

# Understanding Corporate Social Responsibility of Commercial Banks in Nepal

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## 1. INTRODUCTION

This paper examines Corporate Social Responsibility (CSR)'s nature and practices of the commercial banks in Nepal, where the corporate sector has been expansionary in all sectors after Nepal initiated the economic reform 1992 to liberalize all sectors of the economy to the corporate investment, except few sensitive areas (communication and security)(MoF, 2017). Its good result occurs in the commercial banking sector in terms of number, services and investment. NRB (2017) and MoF (2017) report 28 Commercial Banks and 48 Development Banks. In 1990s, its numbers were only six. Until 2017, its growth rate is 400 times in the Commercial Banks and 800 times in Development Banks. Their net profit figures are very impressive in the top competitive financial market. At some extent, these banks have initiated social responsibility, although the industrial policy has made it voluntarily, unlike India and USA where corporate social responsibility is mandatory. In India, the corporate sector has to spend at least 2 percent of their annual profit in the society as corporate social responsibility. In USA, it is also 1 percent legal and ethical mandatory. Despite its voluntary nature, the well aware consumer expects their Commercial Bank's significant contribution to the society as their social responsibility in accordance with international norms and values of the corporate governance. There are few handful literatures in Nepal but almost have focused on MNC. In banking sector, there are none of literatures dealing such issue. In the context of growing CSR activities and practices of the Commercial Bank, its examination is relevant to understand in depth its nature, characters, size, trend and pattern for its promotion and development in these sectors.

This paper is organized into the following sections: Section 2: Objectives, Section 3: Literature Review, Section 4: Theoretical Framework and Section 5: Data sets and Methodology, Section 6: Results and Discussions, Section 7: Conclusions.

## 2. OBJECTIVES AND METHDOLOGY

The paper has main objective to examine CSR's nature and practices of the commercial banks in Nepal. In addition, the paper analyzes structure and trend of their CSR budget in Nepal. Further, the paper explores its size and CSR and Profit ratio and identifying their priority areas.

### 3. CSR SCENARIO AND PRACTICE

#### 3.1. Concept of CSR

CSR is inevitable ingredients of the successful, efficient and giant corporate governance in the world. In this context, debate on CSR is still going on at the different levels in the different forums, along with mandatory or voluntarily its practices. The concept emerged in 1917, when Henry Ford initiated social responsibility in terms of value of all stakeholders' interests as well as the social welfare of employees and shareholders (Lee, 2008 and Meredith, 1999). It was not emotional. It was a business perceptive and practice to be good corporate citizen. At some extent, the company had such practices in all over the world. Immediately after the World War II, the corporate business acknowledged the need to commit some of their profits to social causes. May be its cause would be social, economic and political turmoil(1930s-1950s) and the reactionary movement of the citizens to fight against the abuse of power, corruption, tax evasion, discriminatory pricing, and lack of protection for workers and consumers and other anti-social practices by industries(Afful, 2003). Its focus was only social cause. It did not focus on the issues of workers, customer and community. Its reflection is still even in 21<sup>st</sup> century, when they do not treat their workers, customers and their communities any better. Meanwhile, there is positive practices in which the company owners having human attitude to their workers and supported social causes, do so for religious or charitable purposes. However, distributing food and money to the poor during festivals cannot be called CSR (Afful, 2003). The Reputation Institute (2017) has listed higher CSR companies out of total companies (170,000) of the world such as Lego (1<sup>st</sup> Rank), Microsoft(2<sup>nd</sup> Rank), Google(3<sup>rd</sup> Rank), Walt Disney Company(4<sup>th</sup> Rank), BMW(5<sup>th</sup> Rank), Intel (6<sup>th</sup> Rank), Robert Bosch(7<sup>th</sup> Rank), Cisco System (8<sup>th</sup> Rank) and Rolls Royce(9<sup>th</sup> Rank). Such rating has improved their value induced sales, loyal consumer and employees more than lower rating CSR companies. Further, Sen et al.(2006) noted the growth of CSR activities and its influence on sales growth and the employment and investment. Carmeli (2005) mentioned it as a sustainable competitive advantage. Therefore, it has become ingredients of corporate governance for competitive advantage.

Academic perspective attempted on CSR in 1932, when Dodd (1932) and Berle (1932) published their article on "For Whom Are Corporate Managers Trustees?" in a Harvard Law Review. In 1953, Bowen published a book, Social Responsibilities of the Businessman focusing on the relationship of corporation with society and need of business ethics (Carroll, 1979). In 1970, Milton Friedman (1970) continued this debate through his article on "The Social Responsibility of Business Is to Increase Its Profits," in the *New York Times Magazine*. Thus, CSR has received public and academic attention for social interest. Such evolution of academic perspective has contributed its modern concept. The literatures (Carroll, 1999; Engardio et al. 2007; Hart, 1995; Holmes and Watts, 2000; McWilliams and Siegel, 2001; Nicolau, 2008; Tsoutsoura, 2004) mention CSR as the activities making companies good citizens who contribute to society's welfare beyond their own self-interests. In addition, Elhauge (2005) explains CSR as *sacrificing profits in the social interest*. In simple, it is social work of the corporate sector in the society. Similarly, Graff Ziven and Small (2005), Portney (2005) and Reinhardt (2005) in their papers have offered similar arguments consistently. If we examine it, we can find that it is normative nature and general statement in which the corporate sector binds to contribute in the society through using profit share but it must be in accordance with the social interest. It means not specifically whatever social goods desired by the society, which may be either environment or infrastructure or social sectors (health or education or sanitation).

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