



**IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON
ORGANIZATIONAL PERFORMANCE
IN NEPALESE COMMERCIAL BANKS**

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Abstract

This study examines the impact of corporate social responsibility on organizational performance in Nepalese commercial banks. Corporate social responsibility is the dependent variable. The independent variables are firm profitability, customer retention, employees, shareholders and community. The primary sources of data are used to assess the opinions of the respondents regarding the different impact of corporate social responsibility on organizational performance in Nepalese commercial banks. The study is based on 108 respondents. To achieve the purpose of the study, structured questionnaire is prepared. The Kendall's tau correlation coefficients and regression models are estimated to test the significance and impact of corporate social responsibility on organizational performance in Nepalese commercial banks.

The result shows that there is a positive correlation with firm profitability and corporate social responsibility. It indicates that increase in firm profitability leads to increase in corporate social responsibility. Similarly, customer retention is positively correlated to corporate social responsibility. It indicates that increase in customer retention leads to increase in corporate social responsibility. Likewise, employee involvement is positively correlated to corporate social responsibility. It indicates that increase in employee involvement leads to increase corporate social responsibility. Likewise, the result shows that

there is positive correlation with shareholders and corporate social responsibility. It indicates that increase in shareholders contribution leads to increase the corporate social responsibility. Moreover, communities are also positively correlated to corporate social responsibility. It indicates that increase in community participation leads to increase in corporate social responsibility. The regression result shows that the beta coefficients for firm profitability, customer retention, employee, shareholders and community are positive with corporate social responsibility. However, coefficients are significant for firm profitability, shareholders and community in all the estimated regressions.

Keywords: Corporate social responsibility (CSR), firm profitability, customer retention, employee, shareholders and community.

Introduction

Corporate social responsibility is a firm of corporate self-regulation that has been integrated into a business model. According to Wood (1991), CSR policy functions as a built-in, self-regulating mechanism whereby, a business monitors and ensures its active compliance within the spirit of the law, ethical standards, and international norms. CSR is a process with the aim to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, community, stakeholders and all other members of the public sphere who may also be considered as stakeholders (Rupp *et al.*, 2011). CSR as a term is often used interchangeably in these studies with such concepts as corporate responsibility, corporate citizenship, social enterprise, sustainability, sustainable development, triple-bottom line, and corporate ethics and, in some cases, corporate governance (Bassen *et al.*, 2006). CSR refers to a company's voluntary activities that appear to further some social good, beyond the interests of the firm and that which is required by law (McWilliams and Siegel, 2001).

Every business organization operates within a society. The relationship that an enterprise has with the society in which it operates can be summed up under a concept referred to as corporate social responsibility. According to Uddin *et al.* (2008), CSR is the continuing commitment by business to behave according to business ethics and contribute to economic development while improving the quality of the life of the workforce and their families as well as the local community and society at large. CSR is a philosophy which defines the company-stakeholders relationship. According to Holme and Watts (2000), CSR is about capacity building for sustainable livelihoods. It respect cultural differences and finds

the business opportunities in building the skills of employees, the community and the government. CSR has been described as the obligation of organizations to be accountable for their environment and for their stakeholders in a manner that goes beyond mere financial aspects (Gossling and Vocht, 2007). Joyner and Payne (2002) found positive relationship between corporate social responsibility and profitability.

Profitability influences corporate social responsibility because only those companies with robust economic health that earns profits that can engage in social program (Beliveau, 1994). Waddock and Graves (1997) revealed that investment in corporate social responsibility leads to higher level of profitability. Berman *et al.* (1999) opined positive and significant effects from some CSR dimensions and the short-term profitability. Amole *et al.* (2012) reported positive relationship between banks CSR activities and profitability. According to Holme and Watts (2000), corporate social responsibility (CSR) as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

Customer retention is considered a vital objective for a firm's survival and growth, building a loyal customer base has not only become a major marketing goal, but it is also an important basis for developing a sustainable competitive advantage (Dick and Basu, 1994). Lee *et al.* (2012) found that economic CSR is positively associated with level of trust leading to customer retention. Nareeman and Hassan (2013) found that economic CSR has a positive and significant impact on customer retention. Luo and Bhattacharya (2006) analysed the impact of CSR on organizational performance and found a positive link between CSR and customer satisfaction. Yu *et al.* (2005) found that overall customer satisfaction positively influences customer loyalty and retention.

When employees perceive their organization as socially responsible, they will be more likely to keep their employment relationships with the organization, resulting in reduced turnover intentions (Hansen *et al.*, 2011). Hagen *et al.* (2009) found positive relationship between employees and CSR-awareness. Lindgreen and Swaen *et al.* (2010) revealed that there is positive relationship between employee attractiveness and CSR. Albinger and Freeman (2000) indicated that CSR performance is positively related to employee attractiveness. Edmans (2011) stated that CSR activities can increase employee commitment and satisfaction.

Shareholders are the owners of a firm. Therefore according to theory maximizing shareholders wealth is the fundamental objectives of a firm (Waston and Head, 2010). Knox *et al.* (2005) revealed a positive relationship between CSR towards shareholders and financial performance. Salvioni and Astori (2013) found positive relationship between corporate social responsibility and shareholders. White *et al.* (2015) opined that there is positive relationship between shareholders and CSR strategy. Verschoor (1998) found positive synergies exist between corporate performance and an excellent relationship with stakeholders.

A company can provide financial contributions, product/services availability, job opportunities, entrepreneurship and innovative culture to the local community (Hohnen, 2007). Bowman and Haire (1975) found positive relation between CSR towards community and financial performances. Blowfield (2005) concluded that CSR activities should be closely monitored and reported to decrease poverty and increase sustainability in community development. Hamid *et al.* (2007) discovered that the highest CSR disclosure theme was community and argued that companies had used the community disclosure as a legitimacy strategy. Berman *et al.* (1999) indicate that corporate social responsibility done by business firms has a positive impact on community. Kim and Kim (2014) found CSR in tourism industry, examines whether CSR enhances value for community.

In the context of Nepal, Kandel (2018) concluded that the CSR is all about how companies manage the business processes to produce an overall positive impact on society. Chapagain (2010) revealed that a majority of respondents from both the sectors have positive strategic and moral views towards CSR. Kafle and Tiwari (2014) found that the study is to carry out CSR activities, timely acquisition of resources and co-operation from top management should be emphasized upon. Dhungel (2008) showed a positive relationship between CSR towards community and financial performance.

The above discussion reveals that there is no consistency in the finding of various studies concerning the impact of corporate social responsibility on organizational performance. Therefore, the study has been conducted to analyse the relationship of corporate social responsibility on organizational performance in Nepalese commercial Banks. Specifically, it examines the relationship of corporate social responsibility towards firm profitability, customer retention, employees, shareholders and community.

The remainder of this study is organized as follows: Section two describes the sample, data and methodology. Section three presents the empirical results and the final section draws conclusions and discusses the implications of the study findings.

Methodological aspects

The study is based on the primary data which were gathered from 108 respondents of 23 Nepalese commercial banks. The respondents' views were collected on firm profitability, customer retention, employees, shareholders and community and corporate social responsibility in Nepalese commercial banks.

Table 1 shows the number of commercial banks along with the number of the respondents selected for the study.

Table 1: Number of commercial banks selected for the study along with number of respondents

SN	Name of commercial bank	No. of Respondents
1	Citizens Bank International Limited	10
2	Nabil Bank Limited	11
3	Everest Bank Limited	14
4	Machhapuchchhre Bank Limited	2
5	Himalayan Bank Limited	2
6	Sanima Bank Limited	3
7	Sunrise Bank Limited	1
8	Siddhartha Bank Limited	5
9	Rastriya Banijya Bank Limited	3
10	Nepal Investment Bank Limited	3
11	NIC Asia Bank Limited	12
12	Prabhu Bank Limited	3
13	Nepal Bank Limited	3
14	Century Commercial Bank Limited	5
15	Nepal Credit and Commerce Bank Limited	4
16	Nepal Bangladesh Bank Limited	2
17	Laxmi Bank Limited	1
18	Bank of Kathmandu Limited	1
19	Nepal SBI Bank Limited	6
20	Kumari Bank Limited	1
21	NMB Bank Limited	3

22	Janata Bank Nepal Limited	8
23	Mega Bank Nepal Limited	5
Total		108

Thus, the study is based on 108 respondents.

The model

The model estimated in this study assumes that CSR on organizational performance depends on firm profitability, customer retention, employees, shareholder contributions and community. Therefore, the regression model takes the following form:

$$CSR = \beta_0 + \beta_1 FP + \beta_2 CR + \beta_3 E + \beta_4 S + \beta_5 C + e$$

Where,

CSR= Corporate social responsibility

FP= Firm profitability

CR= Customer retention

E= Employee involvement

S =Shareholders contribution

C= Community participation

Firm profitability involvement was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 5 for strongly agree and 1 for strongly disagree. There are 5 items and sample items include “I believe that engaging in CSR practices promotes long-term profits for business”, “I feel bank has social responsibility beyond making a profit” and so on. The reliability of the items was measured by computing the Cronbach's alpha ($\alpha = 0.766$).

Customer retention was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 5 for strongly agree and 1 for strongly disagree. There are 5 items and sample items include “My bank treats all customer honestly,” “My bank makes an effort to know customer’s needs” and so on. The reliability of the items was measured by computing the Cronbach's alpha ($\alpha = 0.586$).

Employee involvement was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 5 for strongly agree and 1 for strongly disagree. There are 5 items and sample items include “My bank pays fair salaries to all staffs,” “I feel employee’s gets opportunity for personal advancement” and so on. The reliability of the items was measured by computing the Cronbach's alpha ($\alpha = 0.643$).

Shareholders was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 5 for strongly agree and 1 for strongly disagree. There are 5 items and sample items include “In my bank the shareholders get good rate of long term return,” “The banks provides disseminate comprehensive and clear information to the shareholders” and so on. The reliability of the items was measured by computing the Cronbach's alpha ($\alpha = 0.661$).

Community was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 5 for strongly agree and 1 for strongly disagree. There are 5 items and sample items include “My banks helps solving social problems,” “My bank plays a role in society beyond the economic benefits generation” and so on. The reliability of the items was measured by computing the Cronbach's alpha ($\alpha = 0.662$).

The following section describes the independent variables used in this study.

Firm profitability

Profitability is the ability of a business to earn profit. Beliveau (1994) mentioned that profitability influences corporate social responsibility because only those companies with robust economic health that earns profits that can engage in social program. Waddock and Graves (1997) found that investment in corporate social responsibility leads to higher level of profitability. Joyner and Payne (2002) found positive relationship between corporate social responsibility and profitability. Berman *et al.* (1999) reports positive and significant effects from some CSR dimensions and the short-term profitability. Amole *et al.* (2012) reported positive relationship between banks profitability and CSR activities. Based on it, this study develops the following hypothesis:

H1: There is positive relationship between firm profitability and CSR.

Customer retention

As customer loyalty or retention is considered a vital objective for a firm’s survival and growth, building a loyal customer base has not only become a major marketing goal, but it is also an important basis for developing a sustainable competitive advantage (Dick and Basu, 1994). Lee *et al.* (2012) found customer retention is positively associated corporate social responsibility. Nareeman and Hassan (2013) found positive relationship between customer retention and corporate social responsibility. Luo and Bhattacharya (2006) revealed a positive link between CSR and customer retention. Yu *et al.* (2005) reported positive relationship between corporate social responsibility and customer retention. Based on it, this study develops the following hypothesis:

H2: There is positive relationship between customer satisfaction and retention and CSR.

Employee involvement

When employees perceive their organization as socially responsible, they will be more likely to keep their employment relationships with the organization, resulting in reduced turnover intentions (Hansen *et al.*, 2011). Hagen *et al.* (2009) found positive relationship between employee involvement and CSR-awareness. According to Lindgreen *et al.* (2010), employee involvement has positive relationship with CSR. Albinger and Freeman (2000) found positive relationship between employee involvement and corporate social responsibility. Edmans (2011) reported positive relationship between employee involvement and corporate social responsibility. Based on it, this study develops the following hypothesis:

H3: There is positive relationship between employee involvement and CSR.

Shareholders

Shareholders are the owners of a firm. Therefore according to theory maximizing shareholders wealth is the fundamental objectives of a firm (Waston and Head, 2010). Knox *et al.* (2005) found a positive relationship between shareholders contribution and corporate social responsibility. Salvioni and Astori (2013) showed that there is positive relationship between shareholders contribution and corporate social responsibility. White *et al.* (2015) revealed that there is positive relationship between shareholders contribution and CSR strategy. Verschoor (1998) suggest positive synergies exist between corporate performance and an excellent relationship with stakeholder contribution. Based on it, the study develops the following hypothesis

H4: There is positive relationship between shareholders contribution and CSR.

Community

Community tends to focus on the needs of the business and families where the bank holds branches and offices. A company can provide financial contributions, product/services availability, job opportunities, entrepreneurship and innovative culture to the local community (Hohnen, 2007). Bowman and Haire (1975) found positive relation between community participation and corporate social responsibility. Blowfield (2005) reported positive relationship between community participation and corporate social responsibility. Hamid *et al.* (2007) found positive relationship between community participation and corporate social responsibility. Berman *et al.* (1999) reported positive relationship between community participation and corporate social responsibility. Kim and Kim (2014) found

positive relationship between community participation and corporate social responsibility.

Based on it, this study develops the following hypothesis:

H5: There is positive relationship between community and CSR.

Results and discussion

Correlation analysis

On analysis of data, correlation analysis has been undertaken first and for this purpose Kendall's Tau correlation coefficients along with mean and standard deviation have been computed and the results are presented in Table 2.

Table 2: Kendall's Tau correlation coefficients matrix for the dependent and independent variables for selected Nepalese commercial banks

This table presents the Kendall's Tau correlation coefficients between dependent and independent variables. CSR (CSR refers to a company's voluntary activities "that appear to further some social good, beyond the interests of the firm and that which is required by law") is the dependent variable. The independent variables are FP (Profitability is the ability of a business to earn profit. Profitability influences corporate social responsibility because only those companies with robust economic health that earns profits, that can engage in social program), CR (Customer retention refers to the activities and actions companies and organizations take to reduce the number of customer defections), E (Employee is an individual who works part-time or full-time under a contract of employment, whether oral or written, expressed or implied, and has recognized rights and duties), S (Shareholders is company or an institution that owns at least one share of a company's stock) and C (Community tends to focus on the needs of the business and families where the bank holds branches and offices).

Variables	Mean	SD	FP	CR	E	S	C	CSR
FP	3.857	0.610	1					
CR	4.083	0.429	0.429**	1				
E	4.044	0.456	0.454**	0.517**	1			
S	4.013	0.445	0.331**	0.193*	.0507**	1		
C	4.053	0.436	0.489**	0.534**	0.461**	0.358**	1	
CSR	4.029	0.434	0.531**	0.501**	0.564**	0.517**	0.634**	1

Notes: The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.

Table 2 shows that firm profitability is positively related to corporate social responsibility. It means that increase in organizational profitability leads to increase in corporate social responsibility. Similarly, the customer retention is positively correlated to corporate social responsibility. It indicates that increase customer retention leads to increase in corporate social responsibility. Likewise, employee involvement is positively correlated to corporate social responsibility. It indicates that increase in employee involvement positively correlated to corporate social responsibility. Likewise, shareholders contribution is positively correlated to corporate social responsibility. It indicates that increase in shareholders contribution positively stimulates the corporate social responsibility. Similarly, the result also shows that community participation are positively correlated to corporate social responsibility. It indicates that increase in community participation leads to positive impact in corporate social responsibility.

Regression analysis

Having indicated the Kendall’s Tau correlation coefficients, the regression analysis has been carried out and the results are presented in Table 2. More specifically, it presents the regression results of firm profitability, customer retention, employee, shareholders and community on organizational performance in Nepalese commercial banks.

Table 3: Regression results of firm profitability, customer retention, employee, shareholders and community on organizational performance

The results are based on 108 observations by using linear regression model from 23 Nepalese commercial banks by using linear regression model. The model is $CSR = \beta_0 + \beta_1FP + \beta_2CR + \beta_3E + \beta_4S + \beta_5C + e$ where CSR (corporate social responsibility) is the dependent variable. The independent variables are FP (Firm profitability), CR (Customer retention), E (Employee), S (Shareholders) and C (Community).

Model	Intercept	Regression Coefficient					Adj. R ²	SE E	F value
		FP	CR	E	S	C			
1	2.571 (11.241) **	0.378 (6.456) **					0.275	0.370	41.681

2	1.961 (5.618)* *		0.506 (5.956) **				0.244	0.37 8	35.47 7
3	1.854 (5.962)* *			0.538 (7.040) **			0.312	0.36 0	49.55 5
4	2.003 (6.113)* *				0.505 (6.224) **		0.261	0.37 3	38.74 3
5	1.469 (4.813)* *					0.632 (8.441) **	0.396	0.33 7	71.24 5
6	1.583 (4.777)* *	0.276 (4.537) **	0.338 (3.912) **				0.362	0.34 7	31.30 7
7	1.117 (3.289)* *	0.211 (3.486) **	0.209 (2.341) *	0.308 (3.609) **			0.427	0.32 9	27.60 4
8	0.488 (1.34)	0.176 (3.048) **	0.25 (2.941) **	0.164 (1.83)	0.293 (3.680) **		0.489	0.31 0	26.58 6
9	0.183 (0.52)	0.119 (2.125) *	0.134 (1.56)	0.138 (1.64)	0.24 (3.160) **	0.325 (3.880) **	0.55	0.29 1	27.18 3

Notes:

- i. Figures in parentheses are t-values.
- ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.
- iii. Dependent variable is corporate social responsibility.

The result indicates that the beta coefficients are positive for firm profitability with corporate social responsibility. It indicates that firm profitability has positive impact on corporate social responsibility. This finding is similar to the findings of Joyner and Payne

(2002). Similarly, the beta coefficients for customer retention are positive with corporate social responsibility. It indicates that customer retention has positive impact on corporate social responsibility. This finding is consistent with the findings of Nareeman and Hassan (2013). Similarly, the beta coefficients are positive for employees and corporate social responsibility. It indicates that employees has positive impact on corporate social responsibility. This finding is similar to the findings of Aupperle (1985). Likewise, the beta coefficients for shareholders are positive with corporate social responsibility. This indicates that shareholders has positive impact on corporate social responsibility. This finding is similar to the findings of Knox *et al.* (2005). The beta coefficients for community are positive with corporate social responsibility. This indicates that community has positive impact on corporate social responsibility. This finding is similar to the findings of Rupp *et al.* (2011).

Summary and conclusion

Corporate Social Responsibility is a process with the aim to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, community, stakeholders and all other members of the public sphere who may also be considered as stakeholders. CSR is a symbol of company reputation which will be improved by actions to support the community, resulting in positive influence on sales. Corporate social responsibility as a concept has captured the attention of the majority of management scholars, with studies of corporate citizenship, ethics and social responsibility appearing with greater frequency. CSR as a term is often used interchangeably in these studies with such concepts as corporate responsibility, corporate citizenship, social enterprise, sustainability, sustainable development, triple-bottom line, and corporate ethics and, in some cases, corporate governance. CSR refers to a company's voluntary activities that appear to further some social good, beyond the interests of the firm and that which is required by law. CSR is a process with the aim to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, community, stakeholders and all other members of the public sphere who may also be considered as stakeholders. CSR has become an important field of academic research for scholars in management, sociology, social work, and law.

The study attempts to examine the impact of corporate social responsibility performance on organizational performance of commercial banks of Nepal. The study is based on primary data of 23 commercial banks with 108 respondents.

The study shows that firm profitability, customer retention, employee involvement, shareholders contribution, community participation are positively related to corporate social responsibility. It means that increase in firm profitability, customer retention, employee involvement, shareholders contribution, community participation leads to increase in corporate social responsibility. The study shows that firm profitability, customer retention, employees, shareholders and community have positive impact on corporate social responsibility. The study concludes that better use of human resource management practices in banking sector has significant impact on the corporate social responsibility. The study also concludes that firm profitability followed by customer retention is the most influencing factor that explains the impact of corporate social responsibility on organizational performance in Nepalese commercial banks.

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