson (2003) noted that a positive relationship between CSR and financial performance is achievable by



having competitive advantage, strategizing in target areas and maximizing the shareholders value. Strategizing through CSR practices as a tool for enhancing corporate image is also found to be positively related with customer's loyalty (Rahizah et-al, 2011).

### **2.1.6 Legitimacy Theory**

Legitimacy Theory is the basic theory utilized to understand Corporate Social Responsibility. This theory is derived from the design of organizational legitimacy (Dowling and Pfeffer, 1975). Companies carrying out their activities as a social contract with the community that includes community or environmental norms, so that management is more focused on the interaction between companies and society (Deegan, 2002). Legitimacy Theory is a theory that underlies the disclosure of Corporate Social Responsibility. Suchman (1995) stated the definition of legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions.”

## **2.2 Review of related articles**

This of literature review concentrates on previous studies that have been conducted in relation to this study. There were mixed results conducted by previous studies pertaining to the relationship between firm's characteristics and CSR. The important empirical studies are summarized below in this section. Some authors argue that CSR can be seen as either an integral part of the business strategy and corporate identity, or it can be used as a defensive policy, with the latter being used more often by companies targeted by activists. There are many literatures are reviewed for the better understanding of the topic.

CSR defined only or primarily in rich countries could have limited benefits for (or in some cases create obstacles to) sustainable development. SMEs in particular may need some assistance in responding to CSR demands from foreign buyers. The governments and citizens of low and middle income countries would do well to set the CSR agenda for themselves, taking the best of what has evolved to date and of what their business communities already have to offer. Governments may derive greater developmental benefits from CSR where there is a national strategy framework which explicitly recognizes its potential contribution and seeks to align

CSR with development goals. Foreign investors bring with them expertise on CSR that could be tapped more effectively to strengthen domestic capabilities; contractual arrangements and public-private partnerships are two ways of doing so. For each potential intervention, there is a need to assess the likely costs and benefits and possible undesirable side effects. Governments should avoid the tendency to over-engineer policy responses. More generally, there is a need to ensure that CSR-related interventions are seen as contributing to an enabling and predictable environment for private sector activity. If they are ill-conceived or represent an extra burden for business that is not justified by the business benefits, they are unlikely to succeed (United Nations, 2007).

Academic and institutional it appears that issues such as, human rights, labor standards, environmental impact, corruption, workplace relations, marketplace, discrimination between male and female employees, freedom of association, philanthropic activities, relief management, and fair trading options could be considered as important features of standard global CSR practices. But in developing countries these issues are not widely practiced by corporations. Moreover, internal organizational determinants such as managerial perception, effective use of regulatory framework, government-business relationship, role of civil society and media, and organizational readiness have impact on CSR practices. Taking these 14 determinants into account an in-depth study on CSR practices in developing countries can assist in bridging the gap between developed and developing country CSR initiatives. An operational framework for developing countries is suggested. To assess the level of CSR practices of corporations in developing countries, contextual determinants need to be identified and understood, otherwise a comprehensive picture cannot be drawn. Through the proposed operational framework, a developing country's CSR domains can be examined, present issues of CSR practices explored, a list of contextual determinants that influence the practices identified and necessary modifications suggested (Majumda, Alam and et al 2012).

Nzovah (2012) argues there is increasing evidence that the CSR movement has picked up enough momentum to continue unabated into the next century. But while there have been important breakthroughs in the theoretical understanding of CSR, empirical studies on validation of influencing factors have remained scant. Specifically, there is

a scarcity of research addressing the influencing factors, philosophy and practice of CSR in developing countries such as Kenya.

Bayoud, Kavanagh and et al (2012) provided an analysis of whether company size and company age, as well as type of industry, are potential determinants of CSRD practices by Libyan companies. Empirical studies have shown that CSR activities and CSRD varies across companies due to the difference of size, age and industries. They have also shown that this activity and its disclosure are important and systematically determined by company characteristics that affect the relative levels of CSR information disclosure and its performance. The quantitative findings of this paper present evidence that older companies have higher levels of CSRD in terms of environmental disclosure and consumer disclosures compared with companies with lower levels of CSRD. In addition, higher levels of CSRD belong to more environmentally sensitive industries (such as manufacturing sectors) compared with insensitive industries. However, neither company age and nor type of industries. Bayoud, Kavanagh and et al (2012) also explores whether company age, industry type and company size has a potential influence on levels of Corporate Social Responsibility Disclosure (CSR D) in the annual reports of Libyan companies. In this study quantitative and qualitative methods were used to collect data to determine the level CSR D in Libyan firms. Hypotheses are tested using regression analysis on a sample of 40 annual reports from Libyan companies' from 2007 to 2009. In addition, thirty one of the financial managers and information managers express their perceptions about the determinants of CSR D in Libya. The quantitative findings reveal that there is a positive relationship between company age and industry type and the level of CSR D. The qualitative findings show a positive relationship between all factors influencing levels of CSR D used in this study and level of CSR D in Libyan companies.

Chauhan and Amit (2014) studies on the relation between corporate social responsibility expenditure and firm characteristics provide mixed results. In this paper they have examined the relation between corporate social responsibility expenditure and firm characteristics using a sample BSE 30 Indian firms. Based on the results of hypothesis testing which has been carried out it is concluded that Firm's characteristic, such as firm size, and firm sales, has a positive effect and firm

profitability has negative effect on corporate social responsibility expenditure. And firm leverage has no effect on corporate social responsibility expenditure.

Kucerova, Skypalova and et al (2015) find that there is an increase of the companies' engagement in the concept of social responsibility in the Czech Republic. However, the engagement is still at a lower level when compared to other countries of Western Europe. The use and knowledge of the CSR concept in the companies in the Czech Republic was the subject of the research realized at the end of 2013 and in the first half of 2014. This paper deals with the question which factors influence the engagement of enterprises in the CSR in the Czech Republic. The statistical testing proved that the company size and the form of ownership have a significant influence on the company's engagement in the CSR activities. The extent the organization engages within the CSR activities grows with its size. As regards the structure of the ownership; the higher is the share of the foreign ownership and the more companies implement the CSR activities. Companies that have branches in foreign countries are more involved in CSR activities. All monitored factors were evaluated in relation to the extent of activities these organizations performed in the three respective CSR pillars. The results confirm the highly significant difference, on one hand between the company's size, type of ownership and the territorial scope and on the other hand with the extent of activities the organization performs in the frame of social and economic pillars. In the case of the environmental pillar a statistically significant dependence was observed only in the relation to the size of the organization.

Muttakin and Arifur Khan (2015) study for purport to investigate the relationship between firm size, profitability, board diversity (namely, director gender and nationality) and the extent of corporate social responsibility (CSR) disclosures within a developing nation context. The dataset comprises 116 listed Bangladeshi non-financial companies for the period of 2005-2009. A CSR disclosure checklist was used to measure the extent of CSR disclosures in the annual reports and a multiple regression analysis to examine its association with firm characteristics and two board diversity features – female and foreign directorship. Results indicate that large and more profitable firms provide more CSR disclosures. It was also found that female directorship has a negative association with CSR disclosures, while foreign directorship has a positive impact on such disclosures. This paper documents that CSR disclosures decrease further when family ownership is higher and there are more

female directors on the board. This study extends empirical evidence on the association between firm characteristics, board diversity and CSR disclosure practices from a developing nation context. Furthermore, this study also reveals that female directors' impact on firm disclosures may differ between developing and developed nations, and somewhat impeded in the latter. This paper also provides empirical evidence on the importance of appointment of foreign nationals on the boards of developing countries to influence CSR practices.

Ganewatta and Priyadarshanie (2016) conducted the study with the objective of determining whether there is any relationship between firm characteristics and level of CSR disclosures. The descriptive results indicate that the level of CSR disclosure is very low in Sri Lankan Banking companies. Based on the results of hypothesis testing, it is concluded that firms characteristics such as profitability, firm size, sales revenue and age has no any significant impact on level of corporate social responsibility disclosures in Sri Lankan banking companies. A longitudinal study can be done by examining more corporate characteristics of large number of sample firms in the avenue of further research in this area.

Waluyo (2017) identify the firm's Corporate Social Responsibility, stock index, and firm growth. The corporate social responsiveness of the company is measured by analyzing the annual report of the company. There are 30 samples of 49 populations of property and real estate companies in this research. All the companies are listed in Indonesia Stock Exchange in the period 2012 - 2016. The researcher uses multiple linear regression analysis. The result shows that firm size, firm age and firm growth have simultaneous significant effects to the Corporate Social Responsibility disclosure. Partially, the firm size has significant effect towards Corporate Social Responsibility disclosure. This shows the more extensive disclosure of Corporate Social Responsibility, because large companies have a lot of entities highlighted by the market and the public in general. By disclosing more information in the Corporate Social Responsibility disclosure the public accountability can be realized. Older companies better understand what information should be disclosed in the disclosure. The firm growth has no significant effect on Corporate Social Responsibility disclosure.

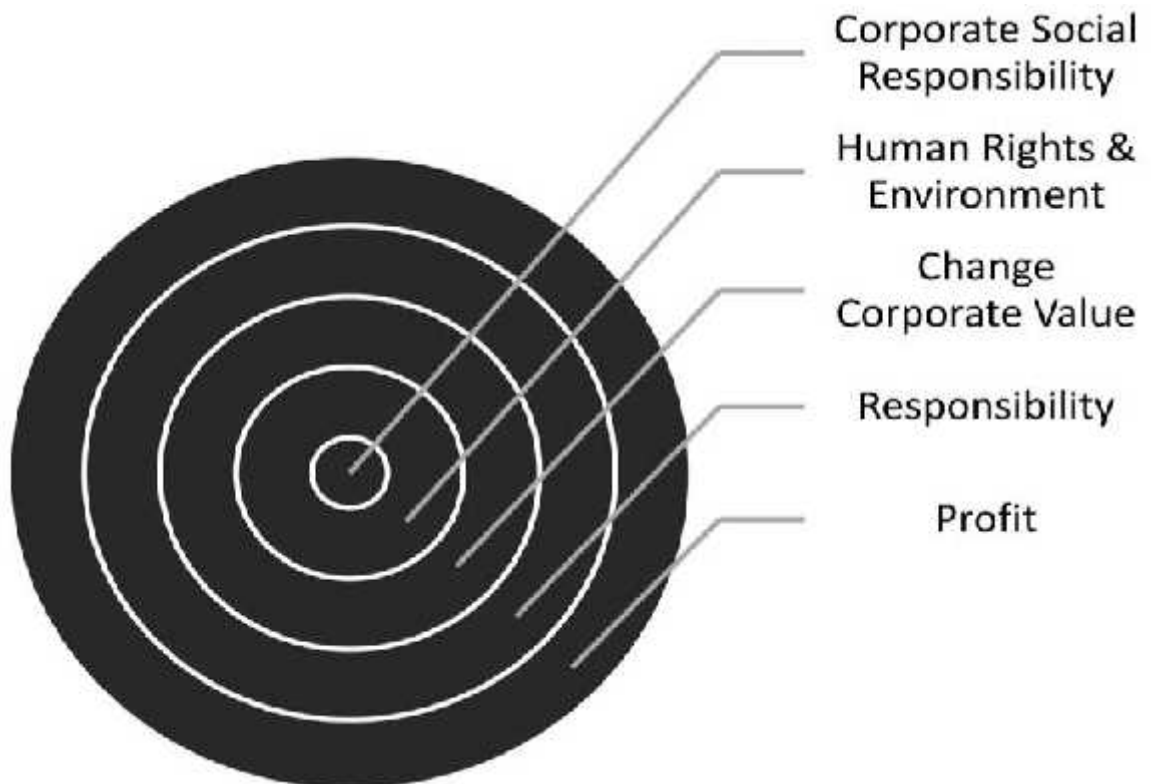
### **2.3 Theoretical Framework**

A theoretical framework is the basis or foundation upon which the study is established. It is within the framework of this theory that the entire study proceeds. Generally it developed theories about research questions. Theoretical framework of the study describes the systematic explanation of the relationship among the dependent and independent variables for the purpose of clarifying the relationship between firm's characteristics and CSR of Nepalese commercial banks. It helps to define the focus and goal of the research problem. Based on the objective of the study and the literature review following conceptual framework is framed to summarize the main focus and scope in terms of variables included.

#### **i) Corporate social responsibility**

On this study CSR is the dependent variable. The CSR has two meaning. First it is a general name for any theory of the corporation that emphasizes both the responsibility to make money and responsibility to interact ethically surrounding community. Second CSR is also specific conception of that responsibility to profit while playing a role in broader questions of community welfare. It composed of four obligations: Ethical, legal, philanthropic and Economic. Corporate Social Responsibility (CSR) is the continuing obligation of a business to behave ethically and contribute to the economic development of the organization. It improves the quality of life of the organization. The meaning of CSR has two folds. On one hand, it exhibits the ethical behavior that an organization behaves towards its internal and external stakeholders. And on the other hand, it denotes the responsibility of an organization towards the environment and society in which it operates. Thus CSR makes a significant contribution towards sustainability and competitiveness of the organization and competitiveness of the organization (Chapagain 2012).

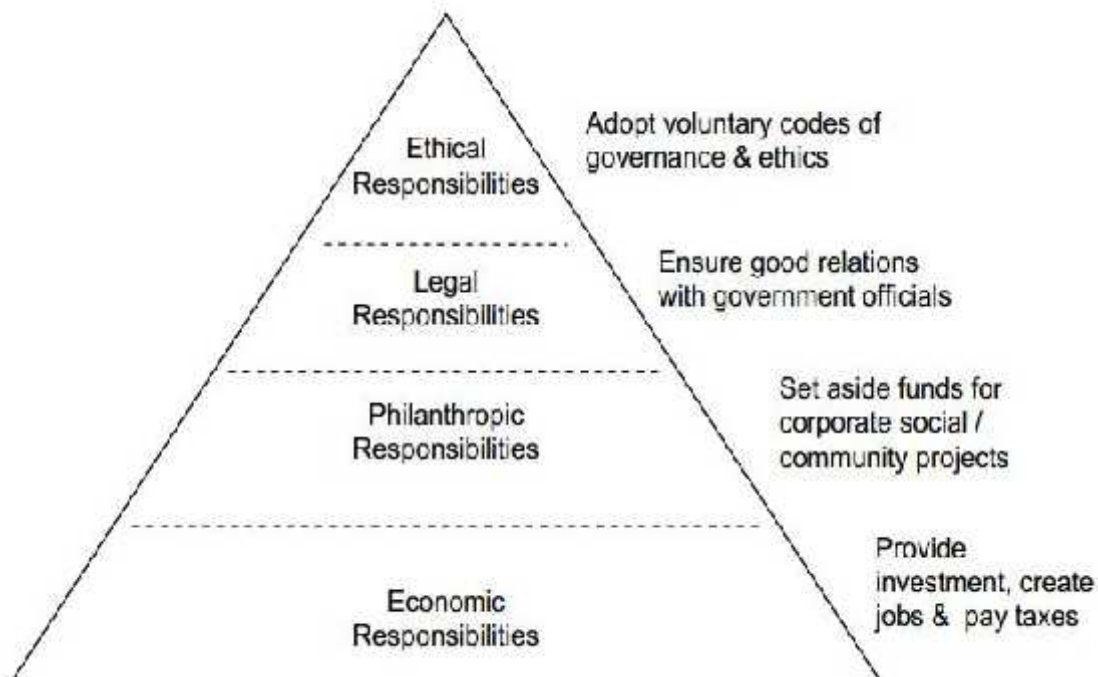
**Figure No.2.3.1**  
**Focus of the social responsibility**



### **CSR model**

Visser (2008) contends that the order of CSR layers in developing countries differs from Carroll's (1991) classic pyramid. In developing countries, even if economic responsibilities still get the most emphasis, philanthropy is given the second highest priority followed by legal and ethical responsibilities. This is explained partly by the traditional attachment to philanthropy by the fact that it is most direct way to improve living conditions in their immediate surroundings and also by a traditional culture of fatalism, dependence and assistance in developing countries. Conversely, the pressure to comply with existing legislation is less as compared to the developed countries. As such, the widely accepted Carroll's (1991) pyramid is revisited in the context of developing countries as shown in Figure:

**Figure 2.3.2**  
**CSR pyramid in developing countries (visser, 2005)**



### **Triple bottom line concept**

The triple bottom line definition of CSR involves corporate financial responsibility, corporate social responsibility and corporate environmental responsibility. The element of social responsibility refers to internal and external dimensions of CSR where the first dimension refers to employees rights, health and safety at work, the management of natural resources and the environmental impacts of production, whereas the second dimension refers to local communities, business partners, suppliers, consumers, human rights and environmental concerns (Belz & Peattie, 2012). The second feature suggests that social and environmental concerns are integrated into all business sectors and are a part of purchasing, operations, sales and marketing. This indicates that CSR is perceived as a set of policies and practices that are integrated into business operations and decision-making processes. Finally, the interaction with stakeholders is another element which indicates that the main point of stakeholder theory is that corporations are not simply managed in line with the interests of their shareholders, but that there are groups such as customers, employees, suppliers and environmental organizations that have a legitimate interest in the corporation as well (Belz & Peattie, 2012). Aside from the triple bottom line definition provided an interesting four-part definition of CSR: “The social



responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time (Carroll 1979). Later Carroll and Shabana (2010) redefined the term discretionary as philanthropic. This definition has been successfully used for research purposes for over 25 years (Carroll & Shabana, 2010) and they argued that it is the most positive and appropriate definition to be used in their study due to its effectiveness on CSR research and its relevancy to their study. To conclude, CSR indicates that companies act in a responsible way dealing with a variety of social, environmental, and economic pressures when responding to the expectations of the various stakeholders with whom they interact, such as employees, shareholders, investors, consumers, public authorities, and non-governmental organizations.

## **ii) Firms characteristics**

The firm's characteristics are the independent variables. They are as follows:

### **Bank age**

A number of studies used company age as one of the most important factors that can affect level of disclosure, in particular. Some studies revealed that there is a positive and significant relationship between level of Corporate Social Responsibility Disclosures (CSR) and company age (Delaney & Huselid, 1996). They think that the older companies provide more information about CSR activities than small companies. For instance, Delaney and Huselid (1996) found a positive link between CSR information and company age. However, some studies found that there is a negative association between the amount of CSR and company age. For example, Rettab et al. (2009) revealed a negative relationship between CSR and company age. Bank age can be measured by the number of year in business since establishment. In this paper, the age of the bank is computed from the date of establishment until the current year.

### **Bank Size**

The bank size is measured by the core capital of the banks. Bank size can be measure by core capital. Some of the prior researcher the bank size measured by the total assets, market capitalization, number of employee etc. In this study, it can be taken as a core capital of selected sample of bank.

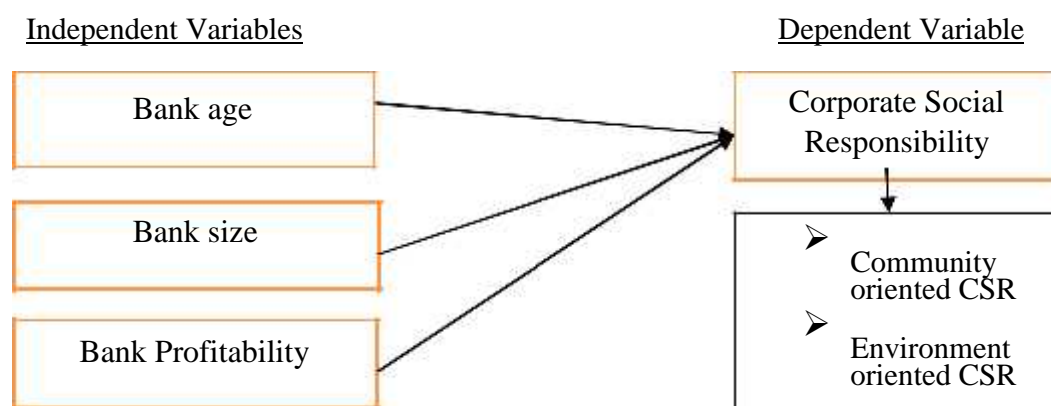
### **Bank Profitability**

Agency theory suggests that managers of profitable firms tend to disclose more information to support the continuance of their positions and compensation arrangements many studies have been performed to understand the relationship between CSR and the financial performance in terms of net income, ROE, ROE and earnings per share. Most studies found a positive relation between financial performance and CSR disclosure. Firms with better financial performance tend to disclose more CSR activities in both annual reports and websites in those empirical studies. Menassa (2010) found mixed relationships with many suggested positive relationships between CSR and financial performance. The empirical evidence, however, is mixed. Courtenay (2006) found positive significant association, whereas Gray (2010) found no significant association. The ROA is taken as the measurement of bank size in this study.

The conceptual frameworks that describe the dependent and independent variables used in the study are shown in the Figure 2.3.2.

**Figure 2.3.3**

**Conceptual Framework**



## 2.4 Research Gap

In Nepalese context, the concept of CSR is in initial phase. On the NRB circular 2073, there is clearly a mention about CSR. According to this circular, all the financial institution must be expenses 1% on CSR activities of their profit. But nobody has been carried out regarding relationship between bank characteristics and CSR in joint venture commercial banks of Nepal. But foreigner researchers have attempted to examine the impact of firm's characteristics on the performance of CSR on particular countries. Most research conducted in well-developed as well as

developing economy countries in large industrial as well service sectors. Nepalese joint venture commercial banks are small size and market rather than developed economy countries' commercial banks, so this research has very first time attempted to examine the relationship between bank characteristics and CSR on joint venture commercial banks in Nepal. Therefore this study will be fruitful to those interested persons, scholars, students, teachers, society, other stakeholders, businessman and government for academic as well as policy perspectives.

### **CHAPTER-III**

## **RESEARCH METHODOLOGY**

This chapter expresses the technique and procedure useful in the whole portion of the study. In this chapter, the research design, data collection procedure and procedures concerning analysis of data are described thoroughly. This chapter mainly emphasizes on the research process and methods design to meet the stated objectives of the study. It describes the methods and process applied in the entire aspect of the study. In other word, research methodology is a systematic way to solve the research problem. Research methodology refers to the various sequential steps to be adopted by the researcher in studying a problem with certain view. It is basically focused on the methodological issues associated with this study. A focus is given to introduction, research design, population and sample, nature and sources of data, and data analysis tools and technique using empirical models.

### **3.1 Research Design**

In this study, descriptive and analytical research design is adopted to examine the interrelation of CSR with bank size, age and profitability. Some financial and statistical tools have been applied such as standard deviation, correlation, regression analysis to examine facts and descriptive techniques have been used to examine the relationship between firm's characteristics and CSR practices of Nepalese commercial banks. The questionnaires are left with the respondents and are requested to fill up the questionnaire on the free time, not instantly. After few days, it was collected back, following no influence of the researcher on the respondents. In order to get diverse responses from the respondents, questionnaire was distributed to top and middle level management team of various branches of joint venture commercial banks.

### **3.2 Population and Sample**

In order to examine the relation between firm's characteristics of Nepalese commercial banks, this study contains 140 samples of all joint venture commercial banks of Nepal and convenience sampling method is used for this study. Also for the questionnaire purpose 20 respondents are selected from each joint venture commercial banks. Table 3.2.1 presents the list of sample bank along with number of samples.

**Table No.3.2**  
**List of sample banks selected for the study along with number of observations**

S.N	Name of bank	Observation

1	Nabil Bank Ltd.	20
2	Standard charter bank	20
3	Himalayan bank limited	20
4	Nepal SBI bank Ltd.	20
5	Nepal Bangladesh bank Ltd	20
6	NMB bank Ltd.	20
7	Everest Bank	20
	Total observation	140

### 3.3 Data collection procedure

This research used primary data to collect the data on the subject matter and also know further about subject. Primary data was collected with the help of a close ended questionnaire that is prepared to know the relation between bank characteristics and CSR.

#### 3.3.1 Primary Data

Primary data was collected through the means of questionnaire. The questionnaire was self-administered by the respondents from the joint venture commercial banks. The total sample of 140 respondents was distributed into 7 different commercial banks. The questionnaire were filled up by the bank staffs on printed hard copy, which was later imported to the excel sheet and SPSS for further analysis.

#### 3.3.2 Secondary Data

The main source of secondary data is annual report and quarterly reports published by concerned banks which include financial statement, balance sheet and income statement. This academic research is based on primary data as well as secondary data.

### 3.4 Data and Processing Procedure

The research is based on both primary and secondary data. Descriptive and inferential data analysis is aimed to be calculated. To collect primary data questionnaire has used and to collect the secondary data Internet web sites, annual

reports of listed companies has used. For mathematical analysis, various financial and statistical tools like average (mean), standard deviation, regression, correlation and etc. has used. Similarly, SPSS, Spreadsheet, Excel and word has used to perform calculation.

### **3.5 Data Analysis Tools and Technique**

Data collection from various sources leads to the logical conclusion appropriate tools and technique are adopted for analysis of such data. The collection data has no meanings if such data are not analyzed. A statistical and financial tool has used to analyze the data in this study; the different tools used in study are as follows:

#### **3.5.1 Arithmetic Mean**

Mean is the value, which represent the group of value and gives an idea about the concentration of value in the central part of the distribution. An average gives us a point, which is most representative of the data. It depicts the characteristics of the whole group. The value of arithmetic mean lies in between the two extreme observation of the entire data. It is an envoy of <sup>th</sup> mass homogeneous data.

The value of the AM is obtained by adding together all the items by dividing this total by the number of items.

Mathematically, Arithmetic Means (AM) is given by,

$$= \frac{\sum X}{n}$$

Where,

$\bar{X}$ =Arithmetic Mean

$\sum X$  = Sum of all the values of the variable

$n$ = Number of observation

#### **3.5.2 Standard Deviation**

The standard Deviation ( ) measure the absolute dispersion. The greater the standard deviation, greater will be magnitude of the deviations of the values form

their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series and vice versa.

Mathematically,

—  
—

### 3.5.4 Correlation Coefficient (r)

When the relationship is of quantitative nature, the appropriate statistical tools for discovering and measuring the relationship and expressing it, in a brief formula is known as correlation. When the values of variable are directly proportional than, it is said to be a positive correlation. On the other hand, if the values of the variable are inversely proportional, the correlation is said to be negative, but the correlation coefficient always remains within the limit of +1 to -1 by Karl Pearson, the simple correlation coefficient (between two variables, say X and Y) is given by,

$$r = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2 \sum (Y - \bar{Y})^2}}$$

Where,  $r$  is the correlation between two variables  $X$  and  $Y$ , ' $r$ ' lies always between +1 and -1

When ' $r$ ' = +1, there is perfect positive correlation.

When ' $r$ ' = -1, there is perfect negative correlation.

When ' $r$ ' = 0, there is no correlation.

When ' $r$ ' lies between 0.7 to 0.999 (or -0.7 to -0.999) there is high degree of positive or negative correlation.

When ' $r$ ' lies between 0.5 and 0.699, there is a moderate degree of correlation.

When 'r' is less than 0.5, there is low degree of correlation.

### 3.5.5 Regression Analysis

Regression is the statistical tool, with the help of which we can predict the unknown value of one variable from known value of any other variable. Assuming that the two variables are closely related, we can estimate the value of one variable from the value of another. The variable, whose value is given, is called independent variable and the variable whose value is to be predicted is called dependent variable. Hence, regression determines the average probable change in one variable based on a certain amount of change in another. It is a statistical tool for determining relationship between the variables by the establishment of an approximate functional relationship between them. It is used to determine that whether the dependent variable is influenced by the given independent variable or not.

Regression analysis is a branch of statistical theory that is widely used in almost all the scientific disciplines.

### Multiple Regression Analysis

Multiple regression analysis is a logical extension of the simple linear regression analysis. Instead of single independent variable, two or more independent variables are used to estimate the unknown values of a dependent variable. However the fundamental concept in the analysis remains the same. Multiple regression is defined as statistical device which is used to estimate (or predicts) the most probable value of dependent variable on the basis of known value of two or more independent variables. The following multiple regression equation are analyzed:

$$CSR = a + b_1BA + b_2BS + b_3BP + E$$

Where, Dependent variable CSR = Corporate social responsibility

Independent variables are:

a= Constant

b= Coefficient of variable

BA= Bank Age

BS= Bank size

BP= Bank profitability

E = Error term



Following three regression models are fit for the analysis:

$$\text{CCSR} = a + b_1\text{BS} + b_2\text{BA} + b_3\text{BP} + u_i \dots \dots \dots \text{(i)}$$

$$\text{ECSR} = a + b_1\text{BS} + b_2\text{BA} + b_3\text{BP} + u_i \dots \dots \dots \text{(ii)}$$

$$\text{TCSR} = a + b_1\text{BS} + b_2\text{BA} + b_3\text{BP} + u_i \dots \dots \dots \text{(iii)}$$

Where 'a' is considered as constant term, 'b' is considered as the coefficient of independent variables and  $u_i$  is disturbance or error term. In above combined CSR activities (TCSR), community oriented CSR activities (CCSR) and environment oriented CCSR activities (ECSR) are dependent variables. Bank sizes (BS), bank age (BA) and bank profitability (BP) have been considered as independent variables in each model.

### 3.6 Reliability

Validity and reliability are two factors which any qualitative research should consider while designing a study, analyzing results and judging the quality of the study. The study carried out has considered primary and secondary data for the purpose of analysis and to extract the findings as per the objectives of the study. The reliability and validity of the secondary data depends upon the data in the annual report and data banks of the sample selected. The reliability of the primary data is confirmed through the calculation of the Cronbach's Alfa through the use of SPSS tool.

**Table No 3.2.2**  
**value of Cronbach's Alpha**

Cronbach's Alpha	N of Items
.819	14

*Source: Output of data*

Table No. 3.2.2 depicts the value of Cronbach's Alfa calculated of the questionnaire used during the survey. The calculation reveals the value of cronbach alfa to be 81.9% which meets the minimum standard of being reliable of the data.

## CHAPTER IV

### RESULT DISCUSSION

In this section, descriptive statistics and frequency analysis are used to summarize and compare variables. To assess the relationship between different variable and indicators correlation and regression analysis are tested.

#### 4.1 Data presented under variable

The BS, BA and BP of selected bank are presented as below:

**Table No. 4.1**  
**Data of independent variables**

	BS('000000)	BA	BP(ROA) %
NAVIL bank	18288	35	1.3
Standard bank	13949	32	1.79
Himalayan bank Ltd.	14105	26	1.65
Nepal SBI bank Ltd.	12736	26	2.1
Nepal Bangladesh Bank	11331	25	1.2
NMB Bank	16858	4	.99
Everest Bank Ltd.	14384	25	2.51

*Source: Annual report 2074/75*

The Table No. 4.1 represents the data of independent variables. The BS denoted the Bank size, BA denoted Bank age and BP denoted bank profitability respectively. The bank size is measured by core capital. The Bank age is determined by current year minus date of establishment and bank profitability determined by ROA. From the table it can be concluded NAVIL bank is the largest joint venture bank and Nepal Bangladesh bank is the smallest joint venture commercial bank. Similarly, NAVIL bank is the oldest bank as well as NMB bank is the newest joint venture commercial bank of Nepal. The NMB bank has lowest ROE for the year however Everest bank has the highest ROE during the year.

## 4.2 Description analysis under Study

The descriptive analyses under the study are as follows:

**Table 4.2**  
**Descriptive Statistics**

	Minimum	Maximum	Mean	
Combined CSR activities (TCSR)	4.00	14.00	9.7143	2.87456
Community oriented CSR activities (CCSR)	3.00	7.00	6.0000	1.31401
Environment oriented CSR activities (ECSR)	1.00	7.00	3.7143	1.98659
Bank size(BS)	11331.00	18288.00	14521.5714	2364.07803
Bank age(BA)	4.00	35.00	24.7143	9.92831
Bank profitability (BP)	.99	2.51	1.6486	.53577

*Source: Output of data*

From the table 4.2, it can be concluded that all of the joint venture commercial banks of Nepal participate in voluntary CSR activities. Most of the banks in the sample are concerned of the community oriented CSR activities. This may be due to the strict rule and regulations imposed by the central bank as well as strong adequate stakeholder engagement (Acharya, 2003). The CCSR scores range from a minimum of 3 to maximum 7 with a mean score of 6, as well as standard deviation of 1.31 for CCSR.

Banks are more concerned of their environment oriented CSR activities after community oriented CSR activities. The mean score is 3.71, and the standard deviation is 1.98. The highest score is 7 and the lowest score is 2. The majority of the sample banks are lagging behind in environment oriented CSR activities. This may be due to unawareness of environmental disclosures and voluntary nature of the disclosure. The result is consistent with (Belal & Cooper, 2011) in Bangladesh, (Visser, 2008) in South American countries and (Idemudia, 2011) in African countries.

An overall CSR activity on Nepalese joint venture commercial banks shows the average disclosure of 9.71 and standard deviation of 2.87. The scores suggest a

moderate CSR disclosure in a developing country like Nepal. The score is higher as compared to other developing countries in Asia context (Bayoud et al., 2012b; Hossain & Reaz, 2007). The table shows the average size of Nepalese banks, measured by core capital, is 14521.57 whereas average age is 24.71 years and the average profit, measured by ROA, is 1.64.

### **4.3 Correlation Analysis**

The Pearson correlation coefficient was computed to explore the relationship between the variables before conducting the regression and examining the issue of multicollinearity. Table 4.3 shows the correlation matrix between dependent variables is bank size, bank age and bank profitability and independent variables are combined CSR activities, community oriented CSR activities and Environment oriented CSR activities.

The Pearson correlation ( $r$ ) is based on the assumption that variables are normally distributed without any outlier once data transformation performed on bank size and bank profitability. To assess the size and direction of the linear relationship between independent variables (bank size, bank age,) and dependent variables(combined CSR activities, community oriented CSR activities and Environment oriented CSR activities), a bivariate Pearson's correlation coefficient ( $r$ ) was calculated. Cohen (1988) suggested that the absolute value of Pearson correlation ( $r$ ) is the determinants for Pearson correlation in analysis where weak correlations exist when the absolute value of  $r$  falls between 0.1 and 0.299; moderate correlations exist when the absolute value of  $r$  falls between 0.3 and 0.499, and strong correlations exist when the absolute value of  $r$  falls between 0.5 and 1. The correlation analysis and interpretation of seven sampled bank's SPSS out of is in Annex-1. The correlation interpretation along with the significance can be described as follows:

**Table No. 4.3**  
**Correlations Matrix**

	TCSR	CCSR	ECSR	BS	BA	BP
TCSR	1					
CCSR	.800**	1				
ECSR	.918**	.496**	1			
BS	.234**	-.056	.376**	1		
BA	-.443**	-.226**	-.491**	-.119	1	
BP	-.217**	.196*	-.444**	-.250**	.369**	1

*Source: Output of data*

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

Table 4.2 presents a preliminary indication that most of the independent variables are associated with dependent variables number of CSR activities. TCSR is positive and significant with CCSR, ECSR and BS but negative and significant with BA and BP with correlation values .8, .918, .234, -.443 and -.217 respectively. The combined CSR activities have a significant and strong correlation with community oriented CSR activities and environment oriented CSR activities. It has positive as well as significant moderate correlation with bank size whereas, negative degree of significant moderate correlation with bank age and low degree of significant negative correlation with bank profitability.

CCSR is positive and significant with ECSR and BP but negative and insignificant with BS and negative and significant with BA with correlations values .496, .196, -.056 and -.226 respectively. The community oriented CSR activities have a significant as well as moderate correlation with environment oriented CSR activities and significant as well as weak correlation with bank profitability. It has insignificant as well as weak negative correlation with bank size. On the other side, there is a significant as well as weak negative correlation with bank age.

The correlations of ECSR with BS, BA and BP is .376, -.491 and -.444 respectively. The environment oriented CSR activities has significant positive moderate correlation with bank size. It has the significant negative moderate correlations with bank age and profitability. Similarly, the BS has insignificant negative weak correlation BA and

negative significant weak correlation with BP with correlations value -.119 and -.25.

The BA is significant positive moderate with BP with correlation value .396.

The positive and significant relationship between bank size and combined CSR level indicates that larger banks tend to performed more CSR information compare to smaller banks. The larger bank performs more environment oriented CSR activities rather than community oriented CSR activities because bank size has positive relationship with ECSR and negative relationship with CCSR. Similarly, the negative and significant relationship between bank age and TCSR, CCSR and ECSR suggests that older banks performed less CSR activities compare to newer banks towards community, environment and combined CSR. Profitability is also negative and significant with TCSR and CCSR, which suggests that profitable banks performed less CSR activities to less profitable banks. In contrary, the positive relationship between profitability and CCSR indicates that the level of profit influences the community oriented CSR activities in Nepalese joint venture commercial banks.

Overall, a number of independent variables are significantly correlated. The presence of variables in models does not suggest a problem of multicollinearity because the absolute correlation magnitude is not more 0.9 (Tabachnick & Fidell, 2007). The bivariate correlation between TCSR with bank size is positive and significant at 1% and TSR with bank age and profitability are significant at 5%.

#### **4.4 Result of Regression Estimates**

Regression is statistical method for investing relationship between variables. This study attempts to estimate various econometric models to confirm the relationship between firm's characteristics and CSR activities and to test the robustness of the results. Results of the regression estimates are presented in different tables with linear model and analyze in the following sub headings. The analysis of the results of total sample is presented sector wise in different models and the separate analysis of the whole sector has been compared model wise. The multiple regression analysis determines the unknown value of dependent variable based on the more than one variable. The multiple regression models can be fit as below:

##### **4.4.1 Community oriented CSR activities (CCSR)**

The equation (i) empirical model is employed to identify the effects of bank size, bank age and profitability of the bank on CCSR in Nepalese joint venture commercial

banks. CCSR is one of the most disclosed items in corporate responsibility world. The above model was prepared by merging all subcategories as a CCSR. The following Table 4.4.1 presents regression results for CCSR.

**Table No. 4.4.1**  
**Summary of multiple regression**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error				
1	Constant	7.312	6.974		1.048	.296
	Bank size	-.357	1.652	-.018	-.216	.829
	Bank age	-.049	.012	-.345	-4.038	.000
	Bank profitability	.842	.232	.319	3.636	.000
	F-value				7.462	
	R <sup>2</sup>				.141	
	Adjusted R <sup>2</sup>				.122	

*Source: Output of data*

The Table No. 4.4.1 shows that regression analysis for community oriented CSR activities with three independent variables that affect the CCSR had  $R^2 = 14.1\%$  and adjusted  $R^2 = 12.2\%$ . Bank size, bank age, and bank profitability statistically significantly predict social disclosures of Nepalese joint venture commercial banks,  $F(3, 140) = 7.462$ ,  $p < 0.005$ . Bank size is measured by core capital, bank age is measured by number of year since establishment and profitability is measured by ROA. Bank size and bank age have a negative sign as expected, but profitability has a negative sign which was opposite than the predicted sign.

#### 4.4.2 Environment oriented CSR activities

The above equation (ii) empirical model is employed to identify the effects of bank size, bank age and profitability of the bank on environment oriented CSR activities level in Nepalese banks. ECSR is one of the heated topics in today's corporate world. World Leaders are united to address the adverse effect caused by industrialization to this planet. The following table 4.4.2 presents the regression results for ECSR of Nepalese joint venture commercial banks.

**Table No. 4.4.2**  
**Summary of multiple regression**

Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.
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	B	Std. Error	Beta		
(Constant)	-27.163	8.882		-3.058	.003
Bank size	8.279	2.104	.272	3.935	.000
2 Bank age	-.080	.016	-.371	-5.142	.000
Bank profitability	-.955	.295	-.239	-3.240	.002
F-value				29.064	
R <sup>2</sup>				.394	
Adjusted R <sup>2</sup>				.377	

*Source: Output of data*

The table no. 4.4.2 shows that regression analysis ECSR, which consists of three independent variables that affect the ECSR activities level had  $R^2 = 39.4\%$  and adjusted  $R^2 = 37.7\%$ . Bank size, bank age, and bank profitability statistically significantly predict environmental disclosures of Nepalese joint venture commercial banks,  $F(3, 140) = 7.462$ ,  $p < 0.005$ . Bank size is measured by core capital, bank age is measured by number of year since establishment and profitability is measured by ROA. Bank size has a positive sign as expected, but bank age, and profitability have a negative sign which was opposite than the predicted sign. From the table, only bank size is positively significant at 0.05 levels, and all other independent variables are insignificant. The regression analysis shows a higher  $R^2$  and adjusted  $R^2$  in environmental oriented CSR activities in Nepalese joint venture commercial banks, as most of the banks are aware of environmental disclosure and made an investment in environmental program. The government of Nepal has mandated a certain percent of investment should be in environmental program and sustainable development.

#### **4.4.3 Combined CSR activities**

The above equation (iii) empirical model is employed to identify the effects of bank size, bank age and profitability of the bank on total CSR activities in Nepalese joint venture commercial banks. The total disclosure is a summation of CCSR and ECSR..This is the overall CSR activities regardless of any individual CSR activities. The TCSR provides the overall CSR activities made by Nepalese joint venture commercial banks in all area of sustainability. There is no guidance on reporting such activities. In developing country context, overall CSR disclosure plays a vital role in the corporate world. However, prior studies on CSR in developing countries noticed less CSR disclosures in their annual reports ( Menassa, 2010) compare to those in the



Western countries (Gamerschlag et al., 2011a). With simple inspection on total disclosure, a decision can be made on their quantity and quality of CSR disclosure in their annual reports. The following table 4.4.3 presents regression results for total CSR activities in Nepalese joint venture commercial banks.

**Table No. 4.4.3**  
**Summary of multiple regression**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-19.852	14.452		-1.374	.172
Bank size	7.923	3.423	.180	2.314	.022
3 Bank age	-.129	.025	-.414	-5.109	.000
Bank profitability	-.113	.480	-.020	-.236	.813
F-value				13.512	
R <sup>2</sup>				.23	
Adjusted R <sup>2</sup>				.213	

*Source: Output of data*

The table no. 4.4.3 shows that regression analysis for total CSR activities, which consists of three independent Variables that affect the CSR activities level had  $R^2 = 23\%$  and adjusted  $R^2 = 23.3\%$ . Bank size, bank age, and bank profitability statistically significantly predict overall CSR activities of Nepalese joint venture commercial banks,  $F(3, 140) = 13.512$ ,  $p < 0.005$ . Bank is measured by core capital, bank age is measured by number of year since establishment and profitability is measured by ROA. Bank size has a positive sign as expected, but bank age, and profitability have a negative sign which was opposite than the predicted sign. Bank size is positive and significant whereas bank age and Profitability are negative but significant.

#### **4.5 Additional analysis**

As discussed earlier, commercial banks are the major players of Nepalese banking sector with more than 50% of market capital. There are 27 commercial and some of them 7 banks are joint venture commercial bank studied in this thesis. Today's the CSR becoming sensitive issues on the financial sectors, hence The study also find out some information about CSR understanding on the joint venture commercial bank from employee prospective.

##### **4.5.1 Employee perception towards CSR**

To understand the employee perception towards CSR the study focus into two general terms. Basically, this study focuses on the bank characteristics and CSR activities of joint venture commercial bank of Nepal. During research period the following data also find through questionnaire. The following table depicts the descriptive information on CSR.

**Table No 4.5.1**  
**Frequency distribution**

	Frequency	Fqnc.%
The relationship of business with society and Envt.	96	68.6
Relationship of business with integral part of organization	25	17.9
Both of Above	19	13.6
Total	140	100.0

*Source: output of data*

The table 4.5.1 represents the frequency distribution of terms meaning of CSR in view of employee from joint venture commercial bank of Nepal. On the observation of 140 employees all are they familiar in terms of CSR. Out of 140, the 96 persons are argues that the CSR is relationship between business with society and environment. It represents the 68.6% of total observation. Similarly, 25 numbers of employees or 17.9% are argues the CSR is relationship between business with integral part of organization and 13.6% are understood about CSR is both relationship. Overall, the employee's perception is CSR means relationship of business with society and environment.

#### **4.5.2 Purpose of CSR**

There is identifying 7 main indicators related to purpose of CSR. They are ES (employee satisfaction), CS (customer satisfaction), IRP (improving relation with public, ER (enhancing reputation), IRI (improving relation with institutions), EI (efficiency increments) and CB (commercial benefit). The result is outcomes of data by using SPSS. This study find the most important to least important purpose of CSR on joint venture commercial bank of Nepal based on employees perception. The result leads the view of total 140 observations. The related data can be presented as following table:

**Table No.4.5.2**

**Descript Analysis of CSR purpose**

	Minimum	Maximum	Mean	Std. Deviation
Employee satisfaction (ES)	1.00	7.00	4.1286	2.27859
Customer satisfaction (CS)	1.00	7.00	3.8929	2.03458
Improving relationship with public (IRP)	1.00	7.00	3.9929	1.84857
Enhancing reputation (ER)	1.00	7.00	3.7857	1.77020
Improving relationship with institution (IRI)	1.00	7.00	3.6000	1.72080
Efficiency increments (EI)	1.00	7.00	4.2857	1.95373
Commercial benefit (CB)	1.00	7.00	4.2571	2.29598

*Source: SPSS output*

The Table no.4.5.2 presented values of mean and standard deviation of seven indicators related to purpose of CSR. The mean values of ES, CS, IRP, ER, IRI, EI and CB are 4.12, 3.89, 3.99, 3.78, 3.6, 4.28 and 4.25 respectively. EI has highest mean value and CB has second highest mean value with values of 1.95 and 2.29 standard deviation. Similarly, IRI has lowest mean value with 1.72 standard deviation value. The lowest mean value represents the most important and highest mean value represents the least important. Based on the data, efficiency increment is the least important purpose for doing CSR activities on joint venture commercial bank whereas improving relations with institutions may be most important. Many organizations have adopted such CSR programs to boost the sales and company image through ethical CSR practice (Becker-Olsen, Cudmore, & Hill, 2006). But this study find that joint venture commercial bank mainly adopt CSR program to improving relations with institutions of bank. Therefore, the investment in CSR could be beneficial to all stakeholders, which minimizes the social and employees risk.

#### **4.5.3 Current CSR issues**

On financial sectors recent trend in CSR has been associated with corporate governance and ethical business procedure. Wise and Ali (2008) pinpointed that good corporate governance is the best mechanism to underpin effective and efficient corporate social responsibility within the firms. Thus, developed countries have very strong corporate governance eventually leading to good CSR disclosures. When it

comes to developing countries, there is a lack of good corporate governance and ethical business procedures and so a failure to CSR disclose. The relationship between CSR and CG, CSR utilization, CSR disclosure and laws, CSR management, CSR evaluation system, Employee participation on CSR, CSR awareness activities within organization and relation between CSR and financial performance are the some current issues on Nepalese joint venture commercial bank. The general understanding of employee towards such issues also presented on this study. There is fit seven opinion statement to finding general understanding on current CSR issues of such bank. The Likert scales of measurement have been adopted. On This scale value '1' defined as strongly disagrees and value '5' defined as strongly agrees. The result on 140 observations is presented following table:

**Table No. 4.5.3**  
**Descriptive analysis of current CSR issues**

	Mini.	Max.	Mean
Ability of CSR activities management (SDSA1)	1.00		
CSR activity performance evaluation system (SDSA2)	1.00		
CSR utilization unit (SDSA3)	1.00		
Expenses CSR fund as per law (SDSA4)	1.00		
Encourage to employee for participation on CSR (SDSA5)	1.00		
Conduct CSR related seminar (SDSA6)	1.00		
Interrelation between CSR and CG (SDSA7)	1.00		

*Source: Output of data*

Table 4.5.3 shows the result about general understanding of 140 employees on current CSR issues of joint venture bank. The mean values of SDSA1, SDSA2, SDSA3, SDSA4, SDSA5, SDSA6 and SDSA7 are 4.6, 4.3, 3.2, 3.1, 3.5, 3.9 and 4.3 respectively. The employees are strongly agreed on SDSA1. Similarly they response as agreed on SDSA2, SDSA6 and SDSA7. but they were responses as neutral on SDSA3 and SDSA4. This types of different response of employees indicate that all the joint venture commercial bank has ability to manage CSR which is one of the strength related to CSR activities. Similarly, most of the banks (But not all) have CSR activity evaluation system and they provide CSR awareness program within organization to the employees. The employees also agreed there is relationship between CSR and CS.

On the other hand, only few joint venture banks established CSR utilization unit and able to totally expenses the CSR fund as per laws.

#### 4.6 Major Findings

The following findings have been drawn based on the research of sampled banks taken under the study.

1. All of the joint venture commercial banks of Nepal participate in voluntary CSR activities. Most of the banks in the sample are concerned of the community oriented CSR activities.
2. The positive and significant relationship between bank size and combined CSR values .234 indicates that larger banks tend to performed more CSR information compare to smaller banks.
3. The larger bank performs more environment oriented CSR activities rather than community oriented CSR activities because bank size has positive relationship with the value .376 to ECSR and negative relationship with the value -.056 to CCSR.
4. Similarly, the negative and significant relationship between bank age and TCSR, CCSR and ECSR with the values -.443, -.226 and -.491 respectively suggest that older banks performed less CSR activities compare to newer banks towards community, environment and combined CSR.
5. Profitability is also negative and significant with the value -.217 and -.444 with TCSR and ECSR, which suggests that more profitable banks performed less CSR activities than less profitable banks. In contrary, the positive relationship between profitability and CCSR with the value .196 indicates that the level of profit influences the community oriented CSR activities in Nepalese joint venture commercial banks.
6. The Regression analysis for community oriented CSR activities with three independent variables (bank size, bank age and bank profitability) show that affect the community oriented CSR activities had  $R^2 = 14.1\%$  and adjusted  $R^2 = 12.2\%$ .
7. The Regression analysis ECSR, which consists of bank size, bank age and bank profitability independent variables show that affect the Environment oriented CSR activities level had  $R_2 = 39.4\%$  and adjusted  $R_2 = 37.7\%$ .

8. The Regression analysis for total CSR activities, which consists of three independent Variables(bank size, bank age and bank profitability) show that affect the CSR activities level had  $R^2 = 23\%$  and adjusted  $R^2 = 23.3\%$ .
9. All the employees are familiar on CSR. The 68.6% of total observation argues that CSR means relationship of business with society and environment. Similarly, 17.9% are argues the CSR is relationship between business with integral part of organization and 13.6% are understood about CSR is both relationship. Overall, the employee's perception is CSR means relationship of business with society and environment.
10. The joint venture commercial bank mainly adopt CSR program to improving relations with institutions of bank. Therefore, the investment in CSR could be beneficial to all stakeholders, which minimizes the social risk.
11. All the joint venture commercial bank has ability to manage CSR which is one of the strength related to CSR activities. Similarly, most of the banks (But not all) have CSR activity evaluation system and they provide CSR awareness program within organization to the employees. The employees also agreed there is relationship between CSR and CS. On the other hand, only few joint venture banks established CSR utilization unit and able to totally expenses the CSR fund as per laws.

## **CHAPTER-V**

### **CONCLUSION**

This chapter consists of three sections first section provides the summary, the second draws the conclusion of the study and the final section proposes Implications to deal with the problem observed on the basis of findings.

#### **5.1 Summary**

Being a developing country, Nepal has experienced great changes in corporate social disclosures in recent years due to greater public awareness, proper knowledge and rapid growth of communication and technologies. Financial sectors are ahead of other business sectors in Nepal in terms of growth and innovations. Banks are operating via joint ventures, partnerships with foreign banks to boost the investments in different sectors of Nepalese economy. In recent years, Nepalese joint venture commercial banks are involving directly or indirectly on CSR practices. They are basically involved on CSR activities on the field of education, health, environment, charity show etc. The objective behind this study is to find out the main CSR activities and relationship between CSR activities and firm's characteristics. There are seven joint venture commercial banks in Nepalese market. Due to the large number of commercial banks and financial institutions, the competition is getting stiffer and, therefore bank needs to enhance their competitiveness and efficiency by improving performance. Nepalese commercial banking industry is passing through policy changes and challenges.

In general, the study there was bank size, bank age and bank profitability taken as the independent variable and community oriented CSR and environment oriented CSR taken as combined CSR activities. According to the research objective there was taken 140 sample sizes from the joint venture commercial bank (population). The descriptive and analytical research design was adopted for the collected primary data study. The study used different types of statistics tools like mean, standard deviation, correlation and regression. The study finds that all of the joint venture commercial banks of Nepal participate in voluntary CSR activities. Most of the banks in the sample are concerned of the community oriented CSR activities rather than environment oriented CSR activities. The larger banks tend to performed more CSR information compares to smaller joint venture banks. The larger bank performs more environment oriented CSR activities rather than community oriented CSR activities. Similarly, the older banks performed less CSR activities compare to newer banks towards community, environment and combined CSR. The profitable banks performed less CSR activities to less profitable banks. In contrary, the positive relationship between profitability and CCSR indicates that the level of profit influences the community oriented CSR activities in Nepalese joint venture commercial banks. The community oriented CSR activities with three independent

variables (bank size, bank age and bank profitability) show that affect the community oriented CSR activities had 14.1% , affect the Environment oriented CSR activities level had 39.4% and combined CSR activities level had 23%.

## **5.2 Conclusion**

The CSR activities in Nepalese joint venture commercial banks is low, which is consistent with other developing countries such as Bangladesh (M. H. U. Z. Khan et al., 2009) and transitional countries such as Indonesia (Djajadikerta & Trireksani, 2012; Gunawan et al., 2009) CSR disclosure reporting is increasing in Nepalese banks due to its importance in future for investors, regulators and competitors. After the settlement of political unrest in 2006, the number of banks had increased as well as their investments. In current times, many projects in Nepal are attracting a huge amount of Foreign Direct Investment (FDI) where CSR disclosure plays a vital role. The bright side of CSR disclosure in Nepalese banks is that those banks are more concerned about education, health and poverty of local communities where they operate. Most of the banks provide proper training to their employees to provide the best service. This suggests that Nepalese banks concern about the society and its people, however, they do not report their CSR activities properly in their annual reports due to lack of guidelines.

In general, the result suggests that Nepalese banks have performs more community oriented CSR activities than other types of CSR. Some of the banks still operate under a traditional business practice. This leads to a weak financial planning and their inability to report properly their internal control system and mission/vision statements. Environmental disclosure is the least disclosed item in the annual reports of Nepalese banks. This thesis provides empirical evidence on the extent of voluntary CSR activities in the joint venture commercial banks of Nepal within the institutional and legitimacy theoretical framework. CSR activities were collected from content analysis based on primary data collection through questionnaire. Based on past literature, three predictor variables were selected to the extent of community, environmental and total CSR activities. Three influencing factors bank size, bank age and bank profitability were measured by core capital, the number of year in business and ROA. Correlation analysis and multiple regression analysis were conducted to predict the relationship between bank characteristics and the extent of CSR activities.



Bank size is found to be significant, and it is a positive predictor to the extent of environmental and overall CSR activities. Bank size is correlated to these CSR activities with a significance. The findings are mostly consistent with prior literature on CSR disclosure Bayoud et. al., (2012); H. U. Z. Khan et. al., (2011); Menassa (2010). Similarly, the positive and significant findings may be due to industry effects, since, in general, banks with higher core capital tends to disclose more information in their annual reports. Therefore, it can be concluded that larger Nepalese banks disclose more CSR information than smaller banks. Bank age is found to be significant and negative to the extent of community as well as environment CSR activities in the Nepalese joint venture commercial banks correlated at. The mixed findings show that community oriented CSR is not consistent with the work of Liu and Anbumozhi (2009) on Chinese firms; environmental CSR Is not consistent with Australian mineral mining firms research by Hutomo (1995). Bank age is found to be negative and significant to the extent of total CSR disclosure. This was calculated by summation of community and environmental CSR. From the findings, it can be concluded that within the Nepalese joint venture commercial banks, age does not matter in CSR. Bank profitability is found to be significant, and it is a positive predictor to the extent of community oriented CSR activities with a significance. The findings are consistent with works in both developed countries (Gamerschlag et al., 2011) and developing countries (Visser, 2008). Thus, it can be concluded that more profitable banks disclose more CSR information than less profitable banks.

The Regression analysis for community oriented CSR activities with three independent variables (bank size, bank age and bank profitability) show that affect the community oriented CSR activities, affect the Environment oriented CSR activities and affect the total CSR activities. All the employees are familiar on CSR. The majority of total observation argues that CSR means relationship of business with society and environment. Overall, the employee's perception is CSR means relationship of business with society and environment. The joint venture commercial bank mainly adopt CSR program to improving relations with institutions of bank. Therefore, the investment in CSR could be beneficial to all stakeholders, which minimizes the social risk. All the joint venture commercial bank has ability to manage CSR which is one of the strength related to CSR activities. Similarly, most of the banks (But not all) have CSR activity evaluation

system and they provide CSR awareness program within organization to the employees. The employees also agreed there is relationship between CSR and CS. On the other hand, only few joint venture banks established CSR utilization unit and able to totally expenses the CSR fund as per laws.

### **5.3 Implications**

Based on findings of the study, and taking into considerations of the relevant issues, the following appropriate recommendations have been gathered to ease the study useful to the recipients and the other parties. This study should be fruitful to the stakeholder, researchers and student who are interested to this topic.

- a) These findings support the growing literature on CSR by documenting the importance of CSR in the financial sector from a developing country perspective. To some extent, the institutional background of Nepalese banks are similar to other developing countries such as Bangladesh, South American and African countries although very different to developed countries such Australia, USA, Japan and the European countries. Thus, this study contributes to the literature of CSR activities in financial institutions from a developing country perspective.
- b) This provides some insights on reporting CSR activities from developing a country that can be easily understandable globally by making a uniform disclosure practice.
- c) This study is considered to be the first CSR activities research in the Nepalese joint venture commercial banking sector, which examines the current CSR status.
- d) In reference to this study, the regulatory institution may provide incentives for banks to report in their annual reports.
- e) To increase the rate of disclosure, the policy maker must make policy that can benefit the entire society, environment and the banking sectors as a whole.
- f) This study can be a milestone for the Nepalese banks to understand the current status of CSR activities and factors that affect their CSR activities related to joint venture commercial bank.
- g) Based on the result, financial institution can plan and implement their future CSR disclosure activities that suit their banking interest and other stakeholders.

- h) During this study time there was also find some others issues about CSR. Due to the time limitation and objectives limitation, this study does not cover such issues. So, this research is recommended for future research purpose. The interested researcher can be selection of research topic like perception of stakeholders towards CSR, CSR evaluation system, CSR controlling system, relationship between CSR and CG and how to legal factor effects on CSR.

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## ANNEX-1, Correlations matrix

		TCSR	CCSR	ECSR	BS	BA	BP
TCSR	Pearson Correlation	1	.800 <sup>**</sup>	.918 <sup>**</sup>	.234 <sup>**</sup>	-.443 <sup>**</sup>	-.217 <sup>**</sup>
	Sig. (2-tailed)		.000	.000	.005	.000	.010
	N	140	140	140	140	140	140
CCSR	Pearson Correlation	.800 <sup>**</sup>	1	.496 <sup>**</sup>	-.056	-.226 <sup>**</sup>	.196 <sup>*</sup>
	Sig. (2-tailed)	.000		.000	.508	.007	.020
	N	140	140	140	140	140	140
ECSR	Pearson Correlation	.918 <sup>**</sup>	.496 <sup>**</sup>	1	.376 <sup>**</sup>	-.491 <sup>**</sup>	-.444 <sup>**</sup>
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	140	140	140	140	140	140
BS	Pearson Correlation	.234 <sup>**</sup>	-.056	.376 <sup>**</sup>	1	-.119	-.250 <sup>**</sup>
	Sig. (2-tailed)	.005	.508	.000		.162	.003
	N	140	140	140	140	140	140
BA	Pearson Correlation	-.443 <sup>**</sup>	-.226 <sup>**</sup>	-.491 <sup>**</sup>	-.119	1	.369 <sup>**</sup>
	Sig. (2-tailed)	.000	.007	.000	.162		.000
	N	140	140	140	140	140	140
BP	Pearson Correlation	-.217 <sup>**</sup>	.196 <sup>*</sup>	-.444 <sup>**</sup>	-.250 <sup>**</sup>	.369 <sup>**</sup>	1
	Sig. (2-tailed)	.010	.020	.000	.003	.000	
	N	140	140	140	140	140	140

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

(TCSR= Combined CSR activities, CCSR= community oriented CSR, ECSR= environment oriented CSR, BA= bank age, BS= bank size, BP= bank profitability)

## ANNEX-2

## Questionnaires

Dear Sir/Madam,

I am Anil k c, MBS student of Central Department of Management, Kirtipur Kathmandu. I would like to invite you to participate in the study which aims at collecting data for my graduate research project. I assure you that the survey is purely academic and confidential. I kindly request you for your valuable participation and Cooperation. Thank you!

Name ..... Position.....

Name of the bank.....

Education: .....

Length of service:

Less than 1 year	1-5 Years	6 – 10 Years	11- 15 Years	15s above

1. Are you familiar in terms of CSR?

- o Yes
- o No

2. If yes, what is CSR mean?

- Relationship of organization with society and organization
- Integral part of organization
- Both of above

3. Please state CSR activities of your bank.( Please mark ( ) in your answer)

a) Community oriented CSR activities

Activities	Yes	No
My bank provide the donation to the social organization		
My bank sponsored or advertising like sports tournaments, charity show or any social activities.		
My bank arranged the program like health camp, blood donation and on health oriented issues		

My bank provide financial supports to school and provide scholarship for researcher and selected students		
My bank is responsible and supported to women empowerment		
My bank performs the poverty alleviation supported program		
My bank provides incentives to victims people from natural disaster		

b) Environment oriented CSR activities

Activities	Yes	No
My bank encourage us to participation heritage and cities cleaning program		
My bank provide the incentive to IT related program		
My bank provide financial support for restructuring heritage		
My bank conducted the environment awareness program		
My bank manage the incentive to farmer who want organic agriculture		
My bank conveying the message to maintain ecosystem		
My bank has participated on plantation program		

4. What do you think could be the main benefit/purpose of perform CSR activities? Rank as per the level of importance.(1 being the most importance and 4 being the least importance)

- Enhancing reputation
- Efficiency increments
- Commercial benefit
- Employee satisfaction
- Customer satisfaction
- Improving Relation with institutions
- Improving Relation with public

5. Please indicate the degree to which you agree or disagree with the statements in the following. Please mark ( ) in the following scale on the right hand side.

<b>Opinion Statement</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
My bank has the ability to manage CSR activities					
My bank has a system to evaluate CSR activity performance.					
My bank has the CSR utilization unit					
My bank totally expenses CSR fund as per law					
My bank encourage to us to participate in CSR activities					
My bank often provide CSR related seminar to us					
There is relationship between CSR and corporate governance					

**RELATIONSHIP BETWEEN BANK CHARACTERISTICS AND  
CORPORATE SOCIAL RESPONSIBILITY IN JOINT VENTURE  
COMMERCIAL BANK OF NEPAL**

**A Thesis proposal Submitted**

**By**

**ANIL K.C.**

Central Department of Management

Campus Roll No.:208/16

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**Master of Business Studies (MBS)**

In the

**Faculty of Management**

**Tribhuvan University**

**Kirtipur, Kathmandu, Nepal**

**September, 2018**

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## **1.1 Background of the study**

Today's globalized and very well informed world forces managers to think about corporate social responsibility (CSR). There are two broad sets of justifications for public sector actors in middle and low-income countries to engage with CSR: defensive and proactive. The two are not mutually exclusive: a policy initiative that initially has a defensive justification may quickly become part of a proactive strategy of engagement. The defensive justification relates to minimizing the potential adverse effects of CSR on local communities, environments and markets when it is imposed through international supply chains and investment. Governments of some major middle-income economic powerhouses such as China have undertaken a variety of initiatives to ensure that CSR practices with impact in their countries are tailored to national economic and social interests (UN, 2007).

On one hand, business has been increasingly viewed as a major cause of social, environmental, and economic problems during the recent years, and companies are widely perceived to be prospering at expense of the broader community (Porter, Kramer, 2011). On the other hand, managers are aware of the fact that the implementation of CSR activities into corporate activities can constitute a significant competitive advantage for the company. Therefore, corporate social responsibility has been a widely discussed. Corporate social responsibility (CSR) is how companies manage their business processes to produce an overall positive impact on society. It covers sustainability, social impact and ethics and done correctly should be about core business - how companies make their money - not just add-on extras such as philanthropy. Companies need to answer to two aspects of its operations. Firstly, the quality of management in both terms of people and processes (the inner circle). Second, the nature and quantity of management impact on society in the various areas.

Corporate social responsibility lies at the centre of the circles. A company brings its business with a main objective for making profit. But because it is a part of the society itself, it has its certain obligation and responsibility towards it. So now its concern values, objectives, and decision are based on something more than the pursuit of profits (Shah, 2012).

Research studies on CSR, are characterized by three kinds of empirical research. There are descriptive studies which report on the extent and nature of CSR with some comparisons between countries and periods. Secondly, explicative studies, focus on the potential factors influencing levels of CSR reporting. Thirdly, there are studies on the effect CSR information has on various users with an emphasis on market reaction (L. and W.A.N., 2017). This study is explicative, as it analysis whether firms age, size, profitability, types of ownership, and structure of organization are potential factors influencing the CSR activities practices by Nepalese joint venture Commercial Bank.

Traditionally, in the United States CSR has been defined much more in terms of a philanthropic model. Companies make profits, unhindered except by fulfilling their duty to pay taxes. Then they donate a certain share of the profits to charitable causes. It is seen as tainting the act for the company to receive any benefit from the giving. CSR refers to business practices involving initiatives that benefit society and environment. Although CSR is widespread and commonly practiced in the international level, it is at an infant stage of development in the Nepalese context. Environmental effects, volunteering, philanthropy, and ethical labor practices are a few aspects of responsibility that many international business companies are practicing (Naupane, 2018).

In Nepal Corporate sectors have not integrated CSR activities, but on the present as per the law minimum 1 % of the profit of institutions should be used as the CSR. Following set of in cases of banks and financial institutions (BFIs), Circular no. 11/073/74, issued by Nepal Rastra Bank (NRB), the Central Bank of Nepal (The NRB Circular 2073). And thanks to the NRB circular that also sets restrictions on the use of CSR funds. The banking sector can play a leading role in establishing CSR concepts in Nepalese business and corporations. It is obvious that CSR has many advantages for the banking sector as it helps enhance the bank's reputation and financial performance.

## **1.2 Statement of the Problem**

Corporate social responsibility (CSR) is doing business on responsible manner. It is one of the important business approaches that contribute to sustainable development by delivering economic, social and environmental benefits for all stakeholders.

In Nepal not only the laws determine the CSR. There are different factors to determining the CSR on Nepalese banking sector. The characteristics of the bank also one determine factor on level of CSR. This study fuscous on how the firm's characteristics like goal, age, size, profitability, types of ownership, investment sectors and structure of organization impact on level of CSR activities of joint venture commercial bank. This study here tries to add following research questions:

- What is the status of CSR practices in Nepalese joint venture commercial bank?
- How the age of bank (Nepalese joint venture commercial bank) impact on CSR?
- What is the relationship between bank size and CSR activities in Nepalese joint venture commercial bank?
- How does the bank profitability impact to CSR activities of Nepalese joint venture commercial bank?

### **1.3 Objective of the study**

The main objective of the study will be:

- ✓ To identify the major CSR activities of joint venture commercial bank of Nepal
- ✓ To examine impact the bank age on CSR activities in Nepalese joint venture commercial bank
- ✓ To assess the relationship between bank size and CSR activities in Nepalese joint venture commercial bank
- ✓ To examine the impact of bank profitability to determine CSR activities of Nepalese joint venture commercial bank

### **1.4 Significance of the study.**

Nowadays in Nepalese context, CSR is increasing tremendously particularly during the recent years. This study may be helpful to the investors, Institutions, government bodies; public as well as other stake holders as it analyze how the bank characteristics impact corporate social responsibility on the joint venture commercial banking industry of Nepal. The study's findings have implications for preparation of further CSR policy. It may help to evaluate the bank characteristics impact on level of CSR. The bank characteristics are like goal, age, size types of ownership, profitability,

investment sectors, structure of organization etc. This study may be significant to help the banking institutions as well as financial institutions, government agencies, stockholders, employees and other stakeholders to know the practices of corporate social responsibility according to the bank characteristics. So the study is significant as it may analyze the impacts of CSR which will help overall stakeholders.

### **1.5 Review of literature**

In this section, the review of the former studies made relevant to this study is done under the two topics. They are: theoretical review and empirical review. The theoretical review is based on the review of various books relevant to this study and empirical review is based on the review of former dissertations, articles and theses which are relevant to this study.

#### **Review of related articles.**

CSR defined only or primarily in rich countries could have limited benefits for (or in some cases create obstacles to) sustainable development. SMEs in particular may need some assistance in responding to CSR demands from foreign buyers. The governments and citizens of low and middle income countries would do well to set the CSR agenda for themselves, taking the best of what has evolved to date and of what their business communities already have to offer. Governments may derive greater developmental benefits from CSR where there is a national strategy framework which explicitly recognizes its potential contribution and seeks to align CSR with development goals. Foreign investors bring with them expertise on CSR that could be tapped more effectively to strengthen domestic capabilities; contractual arrangements and public-private partnerships are two ways of doing so. For each potential intervention, there is a need to assess the likely costs and benefits and possible undesirable side effects. Governments should avoid the tendency to over-engineer policy responses. More generally, there is a need to ensure that CSR-related interventions are seen as contributing to an enabling and predictable environment for private sector activity. If they are ill-conceived or represent an extra burden for business that is not justified by the business benefits, they are unlikely to succeed (United Nations, 2007).

Academic and institutional it appears that issues such as, human rights, labor standards, environmental impact, corruption, workplace relations, marketplace,

discrimination between male and female employees, freedom of association, philanthropic activities, relief management, and fair trading options could be considered as important features of standard global CSR practices. But in developing countries these issues are not widely practiced by corporations. Moreover, internal organizational determinants such as managerial perception, effective use of regulatory framework, government-business relationship, role of civil society and media, and organizational readiness have impact on CSR practices. Taking these 14 determinants into account an in-depth study on CSR practices in developing countries can assist in bridging the gap between developed and developing country CSR initiatives. An operational framework for developing countries is suggested. To assess the level of CSR practices of corporations in developing countries, contextual determinants need to be identified and understood, otherwise a comprehensive picture cannot be drawn. Through the proposed operational framework, a developing country's CSR domains can be examined, present issues of CSR practices explored, a list of contextual determinants that influence the practices identified and necessary modifications suggested (Majumda, Alam and et al 2012).

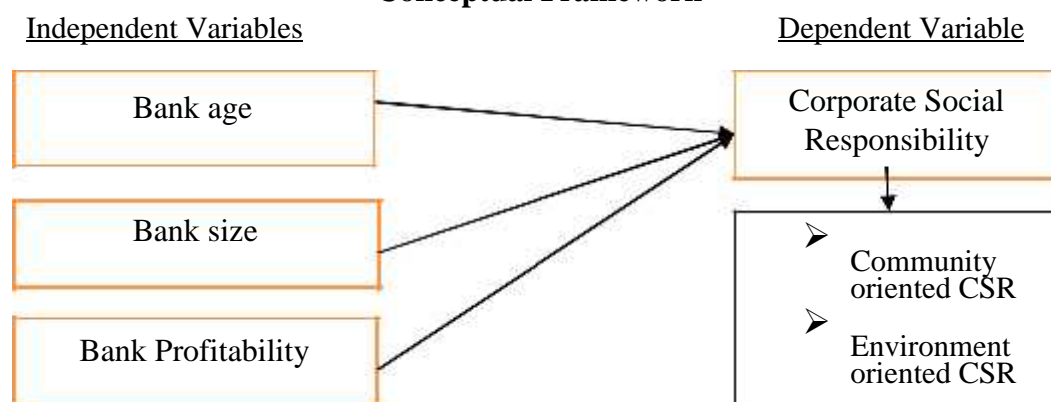
Nzovah (2012) argues there is increasing evidence that the CSR movement has picked up enough momentum to continue unabated into the next century. But while there have been important breakthroughs in the theoretical understanding of CSR, empirical studies on validation of influencing factors have remained scant. Specifically, there is a scarcity of research addressing the influencing factors, philosophy and practice of CSR in developing countries such as Kenya.

Bayoud, Kavanagh and et al (2012) provided an analysis of whether company size and company age, as well as type of industry, are potential determinants of CSR practices by Libyan companies. Empirical studies have shown that CSR activities and CSR varies across companies due to the difference of size, age and industries. They have also shown that this activity and its disclosure are important and systematically determined by company characteristics that affect the relative levels of CSR information disclosure and its performance. The quantitative findings of this paper present evidence that older companies have higher levels of CSR in terms of environmental disclosure and consumer disclosures compared with companies with lower levels of CSR. In addition, higher levels of CSR belong to more environmentally sensitive industries (such as manufacturing sectors) compared with

insensitive industries. However, neither company age and nor type of industries. Bayoud, Kavanagh and et al (2012) also explores whether company age, industry type and company size has a potential influence on levels of Corporate Social Responsibility Disclosure (CSR) in the annual reports of Libyan companies. In this study quantitative and qualitative methods were used to collect data to determine the level CSR in Libyan firms. Hypotheses are tested using regression analysis on a sample of 40 annual reports from Libyan companies' from 2007 to 2009. In addition, thirty one of the financial managers and information managers express their perceptions about the determinants of CSR in Libya. The quantitative findings reveal that there is a positive relationship between company age and industry type and the level of CSR. The qualitative findings show a positive relationship between all factors influencing levels of CSR used in this study and level of CSR in Libyan companies.

Chauhan and Amit (2014) studies on the relation between corporate social responsibility expenditure and firm characteristics provide mixed results. In this paper they have examined the relation between corporate social responsibility expenditure and firm characteristics using a sample BSE 30 Indian firms. Based on the results of hypothesis testing which has been carried out it is concluded that Firm's characteristic, such as firm size, and firm sales, has a positive effect and firm profitability has negative effect on corporate social responsibility expenditure. And firm leverage has no effect on corporate social responsibility expenditure.

**Figure 1.5**  
**Conceptual Framework**



## 1.6 Research methodology

Research methodology is the way to solve research problems to make any type of research systematic, which fulfills the objective of the study. In order to achieve the objectives of the study descriptive research design and qualitative research design will be used. The data will be primary and collected through personal interviews, questionnaire, observations, etc. mail questionnaires can be used and if required observations will also be done.

### **1.6.1 Research Design**

Descriptive research design and exploratory research design will be used in this study. This research design is conducted to assess the opinion, behaviors or characteristics of given population and to describe the situation and events occurring at present.

### **1.6.2 Population and Sample**

There are the 28 commercial banks in Nepal. The population of the study will be 7 joint venture commercial banks of Nepal. The non probability sampling technique will be use for sampling.

### **1.6.3 Sources of Data**

Data will be collected by using the primary source as well as secondary source. Primary data is the original data gathered by the researcher expressly to solve the problem under consideration of that time. The secondary data had been previously collected or assembled. In the study the data source are the questionnaires to respondents, financial reports, and other secondary sources. The demographic variables and antecedent items will be designed in nominal scale.

### **1.6.4 Method of analysis**

To analyze the collected data descriptive statistics will be used. This statics will focus on central tendency and the dispersion. Tabular and graphical formats will be used to organize, summarize, present and describe the data. Data will be analyzed by using the SPSS software of data analysis.

### **1.7 Limitations of the Study**

Each and every work has its own sort of limitations involved in the process of performing the task. Same way this research also has some limitations which could not be ignored. This study is related to the level of corporate social responsibility. It

will show relationship between firm's characteristics and CSR. Although it has some limitations:

- ) The research is based up on the individual opinion of respondent regarding the problem. Since, some collected information from primary data are individual opinion, bias may be unavoidable some times.|
- ) Although sample size is large enough, yet, some sort of statistical sample errors may not be ignored. E.g. sample may not represent the population perfectly which causes problem and generalization of the result or outcome.|
- ) The sample in this research is limited to joint venture Commercial Banks ("A" class) of Nepal. The results may not be valid to other commercial bank and other class of banks such as development bank, cooperative banks and finance companies. Thus, the findings from this thesis cannot be generalized to the overall Nepalese banking sector due to limited sample.|
- ) The independent variables size and profitability are measured only by core capita and ROA respectively. Bank size can be measured in many ways such as a number of employees, total assets, and the number of branches whereas| net profit after tax and ROE can measure bank performance. Such factors were not investigated in the study, which may provide different findings.

### **1.8 Chapter Plan**

The study will be organized into five chapters as follows:

vi. Introduction

This first chapter consists of background of the study in which the studies' background is described. The problems of statement and research questions are formulated which supports to clear about the objectives of the study. Then the objectives of the study are point out and significance of the study is described. Finally the limitations of the study are described and this chapter ends.

vii. Literature Review

It includes a discussion of the conceptual framework and review of major empirical works as well theoretical review. The conceptual frame work, analysis and review



of related literature incorporated in this chapter provide a strong framework for next chapters.

viii. Research methodology

This chapter includes the research design, justification for choosing the population, Sample, nature and source of data, data collection procedure, data processing and analysis tools.

ix. Data presentation and analysis

This is the fourth chapter of this study. This chapter will include data presentation, data analysis, and major findings of the study. It consists of presentation and analysis of data to indicate quantitative and qualitative fact on issues.

x. Summary conclusion and recommendation

It will indicate summary, conclusions and recommendations of the study. This chapter will present the major findings in comparison them with theory and other empirical evidence to some extent possible.

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