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**FACTORS AFFECTING CSR DISCLOSURE IN NEPALESE  
BANKS: A GLOBAL REPORTING INITIATIVE  
PERSPECTIVE**

**GOPI BIDARI**

A thesis submitted in partial fulfillment of the  
requirements for the degree of

**Masters by Research**

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**Edith Cowan University, Perth**

**Western Australia**

**2016**

## **ABSTRACT**

This thesis examines the extent of Corporate Social Responsibility (CSR) disclosures made by Nepalese banks in their annual reports based on GRI G4 guidelines. Also, this thesis accentuates the relationships between the influencing factors (i.e. bank size, bank age, bank profitability and ownership structure) and the CSR disclosure levels (i.e., economic, social, environmental and the overall CSR disclosures).

A sample of 82 banks was selected from the Nepal Stock Exchange for the year 2014. CSR related information was collected from the annual reports of the sample banks. Content analysis and multiple regression analysis tools were used to test the developed hypothesis based on literature.

The study found that almost all banks in Nepal have disclosed CSR information in their annual reports, but the overall quantity and quality of information is low and weak. Most of the disclosed information in their annual reports are descriptive in nature, and the main reason behind the disclosure is to gain a societal recognition of the adequacy of their social behaviour. The low environmental disclosure indicates a fit with the popular believe that banks feel that they only need to disclose limited environmental information since they do not pollute the environment

Bank size and bank profitability are found to be positively related to the extent of economic, social, environmental and the overall CSR disclosures. Bank age is found to be positively related to the extent of social and environmental disclosures, but it is an insignificant predictor to the extent of economic and the overall CSR disclosures. Finally, the findings suggest that Nepalese banks disclose on all aspect of CSR regardless of their ownership structures.

The findings are, thus, beneficial for future study as well as to the banking authorities to assess the level of CSR disclosures made in their annual reports.

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Date.....



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### 1.1 Introduction

Corporate Social Responsibility (CSR) has now become a critical global issue for all organisations globally. The relationships between business and both the society and the environment have been discussed since the middle of last century (Turker, 2009). Since that time, CSR advocates have increasingly covered a wide range of issues: social—such as poverty, social equality, corruption, human rights, community relations; economic—such as employment, GDP, growth rate; and environment—such as climate change, waste management, water usage, global warming (Ioannou & Serafeim, 2014). Similarly, governments' interests in CSR have grown considerably. The recent meeting on climate change and global warming by leaders of developed countries, for instance, has highlighted the importance of corporate social responsibility for reducing the emissions gap to no more than two degrees centigrade (UN Climate Summit, 2014).

The increased interest in CSR has also pushed for a growing demand for corporations to transparently measure, report and continuously improve their social, environmental and economic performance (Tsoutsoura, 2004). Previous studies have found that CSR can influence the long-term activity of a firm as well as its relationship with shareholders (Brown & Fraser, 2006). Such reporting on CSR is mostly made voluntarily although some countries such as France, Denmark and South Africa made mandatory CSR disclosures for sensitive industries (Ioannou & Serafeim, 2014). Despite the increased attention on CSR in developed countries, CSR in developing countries is still lagging behind with little to no encouragement for voluntary disclosures, and no effective mandatory regulations to make it compliant.

Research on CSR has also focused mainly on the Western countries, with relatively little to no attention given to the situations in developing countries. Baughn and McIntosh (2007) found that CSR in developing countries is in susceptible phase due to the gap in social provision and governance. To fill such gaps, some institutions have provided CSR reporting guidance on social and environmental aspects—such as World Bank, Amnesty International, and the United Nations. Dobers and Halme (2009) noted that CSR discussion tends to be dominated by US and European perspectives, without sufficient

incorporation of developing countries' perspectives and experiences 'from the ground.' They further stressed that the development of CSR structures and institutions in developing countries is urgently needed to contribute to social justice, environmental protection, and poverty eradication. Not to deny the fact that modern CSR practices were introduced in the United States to motivate people, increase prosperity and contribute to organizational growth, and that most CSR research was originated from the Western countries.

To contribute to the needs for more CSR research within the context of developing countries, this study examines the current status of CSR in Nepalese banks, and factors that influence the level of banks' CSR disclosure. CSR studies reflect three types of empirical research (Reverte, 2009). The first is 'descriptive studies', which disclose the extent and nature of CSR with some basic comparison between countries and periods. The second is 'explicative studies', which focus on factors influencing the levels of CSR disclosures. The third is 'the study on the effect of CSR on third party users', where the emphasis is on market reaction (Bayoud, Kavanagh, & Slaughter, 2012b). The current study may be considered explicative, as it analyses whether bank size, bank age, bank profitability and ownership structure are potential factors affecting CSR disclosures in the Nepalese banks.

This chapter proceeds by discussing CSR in different countries in section 1.2. Motivation of the study is explained in section 1.2, followed by a rationale of the study in section 1.3. The significance of the thesis is presented in section 1.4, and some brief introduction on the development of Nepalese banking sector is presented in section 1.5. The chapter concludes with a summary in Section 1.7

## **1.2 Background**

Corporate Social Responsibility (CSR) can be traced back to the beginning of the industrial era, when it was practiced in different forms, such as charity, donation, employee empowerment, community involvement, religious activities and cultural activities. While such traditional practices are common in most countries of the world, modern CSR practices first emerged in the United States. The modern industrialization era in the United States ushered in the concept of CSR, with the Social Legislation Act in



the early 1970s. The Act focused on the creation of the Equal Employment Opportunity Commission (EEOC), the Environmental Protection Agency (EPA), the Occupational and Health Administration (OSHA), and the Consumer Product Safety Commission (CPSC). This legislation served as the foundation of CSR and has been applied in various industries throughout the world. Thus, CSR practices in developed countries like the USA and European nations are supported by civil laws that make CSR much more effective than in developing countries.

During the early 1960s, social activist groups had already been advocating a broader notion of CSR (Carroll, 1976), which gained the attention of US lawmakers during the modern industrialization era. As early as 1953, Bowen had conceptualised CSR as a social obligation to pursue policies, make decisions, and follow lines of action that were desirable regarding the objectives and values of society (Carroll, 1976). Carroll has described Bowen as the modern “Father of Corporate Social Responsibility”, whose study marked the beginning of the modern literature on CSR (Carroll, 1999, p. 270).

Despite the different forms of CSR practices, it is still problematic to find a single commonly accepted definition of CSR (Belal & Cooper, 2011). For the purpose of this study, CSR defined by the World Bank gives the better picture of CSR in the financial sector of developing countries. World Bank defined CSR as “a commitment of businesses to contribute to sustainable economic development – working with employees, their families, the local community and the society at large to improve the quality of life, in ways that are both good for businesses and good for development” (Ward, 2004, p. 3). Hereafter, CSR throughout the study refers the commitment of business towards businesses, societies, employees and the environment.

In voluntary disclosure practice, the choice of undertaking CSR disclosures depends upon the economic perspective of the firm (Moir, 2001). Economic growth, job creation and addressing poverty alleviation are some of the economic perspectives of CSR. A typical neo-classical view supports that the responsibility of business is to operate legitimately with reasonable compensation to its employees and pay taxes to the government while maximising shareholders’ value. This view was most famously taken to the extreme from Milton Friedman, who supported the notion that businesses should only be socially responsible if they are efficient and profitable. “Few trends would so thoroughly

undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their shareholders as they possibly can.” (Friedman, 1970, p. 33)

The expectation of the society for a legitimate business would act as per the norm of the social contract between the firm and its society. Building social trust reduces turnover, recruitment and training cost while increasing the loyalty and commitment towards the firm. The role of the company is not only to maximize profit but to operate with integrity and fairness (Donaldson, 2005). For instance, European approach to CSR is that businesses benefit from being more socially responsible, and with that it can help to build sales, the workforce and the trust in the company as a whole (Impact, 2000). Furthermore, companies who improve their working conditions and labour practices experienced an increased productivity and reduced error rates, which eventually generate a positive cash flow that covers the associated costs (Tsoutsoura, 2004). Consequently, higher CSR would maximise shareholders’ wealth.

Academic scholars used different theories to propagate the CSR-related issues, for example, Stakeholders Theory, Legitimacy Theory, Institutional Theory and the Triple Bottom Line approach (Aguilera, Rupp, Williams, & Ganapathi, 2007). Besides the theoretical reason behind CSR disclosures, businesses have a broader approach to corporate responsibilities such as responsiveness, stewardship, social audit, corporate citizenship, environmental responsiveness, ethics, sustainability reporting and Triple-Bottom-Line Accounting. Different stakeholders pressure and firm reputations (Haniffa & Cooke, 2005), legitimacy factors and corporate mimicry (Hrishleifer, 2008) have put CSR disclosures in a more effective manner.

The service sector plays a vital role in the development of the nation but is lagging behind in terms of CSR disclosures activities. The wider misconception about the CSR is that—firm’s direct presence affects the society or the environment where they operate, and such firm is responsible for addressing the adverse effect caused by the business operation. In support to this phenomenon, the wider research is also focused on the areas of production, manufacturing, mining, chemical and energy that have a direct impact on the society and the environment. In contrast, the service sectors—such as banking, insurance, tourism, and hospitality have given less emphasis to CSR due to its lower

impact on the society and the environment. Although some CSR studies from both developed and transitional economies have been performed in the service sectors in recent years (Aguilera et al., 2007; Chapple & Moon, 2005; Djajadikerta & Trireksani, 2012), the number is still relatively small. .

The majority of CSR research are predominantly focused in developed countries with some exceptions to developing countries (Al-Tamimi, 2014; Belal & Cooper, 2011; Carnevale, Mazzuca, & Venturini, 2012; M. H. U. Z. Khan, Halabi, & Samy, 2009; Visser, 2008). The view of CSR is slowly changing in developed countries with strong corporate governance and stakeholder engagement. Whereas, developing countries are still struggling with the concept of CSR with very few service organizations disclosing CSR activities in different forms such as charity and donations (Visser & Macintosh, 1998) with some exceptions—Bangladesh (Belal & Cooper, 2011), Nigeria (Opstrup, 2013) and Indonesia (Djajadikerta & Trireksani, 2012; Gunawan, Djajadikerta & Smith, 2009).

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. Service sectors are highly exposed to different stakeholders where corporate social responsibility matters the most. Customers will reward those service firms for the support of social programs. As a result, many organisations have adopted such CSR programs to boost the sales and company image through ethical CSR practice (Becker-Olsen, Cudmore, & Hill, 2006). Therefore, the investment in CSR could be beneficial to all stakeholders, which minimises the social and environmental risk. Such organisations can produce independent CSR report or can follow one of many globally recognised reporting frameworks for their CSR disclosures.

The corporate social responsibility of the firm can be measured in many ways. Global Reporting Initiatives (GRI) measures the corporate sustainability of the firm based on social, economic and environmental measures. International Standard Organization (ISO)

26000 measures the social responsibility of the business organizations. Triple Bottom Line (TBL) measures the three basic aspect (social, economic and environmental) of CSR. Besides such CSR measuring methods, a business organization can prepare its own CSR reporting for internal use and for its stakeholders.

Among them, GRI is one of the most commonly used guidelines on disclosing CSR. GRI is based on the Triple Bottom Line approach. TBL captures an expanded spectrum of values and criteria for measuring the success of social, economic and environmental matters. Banking is one of the most important service sectors, and this study will examine whether the Nepalese banks embrace some of the key social and environmental indicators as suggested within the global reporting framework from GRI G4 guidelines for the year 2014.

### **1.3 Motivation of the study**

CSR has always been a heated topic in the corporate society. Scholars provided their different views in favour and against the CSR since early 1960s (Friedman, 1970). Most of the corporations who contributed towards CSR and disclosed properly had won over the non-disclosing corporations regarding profit, and corporate image. The study found that such socially responsible corporations have better profit, less employee turnover, good corporate image and greater visibility (Enquist, Johnson, & Skålén, 2006). CSR, in the current context, has been widely criticized as Western-centric and focuses on non-service sectors. Considering this situation, this study examines the current situation and factors affecting CSR disclosures in Nepalese banks. Nepal is a developing country where the practice of CSR disclosures is voluntary. The majority of the firms are profit imperative rather than socially responsible. However, banking sectors, being the backbone of Nepalese economy, has given little emphasis to CSR. Hence, it is one of the interests of the researcher to understand the current situation of CSR and to examine the factors affecting the disclosures. Due to the concern from the different stakeholders, banks are keen of disclosing economic activities, and little importance has been given to social and environmental sectors. The prior study suggests that lack of proper

supervision; profit imperativeness and the lack of public awareness on CSR are key determinants for non-disclosure (Belal & Cooper, 2011).

From prior studies, it can be concluded that firms in developing countries focus primarily on economic benefit rather than socio-environmental aspect. For that reason, this study analyses the factors affecting CSR disclosures in lieu of Global Reporting Initiative (GRI) G4 guideline which covers all three aspects of CSR—economic, social and environmental. GRI framework is widely renowned framework to disclose the CSR disclosures around the globe, which has been used by more than 7,500 organizations as of 2014. It is an international independent standards organization that helps businesses, governments and other organizations understand and communicate their impacts on issues such as climate change, human rights and corruption.

A handful of prior literature on CSR in the financial sector in Nepal has studied about the CSR (Acharya, 2003; Chapagain, 2012; Shah, 2012; Upadhyay-Dhungel & Dhungel, 2012). These research are primarily focused on content analysis, a case study of the individual bank rather than studying a whole banking sector at once. CSR is an important component of a financial institution to show their gratitude towards the greater society where it operates its business. (Acharya, 2003). This adds to the motivation of the researcher to conduct research in CSR in the developing economy of Nepal especially in the banking sector.

There are several reasons for choosing banking sector for this study. Firstly, banking institutions widely work with all the stakeholders than of any other business organizations (McGuire, Sundgren, & Schneeweis, 1988). Researchers have found that it is equally important to understand how those banks are operating within the society (Baskin & Gordon, 2005) and to know whether their vision and mission statements represent the overall benefits of socio-environmental aspects or just focused on the economic benefits (Vives, 2006). Financial institutions are the biggest taxpayers of the Nepalese economy (Nepal Rastra Bank, 2013). For instance, out of the top ten taxpayers in Nepal, seven of them are from the banking industry. Thus, it shows that banks are vital in the development of the Nepalese economy. Similarly, financial institutions had dominated Nepalese stock market since last decade. Likewise, banking sectors hold more than 97% of the capital of total financial sectors is leaving behind

other financial services to less than 3% (e.g. insurance and other wealth management sectors). Therefore, it is of interest of this study to identify the current status of CSR practices and to report made by the Nepalese banking sector.

Secondly, while there have been a growing number of research focusing on the social and environmental reporting practices by banking companies within the context of developed countries, there is a dearth of research focuses on the CSR disclosure behaviour of the banking sector within the context of a developing country (H. U. Z. Khan, Islam, Fatima, & Ahmed, 2011). Only a handful of research is available (Belal & Cooper, 2011; M. H. U. Z. Khan et al., 2009; Narwal, 2007; Visser, 2008) despite the commitment of different organisations such as GRI-FSS, United Nations Environment Program Initiatives (UNEFI), Equator Principles, World Bank, and Asian Development Bank to provide guidelines for preparing CSR reports on behalf of developing countries. Thirdly, studies from other developing countries (e.g. Bangladesh, Nigeria, and Zimbabwe) have found that profit imperative, knowledge and awareness on CSR, size and age of the firms are the major factors for non-disclosure. Most previous research on CSR in developing countries is focused on basic social and economic perspectives. For instance, Belal and Cooper (2011) studied the socio-justice issues in Bangladeshi firms and came up with various factors that are affecting the firms for not disclosing CSR properly. They mentioned profit imperativeness of the firm, managers' knowledge, weak government policies and public awareness. They conclude that the primary reason for weak CSR disclosures in developing countries is weak government and less public awareness on the subject matters. Similarly, McDonald and Lai (2011) studied the users' perceptions in CSR disclosed by the commercial banks in Taiwan and found that third party users are more concern to know what commercial banks are disclosing and they make the investment decisions based on the CSR disclosures. Likewise, they studied the customers' perception as well and found that customers are loyal to the banks that disclose CSR the most in social and environmental aspects. Acharya (2003) studied the impacts of poverty alleviation program by development of the effective financial system in Nepalese economy. She found that all programs were urban-centered due to the poor performance of government on poverty alleviation. Therefore, most studies of CSR in developing countries have only been carried out on social and economic aspects such as

donations and charities. Thus, this study will examine whether those factors have significant impacts on CSR disclosures in the Nepalese banks.

Lastly, this thesis contributes by studying the corporate responsibility of banking institutions based on GRI G4 guidelines. Prior research shows that very few studies have been performed in developing countries. H. U. Z. Khan et al. (2011) studied Bangladeshi commercial banks' CSR disclosures based on GRI G4 guidelines and found that most of the banks disclose more in social and environmental issues than on employees, human rights and labor practices.

#### **1.4 Rationale of the study**

The aim of this thesis is to examine corporate social responsibility (CSR) disclosures made by Nepalese banks in line with the Global Reporting Initiative (GRI) guidelines. The examination identifies the influence of bank size, age, profitability and ownership structure on CSR disclosures.

To meet this aim, the following questions are posed:

1. What is the current status of CSR disclosures in the Nepalese banks?
2. What factors influence the extent of CSR disclosures in the Nepalese banks?
3. What are the differences in CSR disclosure of commercial and developing banks?

More specifically, the study examines the annual reports of all available banking institutions to understand the current situation on CSR disclosures. Subsequently, it assess whether there are any relationships between the expected influencing factors and the extent of CSR disclosures in the Nepalese banking sector. Furthermore, the study examines on any specific differences in CSR disclosure made by two types of banks (commercial and development banks) in Nepal.

#### **1.5 Significance**

This thesis provides further insights for researchers who are looking into the CSR in developing countries and specialized in the financial sectors. The policymakers of the

central bank of Nepal can update its policies towards its banking institutions in terms of employee relation, work safety, environment and other social aspects of the CSR. This will also contribute to the CSR literature in developing country context. The following points highlight the significance in brief.

### **1.5.1 Contribution to the CSR literature**

A considerable amount of literature has been published on CSR in developed countries primarily focused in USA, Australia, the UK and Japan. However, there has been relatively little literature published in developing countries including Nigeria, Bangladesh, Kenya, South American countries and some Asian countries (Chapple & Moon, 2005; Visser, 2008). Among those literature, very few are in service sectors (Hossain & Reaz, 2007; M. H. U. Z. Khan et al., 2009; Narwal, 2007; Thompson & Cowton, 2004; Upadhyay-Dhungel & Dhungel, 2012). Thus, this thesis studies the quality of CSR in Nepalese banking sectors and the factors such as size, age, profitability and ownership structure that affect the level of disclosure.

Menassa (2010) studied the relationship between the different factors and the quality of CSR disclosures in Lebanese commercial banks and found a strong relationship between size and performance and a weak relationship with the age while no difference between social disclosures in domestic and international banks. Similarly, Hossain and Reaz (2007) studied the characteristics and factors of CSR disclosures in Indian banking system. The findings indicate that size and assets in place are significant, and other variables such as age, diversification, board composition, multiple exchange listing and complexity of business are insignificant in explaining the level of disclosure.

Visser (2008) studied CSR disclosures in developing countries from all continent and found that country's policy towards CSR, poverty, corruptions, lack of awareness, profit motive are the primary factors for not disclosing CSR. CSR is in infant stage in Nepal, and this thesis will help to understand the relationships between the CSR disclosures and its influencing factors in the Nepalese banking system.

Only a handful number of research were conducted on CSR in developing countries. This study focuses on CSR disclosures made by Nepalese banks in their annual reports based



on GRI G4 guidelines, which examines economic, social and environmental aspect of CSR.

### **1.5.2 Contribution to policy makers and practice**

The codes of Nepalese corporate social responsibility are based on the influence of Indian banking systems. The central banking functions were shared between Reserve Bank of India and Revenue and Mining Department in the Ministry of Finance in Nepal before the establishment of the central bank, and the adoptions of codes are still in effect (Acharya, 2003; Shah, 2012; Upadhyay-Dhungel & Dhungel, 2012). As a developing country, Nepal has revised its corporate governance practices, monetary policies in 2012.

Despite the effort to improve banking sectors by implementing different Acts (Protection of Environment Act 1997, Consumer Protection Act 1998, and Money Laundering Act) and regulations in Nepalese banking sectors, the CSR codes and other regulations are still below the standard designed by different organisations such as UN Global Compact, GRI, Triple Bottom Line.

In addition, disclosing CSR transparently is crucial to the Nepalese banking sector because there is a lot of Foreign Direct Investment is coming to Nepal to be invested in hydropower, renewable energy, telecommunication and cement industries. Those industries want the socially responsible investments where banks play a vital role. In this regard, a proper research on CSR in Nepalese banking has become a necessity, which could provide a proper guidance and information for future policy formation.

An increasing literature in CSR in developing countries has shown how effective codes of CSR can lead to protect the environment, employees and the society at large. The findings of this study will help policy makers to understand whether improved corporate social responsibility practices influence the CSR disclosure level made by the Nepalese banks in the long run.

Thus, this research is helpful in making a future plan for the central bank of Nepal for effective implementation and monitoring of the commercial banks' policies on CSR issues, e.g. social justice, environmental protection, poverty alleviation, preservation of cultural heritages and equal employment opportunities. There is a dearth of studies on CSR issues in the Nepalese banking sector as all the banks are disclosing their CSR

based on voluntary discretion. Feedback in a form of research on CSR could help the central bank to understand the current CSR practices used by Nepalese banks and to come up with better policies that may provide benefits to the society and the environment.

### **1.5.3 Contribution to Future researcher**

The CSR topic has been widely discussed from developed economies to transitional economies and developing economies. Developed economies have a depth of CSR literature, and other economies are slowly adopting those findings from developed economies. Likewise, the research in CSR in Nepal is still at an infant stage, and hence, this situation creates future avenues to investigate CSR practices in different sectors of business. Although, there are some scholars who studied exploratory studies in CSR in different business sectors, most of them are limited in nature and could not able to address the big picture of CSR within the Nepalese context. Most of the CSR research so far are qualitative in nature and primarily focused in content analysis and in-depth interviews.

This thesis, however, studies content analysis and regression analysis of the factors, which affect the Nepalese banking sector's CSR disclosures. The outcome from this study thus benefits researchers because it provides empirical evidence relating to the current CSR situation, different factors that affect the disclosures, and the awareness of employees and managers of the banking institutions on the CSR issues. Moreover, this is likely the first study that adopts the GRI G4 guidelines to assess the CSR disclosures in Nepalese banking sector. Thus, this will help the future researcher to adopt the same methodologies in other sectors to examine the CSR disclosures by such firms.

In summary, this thesis fills the gap of CSR in Nepalese banking sectors and provides a better idea for effective CSR implementation under different guidelines such as GRI, UN Global Compact, or their corporate wise disclosure methods. Due to the limited research available on CSR in the Nepalese banks, the findings of this thesis will provide indications of the level of CSR disclosures made by Nepalese banks and the factors that affect the disclosures, which can be of importance for future research.

## **1.6 Development of Nepalese banking system and CSR practices**

Nepal is a landlocked mountainous country located between two emerging economies - China and India. Geographic location, political instability, growing population and corruption have pushed the nation to slower economic growth. According to the report of the central bank of Nepal, the economic growth rate for 2012 was 3.1%, which was 0.9% lower than the previous year. The major sectors of GDP are agriculture, service and manufacturing with a weighted percentage of 34.8%, 50.6% and 14.6% respectively ("Annual Report," 2013). In Nepal, more than 70% of the total populations are engaged in agriculture, and the rest are in service and manufacturing industries. According to the World Bank, Nepal is one of the poorest countries with a per capita income of US\$ 440 per annum (World Bank, 2009).

Nepalese financial sector development has a very recent history, starting from the early twentieth century. The history of financial developments in Nepal may be divided into three phases, 1937-1956, 1956-1985 and post-1985. Nepal Bank Limited, the first commercial bank in the country, was established as a joint venture between the government (51 per cent share) and the private sector (49 per cent share) in 1937, and it was the only bank and financial institution in the country until 1956 when the central bank of Nepal (Nepal Rastra Bank) was established. The central banking functions were shared between the Reserve Bank of India and the Revenue and Minting Department in the Ministry of Finance in Nepal. The banking practices started from the establishment of the Nepal Bank Limited as the first commercial bank in 1937. Before the establishment of the Nepal Bank Ltd, Nepalese nationals had to keep their savings either in cash or in the Indian banks (Acharya, 2003). The establishment of the Nepal Rastra Bank (NRB) in 1956 as the central bank gave a new dimension to the Nepalese financial system.

After the establishment of the central bank, the financial system gained momentum. Within a decade, a number of institutions were established in the public sector. These included Nepal Industrial Development Corporation (NIDC), Agriculture Development Bank (ADB\N) and the Employees Provident Fund Corporation, Rastriya Banijya Bank, the Credit Guarantee Corporation, Nepal Insurance Corporation and the Securities

Marketing Centre. Besides setting up new institutions, the NRB partially subsidised branch expansion of the commercial banks between 1970 and 1989, because commercial banks tended to concentrate in urban areas to avoid the higher cost of rural operations.

Nepal adopted a financial sector liberalization process during the 1980s. As a consequence of liberalisation measures, the number and variety of financial institutions, their financial assets and variety of instruments, have grown significantly. For the first two decades, Nepal witnessed tremendous growth in the number of financial institutions reaching to a wide geographic region and institutional diversification.

The number of financial institutions grew from 6 to 253 between 1980/81 and July 2013. The number of commercial bank branches operating in the country increased to 1486 in mid-July 2013 from 1425 in mid-July 2012. Among the total bank branches, 49.5% of branches are concentrated in the central region followed by 18.3% in the Eastern region, 17.6% in the Western region, 8.7% in the Mid-Western region and 5.9% in the Far Western region respectively and are mostly concentrated in urban areas ("Bank and Financial Statistics," 2014).

The emerging financial spectrum features several tiers of institutions catering to the various segments of the economy and the sections of the population. Inter-linkages among the various kinds and levels of institutions are still fluid and developing. With the growth in their number, financial institutions have also diversified their products and services. Table 1 shows the total financial institutions, their assets and their market share.

**Table 1.1.6.1: Number and total assets of banking institutions**

(Mid-July 2013)

Types	Number of Institution	Total Assets (In Millions Rs.)	Percent shares
Commercial Banks	31	1,267,249.2	78.2
Development Banks	86	127,300	13.0

Finance Companies	59	106,190	6.6
Micro-Finance Development banks	31	35,775	2.2
Savings and Credits Co-operatives	15	-	-
NGOs (Financial Intermediaries)	31	-	-
<b>Total</b>	<b>253</b>	<b>1,536,514.2</b>	<b>100</b>

*Source: Nepal Rastra Bank, 2013*

In Nepal, banking institutions are the major taxpayers for the government and the major lenders to the private sectors. Nepalese capital markets are at the infant stage of development and bank financing is an important source of financing for all kinds of firms (Nepal Rastra Bank, 2013). The financial sectors' total asset is around 12.2 billion US\$ as of 2013 which is 34.8% of the total GDP. The relatively high value for the ratio of the total banking sector assets to the real GDP signifies the importance of the banking system in Nepalese economy (Nepal Rastra Bank, 2013). However, Commercial Banks held a dominant share on the major balance sheet components of the financial system. Of the total deposits Rs. 1,257,278 million in Mid - July 2013, commercial banks occupied 81.2%. Similarly, development banks held 12.7%, finance companies held 5.5%, and micro-finance development banks held 0.6% respectively ("Bank and Financial Statistics," 2014).

Due to stabilised political situation, the numbers of commercial banks are increasing with immense competitions. Thus, those banks are opening new branches in different parts of Nepal providing varieties of services such as saving and credit, micro-financing for agricultural sustainability, and loans to hydropower and solar energy projects. Such programs are subsidised by central banks to expand the service to rural areas. In a Monetary Policy for fiscal year 2013/2014, the NRB issued a circular to all of the banking institutions that they must lend a minimum of 3.5% in the deprived sector with a 0.5% fixed increase for next two years ("Monetary Policy ", 2013).

The NRB will investigate the authenticity of the mandatory investment in rural areas for poverty alleviation and sustainable development of underprivileged groups by the commercial banks for proper implementation. In reality, even though the primary objective of those banks is to maximise profit, they have engaged in the community to uplift their social and financial status, which is a part of CSR (Chapagain, 2012). The central bank had encouraged all the banking institutions to open at least one branch to one of nine rural districts selected by the central bank based upon the availability of the service the local people. In the monetary policy of fiscal year 2013/2014, banking institutions must lend up to Rs. 200,000 without collateral for those who want to study in the technical sector. Similarly, to protect the minority depositors, the central bank increased the deposit insurance to Rs. 200,000 for commercial banks.

Despite the availability of different Acts and guidelines for banking practices in Nepal, most of them are very limited, and at the present context, failed to implement properly due to the unstable political system, weak government strategies and less public awareness of the laws.

Financial institutions have been putting corporate responsibility into practice by using financial initiatives such as microcredit and microfinance schemes, ethical, social and environmental funds, low-income banking, and removal of barriers to credit access (Francese & Argandoña, 2009). Most of the banking institutions in Nepal are concerned about CSR however; only a few banks have been disclosing them properly in their annual reports as well as in their Webpage. The common area of CSR activities and their concerns have been mainly in education, health, poverty alleviation, cultural heritage preservation and donations to a good cause which is primarily the philanthropic aspect of CSR.

The majority of privately owned commercial banks and a state-owned bank have mentioned about CSR issues in their annual reports or in their websites although and are supportive of CSR activities. In support of CSR, those banks have mentioned about half a page of information on philanthropic aspects. But on the other hand, some private banks such as SBI Bank, Bank of Kathmandu, and Nabil Bank have created their CSR Webpage with about a page of CSR related information.

In the current context, in which CSR is a voluntary practice, most the Nepalese banks have focused on profit maximisation rather than socio-environmental aspects. The Nepalese government candidly admits the lack of engagement in corporate social responsibility initiatives (GoN, 2006/2007, p. 60) cited in (Shah, 2012).

*“Many industries in the private sector and public companies lack socially responsible corporate culture. For the development of trustworthy and reliable private sector, the promotion of principles of institutional good government and values has become necessary. Appropriate codes of conducts need to be developed and participate in an effective manner.”*

More recently, in reference to the neighbouring countries and Western-centric researchers, little emphasis has been given to employee training and development, and environmental protection issues of CSR activities by some Nepalese banks (Adhikari, 2012). However, very few banks, mostly joint venture banks, have implemented these initiatives.

A study in Bangladeshi firms by Belal and Cooper (2011) found that profit imperative, knowledge and resources, poor performance and fear of negative publicity have been the major reasons for not disclosing the CSR activities in their annual reports by firms in the developing countries. In Nepal, it is common that most of the banking institutions disclose very little CSR related information in the qualitative form in annual reports. However, there has been no study done in the past to examine the CSR disclosures by banking institutions in their annual reports. Therefore, this thesis studies the extent of CSR disclosures made by banking institutions in their annual reports and the factors influencing CSR disclosure, if any.

## **1.7 Summary**

The demand of CSR has been growing rapidly in the Western countries, and it is gradually expanding to the developing countries. As a result of globalisation, different multinational firms are expanding their business in developing countries while promoting socially responsible behaviour and protecting the local environment. The majority of

research, however, provides the evidence from the Western countries than developing countries. Also, such research has been focused in mining, production, manufacturing, chemical industries rather than service sectors such as banking, insurance, and hospitality. In response to the importance of CSR disclosures in banking sector from developing countries, Nepalese banking sector has been selected for this research. The following chapter, the literature review provides a comprehensive overview of prior studies on CSR.



### **2.1 Introduction**

The research on Corporate Social Responsibility (CSR) is being criticized as a Western-centric phenomenon (Belal & Cooper, 2011; Visser, 2008; Visser & Macintosh, 1998), which is primarily focused in the UK, Australia, United States and some other developed countries. In the meantime, developing countries are lagging far behind the developed world's interim of CSR. However, there is abundant evidence that CSR in developing countries reflect the deep-rooted indigenous cultural traditions of philanthropy, ethics and community involvement and help for a good cause. A study by Visser and Macintosh (1998) found the ethical condemnation of usurious business practices in developing countries that practice Hinduism, Buddhism, Islam and Christianity dated thousands of years back. The region's religious beliefs are one of the major motivations for CSR (Nelson, 2004; Vives, 2006).

Similarly, most of the CSR research is focused in non-financial sectors such as mining, production, tourism compare to the financial sectors such as banking, insurance due to significantly lower direct environmental impact. This has been used as an argument to exclude banks and financial companies in studies which analyse the various components of social responsibility disclosure (Branco & Rodrigues, 2006). However, some scholars argued that banks are responsible for whom they lend and for what purpose. (Thompson & Cowton, 2004) argued that banks “can be seen as facilitators of industrial activity which causes environmental damage.

Section 2.2 explains the detailed review of CSR in the Western and developing countries as well as in financial and non-financial sectors, followed by discussions on different factors—such as bank size, age, profitability and ownership structure—affecting the level of CSR disclosures in section 2.3. Subsequently, some brief introduction on CSR reporting guidelines—Global Reporting Initiatives (GRI) is presented in section 2.4, followed by a theoretical framework for the study in section 2.5. Finally, Section 2.6 concludes the chapter.

## **2.2 What is Corporate Social Responsibility (CSR)**

There is not a single universally accepted definition on Corporate Social Responsibility (Lee, 2011; OECD, 2004, 2010). CSR is widely practiced in different forms—such as charity, donation, philanthropic activities, scholarships, health initiatives, employee health and security, preservation of wetland, use of biofuels—around the globe. However, the modern practice of CSR emerged in the early 1950s. Many scholars have defined CSR based on the context of their study. Heal (2005) defined CSR as an involvement of different actions which reduce the extent of externalised costs or avoid distributional conflicts. This implies that the social cost being shared by the corporations and the society. As a result, good CSR disclosure helps in reduction of risk, waste, improvement of relations with regulators, generating brand equity, improving human relations and employee productivity, media attention and reduction in the cost of capital (Heal, 2005). Similarly, the World Bank has defined CSR as the “commitment of business to contribute to sustainable economic development—working with employees, their families, the local community and society at large to improve the quality of life, in ways that are both good for business and good for development” (Ward, 2004, p. 3).

In CSR literature, it is very hard to find the agreed common definition. Hence, it becomes one of the key challenges in studying and implementing responsible business practices around the globe. In addition, the term CSR is often used interchangeably with others, including corporate responsibility, corporate citizenship, business in society, social enterprise, sustainability, sustainable development, triple bottom line, societal value-added, strategic philanthropy, corporate ethics, and in some cases also corporate governance (Nelson, 2004)

In the different field of study, scholars find a clear linkage between different CSR terminology and socially responsible investments, community investing, social capital, and collaborative governance. In the business community, CSR is alternatively referred to as corporate citizenship, which essentially means that a company should be a “good neighbour” within its host community. The experts in each of these areas can offer sound reasons, why their term is different from the others. In summary, the primary objectives of CSR are to create a good relation between the corporations and the society as well as

to look for the sustainable development regardless of different terminologies proposed in CSR literature.

While the term CSR may appear to be relatively new to the corporate world, but the literature reveals that the evolution of the concept can be traced back to decades. The concept of corporate social responsibility (CSR) was emerged in the mid-20th century in Howard R. Bowen's book "Social Responsibilities of the Businessman", which is considered to be the first definitive book on the subject (Carroll, 1976). Since then, many academic scholars have contributed to the concept of corporate social responsibility literature (Carroll, 1976; Davis, 1973; Wood, 1991). In 1953, Bowen conceptualized CSR as a social obligation to pursue those policies, to make those decisions, or to follow the lines of actions which are desirable in terms of the objectives and values of our society (Taneja, Taneja, & Gupta, 2011). Bowen had taken a broad approach to business responsibilities which includes responsiveness, stewardship, social audit, corporate citizenship and rudimentary stakeholders theory (Windsor, 2001). Carroll had described Bowen as a modern "Father of Corporate Social Responsibility" and believed that study by him marked a beginning of a modern period on CSR literature (Carroll, 1999).

On the other hand, various organizations, such as the Global Reporting Initiatives (GRI), the United Nations Environment Program Initiatives (UNEPFI), the Equator Principle, UN Global Compact, OECD and the World Bank have been providing the guidelines on CSR disclosures and the tentative definitions of CSR. Among them, GRI is the widely used guideline to report the sustainability disclosures around the world to enable greater organizational transparency. The framework, including the Sustainability Reporting Guidelines (the Guidelines), sets out the Principles and Standard Disclosures that any organizations can use to report their economic, environmental, and social performance and impacts (Moneva, Archel, & Correa, 2006).

In summary, whether the definition of CSR is from a scholar or an organization, CSR is a duty of every corporate body to protect the interest of the stakeholders at large. Egri and Ralston (2008) reviewed the literature in CSR, where they found the majority of the literature focused on four main theme namely social responsibilities, environmental responsibility, ethics and corporate governance. Albeit profit maximization, companies

are taking the initiative to increase the welfare of the society and conducting their business practices within the framework of social and environmental norms.

Wood (1991) defined corporate social performance and designed an integrated framework for business and society where the principle of corporate social responsibility are framed in broader areas beyond the environment, social and economic aspects. The outcome of corporate social performance is posed as social impacts, policies and programs. Like Wood, it can be expected that the Nepalese banks might disclose corporate social responsibility in broad areas beyond the three basic frameworks. The area could be stakeholders, consumers, suppliers and the social impacts, programs and policies.

A study by Margolis and Walsh (2001) found a positive relationship between corporate social performance and corporate financial performance. Likewise, Adams (2002) found that disclosing the information on CSR especially on social and environmental disclosure increases the corporate image and relationships with stakeholders. He also found that organizations that produce social and environmental reports develop better internal control systems and better decision-making and cost savings, resulting in continuous improvements.

The importance of CSR is also reflected in the UN Global Compact, which was launched in July 2000. The UN Global Compact asks companies to embrace, support and enact, within their realm of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption which are known as UN Global Compact's ten principle (Al-Tamimi, 2014). UN Global Compact is a voluntary learning and dialogue platform for business, which is committed to disclose transparent CSR.

Wartick and Cochran (1985) portrayed the evolution of corporate social performance model by focusing on three major concept of CSR– economic, environmental and social responsibility. Likewise, Triple-Bottom-Line (TBL) accounting was introduced in the early 1980s to measure the CSR of firms. TBL accounting expands the traditional reporting guideline to take into account of social and environmental performance in addition to financial performance. The triple bottom line approach (people, planet, profits), which incorporates social, environmental, and economic considerations, has

also been suggested as a CSR model and made as the basis for the globally-accepted Global Reporting Initiative (GRI) sustainability reporting guidelines (Enquist et al., 2006). GRI is one of the most widely used frames for sustainability reporting.

This study is going to identify the corporate social responsibility disclosures made by Nepalese banks focused on the social, economic and environmental aspects based on the Global Reporting Initiatives, GRI guidelines. The banking sectors are disclosing the CSR activities in their annual reports and websites to the general public. The research will help to different stakeholders to know about the current CSR activities disclosed by the Nepalese banks especially focused in commercial and development banks. The following table summarizes the previous literature in CSR from around the globe.

**Table 2.1: Summary of previous research findings**

<b>Study</b>	<b>Data Sources</b>	<b>Factors of CSR disclosure</b>	<b>Methodology</b>	<b>Results/Findings</b>
Cowen, Ferreri & Parker (1987)	Annual reports of Fortune 500 companies for 1978	Firm Size Industry Profitability Social responsibility committee	Multiple Regression Analysis	1. The positive relationship between firm size environments, fair business practice, energy, community involvement except for human resources. The positive relationship between energy and community involvement. 3. Positive relationship

				between social responsibility committee and human resource
Patten (1992)	52 annual reports from manufacturing industry from the United States	Size Industry types Profitability	OLS regression	<p>1. Significant positive association with level of CSR disclosure,</p> <p>2. Industry was significantly associated with social disclosure; and</p> <p>3. Profitability was not associated with the level of CSR disclosure</p>
Hackston & Milne (1996)	50 annual reports for 1992	Size Industry type Profitability Country of ownership	Regression Analysis	<p>1. A positive relationship between size and CSR disclosure; industry type and CSR disclosure. But no relationship between profitability and</p>

				country of origin with CSR disclosure.
Purushothaman, Tower, Hancock and Taplin (2000)	60 annual reports from Singapore	Size Leverage Performance Listing Status Types of industry	Content analysis and Regression analysis	<p>1. Company size is a significant determinant of CSR that is larger firm disclose more CSR information.</p> <p>2. Leverage shows a significant positive relationship with CSR.</p> <p>3. Profitability is insignificant with CSR.</p> <p>4. Listing status is insignificant with CSR</p> <p>5. Industry type is also insignificant with CSR.</p>

El-Bannany (2007)	Annual reports from major banks in the UK from 1981-1996	Size Age Listing status Market structure Investment in information technology Bank Risk Profitability	Content analysis of annual report and multiple regression analysis	<p>1. Market structure, investment in information technology and risk factors, which have not been considered in previous studies, have a significant impact on the social disclosure level.</p> <p>2. Bank size and profitability are significant.</p> <p>3. Listing status and the age of the bank are insignificant.</p>
Hossain & Reaz (2007)	Annual report from 38 listed banking companies from India for the year 2002-2003	Size Age Multiple listing Complexity of business	Content analysis and multivariate analysis	1. Size and asset-in-place are significant with CSR disclosure whereas age, board composition, and multiple listing is



		Board composition Asset in place		not significant.
Branco & Rodriguez (2008)	Compares the CSR web pages and annual reports of Portuguese listed company for 2003 and 2004	Size International experience Industry affiliation Media exposure	Content analysis and Linear Regression model	International experience and company size are insignificant with both annual report and web page CSR disclosure.  Media exposure is insignificant with both annual report and web page CSR disclosure.  Industry affiliation is not- significant with the annual report but positive significant with web page.

Reverte (2008)	46 annual reports from Spanish listed firms for the year 2005 and 2006	Size Age Ownership Media exposure Leverage	CSR disclosure ratings from Observatory on Corporate Social Responsibility (OCSR).	1. Size and media exposure are positively significant with CSR disclosure.  2. Profitability and leverage have no significant positive relationship between CSR disclosure in line with OCSR.
Menassa (2010)	24 annual reports from Lebanese commercial bank for the year 2006	Size Financial performance Age International exposure Ownership	Content analysis and regression analysis	A Strong association is found between CSR disclosures and size and financial performance variables, whereas the relationship with the bank age is found to be weak.
Dagiliene (2010)	Annual reports from Lithuanian listed companies for	Analyzing the annual report on Environment, community, human	Content analysis	Not a single company presented the data on community activity.

	2007-2008	resource and product		Most of the firms presented about half a page of information on environment, human resources and product
Belal and Cooper (2010)	23 semi-structured interviews were undertaken with senior corporate managers in Bangladesh	Focus on lack of disclosure on three particular eco-justice issues: child labour, equal opportunities and poverty alleviation	Content analysis	The main reasons for non-disclosure include lack of resources, the profit imperative, lack of legal requirements, lack of knowledge/awareness, poor performance and the fear of bad publicity
Gamerschlag, Moller and Verbeeten (2010)	130 listed German companies to examine voluntary CSR disclosure in line with GRI framework	Visibility Profitability Shareholder structure Relationship with stakeholders	Content analysis and linear regression model	1. Size and industry relationship affect the CSR disclosure. All German firms disclose CSR information as guided by GRI.

Bayoud, Kavanagh and Slaughter (2012)	40 annual reports from Libyan firms from 2007-2009	Age Industry type Size	Content analysis and multiple regression analysis	The positive relationship between company age and industry type and the level of CSR disclosure.  The level of CSR disclosure did not affect by the size of the firms in Libyan firms.
Naser & Hassan (2013)	Annual reports of non-financial companies from Abu Dhabi securities exchange	Firm size, firm profitability and industry type were examined as potential factors that influence CSR disclosure	Content analysis and Multiple regression analysis	The results suggest that the extent of CSR disclosure is influenced by corporate size, industry and profitability.
Ortas et. al (2015)	Studied 3931 companies from 51 industries from 59 countries with corporate environmental sustainability	Company size, leverage, return on assets, research and development spending, market return and market	Content analysis and Quantile Regression Approach	The result suggests that financial performance; market capitalisation, ROA and all their factors are positive and significant to the extent of CSR

	reporting (CESR) approach	capitalization were examined		disclosure at 95 <sup>th</sup> quantile of the dependent variables. The results are backed by different underlying theories.
Al-Tamimi (2014)	Semi-structured questionnaire sent to bank managers on CSR awareness, dimensions and issues.	Items such as climate change, CSR practices, organizational responsibility for CSR, CSR payback, public policy support for CSR and relationship with stakeholder		The main results indicate that the UAE banks are aware of the concept of corporate social responsibility; they place more emphasis on compliance with mandatory social and environmental legislation and less on the non-mandatory legislation
Das et. al (2015)	A longitudinal study from 2007 to 2011 in listed banks of Bangladesh	Bank size, profitability, age, ownership structure and	Content analysis (detecting the items based on absence or	CSR disclosure is positively significant with firm size, board size, and

	by scanning their annual reports	board size are measured with self-constructed checklist	presence)	ownership structure while it is negatively associated with firms' profitability and the age of the company.
Cho et. al (2015)	A longitudinal study from 1977 to 2010 to examine the practice of CSR disclosure in two-time-frame from Fortune 500 firms	Legitimacy factors were evaluated during the time	Standard valuation model to compare the association between CSR and firm value between the two time periods.	The breadth of CSR disclosure increased significantly on both social and environmental disclosure. However, the newer CSR disclosures are not valued more on investor
Mateescu (2015)	Annual reports, web pages, and CSR reports were studied 51 companies on CSR disclosure in emerging	They studied the firm-specific characteristics (assets, profit, type of auditor, type of ownership and	Content analysis and regression analysis	The study revealed that there is a strong positive connection between the country-level variables (the rule of law, government effectiveness and

	economies of European Union Hungary, Romania, Poland and Estonia for the year 2012	institutional investors) of sample firms in those countries as well as country level variables		regulatory quality) and the companies' level of compliance and transparency. Also, companies audited by a Big-4 have become more aware of the importance of implementing a sound corporate governance system and becoming more accountable to their stakeholders.
Zhu and Zhang (2015)	146 usable questionnaires on different types of CSR practices under the ISO26000 framework,			CSOCs only initiate CSR practices related to communities and charity as well as employee rights, consumer issues, fair operation and labor.

**2.2.1 CSR Disclosure by developing countries**

Many scholars criticized the level of CSR disclosures in developing countries are inadequate and far behind to developed and transitional economies (Belal & Cooper,

2011; Deegan, 2002; Idemudia, 2011; M. H. U. Z. Khan et al., 2009; Visser & Macintosh, 1998). Even some critics called CSR as truly a Western phenomenon (Visser, 2008). Despite the acute criticism on CSR, there are a bunch of papers described the CSR disclosure activities from a different part of the world. Belal and Momin (2009) studied the CSR in transitional economies and found that most of those CSR research are concentrated to Asia-Pacific and African economies, and most of them are descriptive in nature, used content analysis as a method of measurement from the annual reports. However, a handful of research is conducted to find the managerial motivation to disclose CSR by interviewing managers and other chief officers of the firm. They found that the reason behind CSR disclosures was pressure from the parent companies, changing rules from the home countries, shareholders pressure, international market and international agencies.

While the research in CSR in developing countries relatively limited (Belal & Cooper, 2011) and primarily focused in industries that are primarily linked to environmental sectors such as energy, mining and production (Visser, 2008), there has been progressing in both theoretical and empirical field of study. This emergent literature suggests that businesses' engagement in CSR is lower (Baughn & McIntosh, 2007) and non-institutionalized in developing countries when compared to the CSR benchmarks used in the developed world (Visser, 2008). Further, Visser and Macintosh (1998) specifically defined CSR in developing countries to represent 'the formal and informal ways in which business makes a contribution to improving the governance, social, ethical, labour and environmental conditions of the developing countries in which they operate, while remaining sensitive to prevailing religious, historical and cultural contexts.

Collectively, CSR initiatives in developing countries are generally limited to philanthropic or charitable contributions for community welfare activities including donations to provide financial support for orphans and the disabled, the development of art and culture, the staging of musical and sporting events, support for educational and learning programs, donating to the health organizations, sponsoring the community sports and social clubs, donating to natural disaster relief fund and involvement in community development programs (Jamali & Mirshak, 2007; Visser, 2008). In spite of philanthropic contribution, a very little monetary value has been disclosed in their annual reports due to



no mandatory disclosures requirements from their host countries (Shah, 2012). This is also due to the public unawareness of the CSR disclosures and its pros and cons to the different stakeholders.

CSR in developed countries is stronger due to greater stakeholder engagement and stricter regulations especially on environmental, human rights and employee health and safety. Therefore, scholars suggest that CSR research should be focused in developing countries than in developed countries (Dobers & Halme, 2009; Visser, 2008). This is attributed to the effects of globalization and economic growth activities, which are likely to have a more profound social and environmental impact - both positive and negative - in developing rather than developed countries (Moyeen & West, 2014).

Dobers and Halme (2009) studied the CSR in developing countries from South America, Asia, and Africa, BRIC (Brazil, Russia, India and China). They found the disclosures of CSR activities were different in all countries due to different norms and the different institutional environment in those countries. Most of the countries are disclosing CSR in the descriptive form in their annual reports and Webpages in a voluntary basis. They emphasized the urgency to develop structures and institutions that contribute to social justice, environmental protection and poverty eradication in all developing economies. A study by Gjølborg (2009) in 20 countries including USA, Canada, Japan and found that countries' origin matters to companies' CSR practices.

In a cross-country study of CSR in Bangladesh and Australia, Quazi and O'Brien (2000) found that owner or managers' religious values greatly influence their preference for engaging in such philanthropy-based social responsibility initiatives. This finding has also been further supported by other studies set in developing countries, including Nigeria (Amaeshi & Crane, 2006), India (Chahoud, Emmerling, Kolb, Kubina, & Repinski), Lebanon (Jamali & Mirshak, 2007) and Bangladesh (Moyeen & West, 2014).

Mateescu (2015) investigated the CSR disclosure by four emerging countries—Estonia, Romania, Poland and Hungary. He studied the different source of CSR information such as annual report, web page and independent CSR report in 2012 for a total of 51 companies. Firm-level characteristics and country level characteristics are studied separately. The study revealed that there is a strong positive connection between the country-level variables and the companies' level of CSR disclosure. Also, companies

audited by a Big-4 have become more aware of the importance of implementing a sound corporate governance system and becoming more accountable to their stakeholders. Firm-level characteristics have different results in different countries. The CSR disclosure differs from country to country and the cultural and country specific variables affects the level of CSR disclosure, which is supported by the work of Adhikari, Emerson, Gouldman, and Tondkar (2015) in 136 multinational companies from the US, Western Europe and the Scandinavia.

Ortas, Gallego-Alvarez, and Etxeberria (2015) studied a longitudinal study from 51 different industries from 59 countries. They analyse the impact of companies' financial-related variables on the extent of their corporate environmental reporting. A Corporate Environmental Sustainability Reporting (CESR) index was constructed by analysing companies' transparency according to the GRI G3 environmental core indicators. The multi-theory framework was established that considers agency theory; signal theory, political cost theory and legitimacy theory because CSR reporting is based on multiple theoretical frameworks. The research applied a quantile regression approach, represents a methodological innovation in studies analysing environmental reporting and its determinants. The result suggests that financial performance; market capitalisation, ROA and all their factors are positive and significant to the extent of CSR disclosure at 95<sup>th</sup> quantile of the dependent variables. The results are backed by different underlying theories such as agency theory, political costs theory and legitimacy theory.

Cho, Michelon, Patten, and Roberts (2015) studied the amount of CSR disclosure from 1977 to 2010 using Fortune 500 data. They identified differences in CSR disclosure by computing adequate measures in terms of disclosure breadth and comparing them for any potential changes in the influence of legitimacy factors. They used a standard valuation model to compare the association between CSR and firm value between the two time periods. The breadth of CSR disclosure increased significantly on both social and environmental disclosure. However, the newer CSR disclosures are not valued more on the investor. The results are significant, and the amount of CSR disclosure is gradually increasing by the time.

When CSR practices come to Indian sub-continent such as India, Nepal, Bangladesh are deep rooted to cultural phenomenon. CSR disclosures are in descriptive form especially focused in charity donations for good causes. This implies that there is little to no disclosures in the social or environmental aspect of CSR (Belal & Cooper, 2011; Shah, 2012; Visser, 2008).

Jamali (2010) studied the CSR on multi-national subsidiaries in developing countries from Lebanese companies focusing in standardization or localization of CSR. Her study revealed those patterns of global CSR being diffused to developing countries but also being diluted along the way in view of specific subsidiary endowments and host market characteristics. Additionally, the findings make clear that the integration of contingencies relating to differences in the characteristics of subsidiaries such as size, resources, policies of the host country, network with parent company which coupled with characteristics of the market environment which can be helpful for the limited localization of CSR initiatives in developing countries.

Naser and Hassan (2013) studied the extent of corporate social responsibility (CSR) and its determinants by non-financial companies listed on Abu Dhabi Securities Exchange. The study consists a single year annual reports analysed via content analysis and multiple regression. The result suggests that CSR disclosures in Abu Dhabi companies are low with an average of 34 percent. They found that Abu Dhabi companies are not still lagging behind the adequate CSR disclosure as those firms still believe that CSR is not their primary concern. Hence, the results suggest that the extent of CSR disclosure is influenced by corporate size, industry and profitability in UAE non-financial firms. It can be argued that UAE firms are profit imperative rather disclosing CSR information in their annual reports.

Despite the gradual progress in research in developing countries, very little attention is given to the factors that influence CSR disclosures—both positively and negatively. Such factors, however, are crucial for the effective promotion and implementation of CSR in any country. In an exploratory factor analysis, the motivational data resulted in four factors i.e. caring for customer and community, profit through caring, community orientation and business of business is business (Mankelow & Quazi, 2007). This study suggests that Small Medium Enterprises (SMEs) are committed to profit for their

survival, but, at the same time, they are not guided by selfish attitudes to 'the bottom line.' Rather, it signifies that SMEs are also serious about their obligations to the broader stakeholders in the society (Mankelow & Quazi, 2007).

Similarly, a study by Belal and Cooper (2011) in Bangladeshi context in eco-justice issues: child labour, equal opportunities and poverty alleviation. The findings suggest that the main reasons for non-disclosure include lack of resources, the profit imperative, lack of legal requirements, lack of knowledge/ awareness, poor performance and the fear of bad publicity. Given these findings, the paper raises some serious concerns as to why corporations would ever be expected to report voluntarily on eco-justice issues where performance is poor and negative publicity would be generated and profit impaired which are supported by the study of Branco and Rodrigues (2006); Visser (2008).

Developing country like Nepal does not have social and environmental database similar to the ones used by researchers in developed countries to measure the CSR disclosure score. Indeed, the Asian development Bank, World Bank, Nepalese Central Bank, as well as other private and public agencies, can play a major role to help banks to make more socially and ethically oriented banking activities.

CSR disclosures in Nepalese firms are gradually increasing as compared to the past since Nepal entered into the World Trade Organization (WTO). Many Nepalese businesses exposed to other countries, hence increasing the competition. There has not been enough research related to CSR. However, the existing literature found that majority of the business are engaging in the philanthropic aspect of CSR with little attention to the environment (Shah, 2012). As CSR is a voluntary practice, many Nepalese firms do not disclose CSR in their annual reports with some exceptions. Some joint ventures and foreign multinational companies disclose CSR as the requirement of the parent company. This thesis will explore the CSR disclosures in Nepalese bank in line with GRI G4 guideline.

### **2.2.2 Corporate Social Responsibility Disclosures in Financial Sector**

In CSR research, non-financial sectors get more attention compare to financial sectors as they directly related to the society and its environment although financial sector is the backbone the economy. Banking institution has received little attention in the social

accounting literature, and although there has been a significant amount of research into lending decisions, there has been very little work which has studied how banks satisfy their perceived needs for information relating to environment and society and how they wish the provision of information to develop in the future (Thompson & Cowton, 2004). Social responsibility disclosure seeks to reflect several social and environmental aspects upon which companies' activities, such as employee-related issues, community involvement, environmental concerns, and other ethical issues, might have an impact. Therefore, social responsibility disclosure refers to the disclosure of information about companies' interactions with the society (Branco & Rodrigues, 2006). Being CSR is in an infant stage, Nepalese banks can accelerate CSR disclosures primarily focus on the good cause, employee training and developments while maximizing shareholders value. Imam and Malik (2007) found in Bangladesh that foreign holdings are increasing in financial sectors, which have good corporate governance and effective corporate social disclosures. They also observed a positive relationship between institutional ownership and firm performance. This implies that the incentives to disclose corporate social responsibilities increase the disclosing behaviours of the firms.

In 2006, research by RARE Project Consortium in 17 European banks found that the CSR activities are summoned up in six phases: Relevance of the issue; Commitment; Corporate strategy; Organizational embedding; Level of activities; and Performance measurement. The results indicate that a high number of banks recognize the relevance of the three policy issue areas namely—mitigating climate change, promoting gender equality and countering bribery. But when it comes to commitment, results decrease from all 17 banks. This implies that even in economies in Europe do not have consistency in CSR disclosures even though they used widely accepted guidelines to disclose CSR. A study by Weber (2005) on European banks and financial institutions to find out the extent to which these banks have integrated sustainability into their policies, strategies, products, services and processes. Among the results of this study, he found five models for successful integration of sustainability into the banking business: event-related integration of sustainability, sustainability as a new banking strategy, sustainability as a value driver, sustainability as a public mission and sustainability as a

requirement of clients. The main result of his survey was that the social aspects of sustainability find their way into the banking business.

Menassa (2010) studied the quality of CSR disclosures in Lebanese commercial banks in a relationship with factors such as size, age and performance. Her findings revealed that CSR is one of the best means to communicate with their stakeholders. Moreover, results found that these banks attribute a greater importance to human resource and product and customers disclosures, whereas the availability and extent of the environmental disclosure are still weak. Furthermore, a strong association is found between CSR disclosures and size and financial performance, whereas the relationship between bank age and CSR is comparatively weak. Finally, findings suggest no difference in social disclosure behaviour between listed banks and banks with an overseas presence, and non-listed banks and those operating only in Lebanon. Factors that studied in Lebanese bank are going to be studied in Nepalese bank, and it expected that there would be some relationships between the level of CSR disclosures and the factors.

Tongkacho and Chaikaw (2012) studied corporate social responsibility of listed companies in the Stock Exchange of Thailand. Their results indicated that different factors influence the CSR especially the transformational leadership had the most positive influence on corporate social responsibility, followed by corporate governance and stakeholder engagement and community engagement respectively. It is expected that the factors such as good corporate governance, financial performance, ownership structure and their internal policies will have a significant influence of CSR disclosures in the Nepalese banks.

In comparison with other sectors such as manufacturing, supply chain, tourism and hospitality; financial sector has a significantly lower direct environmental impact. This has been used as an argument to exclude banks and financial companies in studies which analyse the various components of social responsibility disclosure (Bronco & Rodrigues, 2006). However, some scholars argued that banks are responsible for whom they lend and for what purpose. Thompson and Cowton (2004) argued that banks “can be seen as facilitators of industrial activity which causes environmental damage.” Many hydropower projects, cement industries and telecommunications, productions plants are

being constructed around the country where the bank can lend money to those industries if those industries are socially responsible and environmentally friendly.

Countries in the transitional economic phase such as Taiwan, India, Indonesia, Philippines, Thailand and China have been boosting their CSR into practice by using financial initiatives such as micro-credit loan, ethical, social and environmental funds, low-income banking and removal of barriers to credit access (Prior & A, 2008). For example, in India, the banking industry concentrates its CSR activities on education, balanced growth, and health, and incorporates customers' satisfaction as a CSR activity (Narwal, 2007). Similarly, Thai banks focused on education initiatives, preservation of cultural heritages and donation to public schools as a part of CSR towards society (Kerlin, 2009). In the interest of environmental issues, some of the Taiwanese banks have been reducing paper usage by providing electronic billing (McDonald & Lai, 2011).

A study by Gunawan et al. (2009) on corporate social disclosure in annual reports of Indonesian listed companies found that corporate social disclosure is in the early stage of the development. Most of the disclosed information in their annual report are descriptive in nature, and the main reason behind disclosure is to gain a societal recognition of the adequacy of their social behaviour. Those findings are supported by later research of Djajadikerta and Trireksani (2012) on the websites of Indonesian listed companies.

Djajadikerta and Trireksani (2012) studied corporate social and environmental disclosure by Indonesian listed companies on their corporate websites where they divided the industry into sensitive and non-sensitive. Their results indicate that the extent of disclosure made by Indonesian listed companies on their websites is low, which suggests that corporate social disclosure is still at an early stage in Indonesia. Their study found no difference between sensitive and non-sensitive industry, which are mostly descriptive without any specific time frame. The most disclosed items are in social disclosure (e.g. community and human resources) and the least disclosed items are on environmental disclosure. Thus, most of the Indonesian companies still have a lack of understanding of the basic concept of corporate social disclosure.

A cross-country study by Dobers and Halme (2009) in Asian, African and South American countries, found that the weak institutional environment is the major CSR issue which leaves the room for business enterprises to ‘legally misuse’ the system. In developing countries, weak institutional environments often harbor illicit financial outflow from poor countries to rich ones. There is a need for corporate actions in areas such as enhancing capacity in detecting tax fraud, antitrust and the unveiling of corruption cases in developing countries. There is thus urgency for concerted efforts by the private sector, public sector and non-governmental organizations to develop structures and institutions that contribute to social justice, environmental protection and poverty eradication in developing countries (Dobers & Halme, 2009).

The activities of banking and financial companies, such as their lending and investment policies, can be considered as equally environmentally-sensitive when compared with the direct impacts of companies in ‘polluting’ industries. This has been shown in practice. For example, Germany's largest bank, Deutsche Bank AG, has declared that it will not be financing a controversial coal port expansion in Australia near the Great Barrier Reef until it receives the assurance from the UNESCO and the Australian Environmental Committee that the coal mine expansion will not affect the environment (Paul, 2014).

In addition, a study by Khan et al. (2009) found that four banks that were in the Australia’s top ten companies made disclosures in relation to the environment, labor practices, and human rights. These suggest that CSR actions taken by these firms were intended to further social goods beyond the direct interests of the firm and that which is required by the law (McWilliams & Siegel, 2001)

Besides reacting to the environmental factors, banks actively manage CSR to improve their corporate image and to justify their continued existence in the society. These firms also manage their CSR in the area of company policies regarding the advancement of women and minorities in the workplace, philanthropic activities, and involvement in community projects such as volunteer programs, school partnerships and investments in housing and businesses in low-income neighborhoods.

Scholars found that CSR initiatives and the financial crisis were interconnected. In a study by Jacob (2012) explores the impact of the financial crisis of 2008 on corporate



social responsibility initiatives and its implications for reputational risk management. The findings indicate that the 2008 financial crisis had a clear impact on CSR initiatives in many companies. Similarly, most of the research in banking sectors are primarily focused on customer satisfaction, marketing and overall banking practices with a handful of research on the impacts of CSR initiatives in the banking sector. (Narwal, 2007).

In another study by Sigurthorsson (2012) discussed the Icelandic banking crisis in relation to the notion of CSR. The article explores some conceptual arguments for the position that the Icelandic banking crisis illustrates the broad problem of the indeterminacy of the scope and content of the duties that CSR is supposed to address. Sigurthorsson (2012) suggested that the way the banks in question conceived of CSR, i.e., largely in terms of strategic philanthropy, was gravely inadequate and concludes that the case of the Icelandic banking crisis gives us reason to rethink CSR.

Das, Dixon, and Michael (2015) studied longitudinal study in factors affecting CSR disclosure in Bangladeshi banks over the period of 2007 to 2011 by constructing their measures and found that the amount of CSR disclosures among Bangladeshi banks are increasing by the time with specific monetary value. The amount of disclosure rose to about 76 percent in 2011 from 59 percent in 2007. Their research found that CSR disclosure is positive significant with bank size, board size and ownership structure. However, they found a negative relationship with bank age and profitability. They also revealed that, to varying degrees, all listed banks' practices social responsibility in an unstructured manner and need to adopt a comprehensive format for CSR reporting such as the Global Reporting Initiative (GRI).

Banks play a leading role to establish the CSR concepts in Nepalese business and corporations. More emphasis should be given in developing countries like Nepal, where CSR is at an infant stage of development (Upadhyay-Dhungel & Dhungel, 2012). While tracing the trend of social disclosure, impacts of social and economic development on CSR practices, there is also a need to develop a framework for CSR reporting. World Bank, an international watchdog for banking sector, also frequently exerts pressure on banks to analyse social and environmental risk involved in project to be financed (Lioui & Sharma, 2012).

### **2.3 Factors influencing the CSR disclosures in developing countries**

CSR disclosures in developing countries are poor compared to developed countries. Developing countries are facing extreme challenges to cope with poverty, hunger, disease, education, equal opportunities and many more. In 2002, Millennium Development Goal set up the target to minimizing those challenges and directing those nations to better CSR disclosures. However, those goals are limited to the paper only (Visser, 2008). Scholars from around the globe studied the factors affecting CSR disclosures in developing countries (Belal & Cooper, 2011; Chapple & Moon, 2005; Lee, 2011; Mankelov & Quazi, 2007; Visser, 2008). Size, age, performance, individual culture, government policies, and ownership structure are some of the common factors identified by the scholars. Among the factors, this thesis will examine the following factors within the Nepalese banking sectors.

#### **2.3.1 Bank Size**

CSR applies to all companies, all sectors, regardless of size, performance or the age of establishment. Such companies are actively engaging in disclosing CSR as to show their care for society and the environment. Smaller firms do disclose in small amount whereas bigger firms go with the bigger picture. For instance, manufacturing firms are focusing on environmental sector while service industries are focused on employee safety and social aspects.

Larger firms are exposed to more customers and new markets as they grew and eventually acquire the public trust of the society with effective corporate social behavior. To keep the public trust and going concern of the business, those firms heavily invest in community programs such as health, employment, education and other philanthropic activities compare to the smaller sized firms. Fortanier, Kolk, and Pinkse (2011) found that big firms in developing countries provided more CSR information in their annual reports compared to the smaller sized firms, even though stand-alone CSR reports were hard to find.

Menassa (2010) performed an exploratory study of the quality and extent of CSR disclosures by Lebanese commercial bank and found that the size of the banks matters to some extent of CSR disclosures. Her results show that larger banks are disclosing more than smaller banks consistent with (Branco & Rodrigues, 2006). Moreover, larger banks

are disclosing information in both annual reports and Webpage as compared to smaller banks.

Bayoud et.al (2012) studied the factors influencing the level of CSR disclosure by Libyan firms. They found that company size has a potential influence on the level of CSR disclosures. Furthermore, they found that large companies have more diverse ownership and thus higher agency costs which management will attempt to reduce by disclosing more voluntary information (Meek, Roberts and Gary, 1995). However, some empirical studies found no relationship between the CSR and the company size. Chapple and Moon (2005) studied the seven countries CSR disclosure and found mixed results where company size does not have any effect in CSR disclosure in some countries. They found that large companies tend to report environmental information if they have weak economic performance.

Larger firms would have a higher level of corporate social performance as they care more about the corporate reputation due to high attention from general public. In fact, such attention will encourage the firms to have a higher level of CSR disclosure. A study by Stanwick and Stanwick (1998) in Fortune 500 companies revealed that larger firms recognize the need to be leaders in their commitments to CSR disclosure.

Meznar and Nigh (1995) proposed a conflicting view on the size of the firms and their CSR disclosures. They argued that larger firms are more resistant to influences and, therefore, are less socially responsive. A well-accepted view is that larger firms tend to be more visible, and so are likely to be more socially responsive. But on the other hand, smaller firms may face fewer pressures, or gain little recognition from CSR, given their comparatively lower visibility. Brammer and Millington (2006) found that the impact of firm size on CSR disclosure is also related to the access to resources. Hence, larger firms will have better access to the resources resulting to compare better to small and medium sized firms.

Udayasankar (2008) proposed a different view on the relationship between the firm size and CSR disclosures. He proposed that the effect of firm size, on CSR participation, is U-shaped. He suggested that different combinations of firm visibility, resource access and scale of operations, result in different motivations for firm participation in CSR. Both very small and very large firms are likely to participate more in CSR initiatives, whereas

midsized firms will have the least participation. Mid-sized firms are in need of some impetus to disclose CSR compare to small and large firms.

Hamid (2004) provided empirical evidence on the CSR disclosure practice by Malaysian banks and finance companies and reported on the type, quality and determinants of social disclosures. He observed that products disclosures are the highest ranked among other social disclosures and that the firm size, listing status and age of business are possible determinants.

In summary, firm size and the CSR disclosures tend to have a positive relationship (McWilliams & Siegel, 2001). This thesis will study the amount of CSR disclosures made by different banks based on their size. It will examine whether the bank size and CSR disclosure will have a positive relationship.

### **2.3.2 Bank Age**

In addition to the firm size, the age of a firm will also impact the likelihood of socially responsible activities. A number of studies have used company age as one of the most important factors that could affect the level of CSR disclosure (Bayoud, Kavanagh, & Slaughter, 2012; Liu & Anbumozhi, 2009; Okwoma, 2010). Those studies found that older firms disclosed more compared to new emerging firms in voluntary disclosure practices.

Bayoud et al. (2011) examined factors influencing levels of corporate social responsibility disclosure by Libyan firms. In his study, he found that company age, industry type and company size have a potential influence on levels of corporate social responsibility disclosure (CSRSD) in the annual reports of Libyan companies.

However, a study from (Rettab, Brik, & Mellahi, 2009) in Dubai firms found a negative relation between CSR and the company age, while found a negative relation between environmental disclosure and the company age, but positive relationships between social and economic disclosures and the company age. Similarly, Opstrup (2013) found no relationship between age and CSR disclosure in the African context.

The prior literature has shown the mixed result between the firm age and the CSR disclosure. Thus, this study considered suggestions from prior studies which considered that mature firms invest more in CSR activities to maintain and improve their reputation in the society compare to the new emerging firms (Bayoud et al., 2012; Visser, 2008). It

is assumed that established banks disclose more CSR information compare to the new and emerging banks in developing countries as profit maximization considers to be the primary objective.

### **2.3.3 Ownership Structure**

The ownership structure of the firm plays a vital role in disclosing CSR activities. Prior studies support the notion that CSR disclosures and the firms' ownership structure have a positive relationship. In the developing country context, (Samah, Dahawy, Hussainy, & Stapleton, 2012) find that block holder ownership affects the level of corporate governance voluntary disclosure. Their study found both block holder and managerial ownership affect the overall level of Egyptian listed companies' voluntary disclosure. Similarly, In developed country context, (Jussila & Tuominen, 2010) studied the CSR disclosure in the Finnish forest industry. They found that public limited companies are more active in CSR reporting than other companies. According to Kotonen (2009), companies understand responsibility as a duty to act responsibly towards their stakeholders and CSR reporting as a response to stakeholders' expectations and demands in Finish listed companies. On the other hand, in developing countries public limited companies are the least active in terms of CSR due to weak Acts and policies to implement properly. Belal and Cooper (2011) found that public companies are disclosing less CSR information compare to private companies in Bangladesh.

Fan and Wong (2002) supported that the information disclosed will mainly reflect the interests of the dominant stockholder as opposed to the reflection of the firm's economic situation. Nowadays, investors are investing in the firms which are disclosing CSR properly and actively participate in sustainability development. Similarly, Anderson et al. (2003) found that shareholder to maintain their own reputation; they will be more likely to adopt strategies that refine the firm's economic, social and environmental image in the long term. Thus, they will also seek for an appropriate communication of corporate behavior to the market. On the contrary, in the case of dispersed ownership structure, many studies suggested that the firms tend to disclose more information in CSR report to maintain corporate reputation.

Dincer (2011) studied three types of ownership structure, which can have an effect on the content and format of the CSR report. He found that dispersed ownership will affect CSR

reporting positively and dominant stockholder as neutral. Her findings revealed that the influence exerted by certain stakeholders (government and creditors) have an important effect on the publication of a CSR report. On the contrary, economic performance has no effect on this process. Financial institutions, investors and dispersed shareholders seem to be only interested in the financial performance of the firm, but not in its sustainable strategies or activities.

Ahmed, Alam, Jafar, and Zaman (2008) found that the weakest link among all corporate governance mechanisms adopted in Bangladesh is concentrated on the ownership structure of the firm. The level of corporate governance is totally based on the level of public governance and constraint of existing institutional infrastructure. In Nepalese context, the best measure to reform the public banking institution is to build a solid institutional infrastructure, define the ownership structure by providing proper training to the employees, creating transparency of accounts, active community engagement and socially responsive. At this phase, environmental measures may be quite unrealistic as they are struggling with the basic concept of CSR.

### **2.3.4 Bank Profitability**

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. According to Margolis and Walsh (2001), one hundred twenty-two empirical studies had been published between 1971-2001 that examined the relationship between CSR and financial performance. In those empirical studies, (Menassa, 2010) authors found mixed relationships with many suggested positive relationships between CSR and financial performance.

A study by Waddock and Graves (1997), for example, found significant positive relationships between an index of corporate social performance and performance measures—such as ROA ROE and net income in the following year. A more recent study also found that the increase in corporate financial performance is positively associated with the increase of corporate social responsibility behaviours of the firms (Carnevale et al., 2012).

Tsoutsoura (2004) used an extensive data over a period of five years from 1996-2000 to test the sign of the relationship between CSR and firms' profitability by empirical methods. The results indicate that the sign of the relationship is positive and statistically significant, supporting the view that socially responsible corporate performance can be associated with a series of bottom-line benefits.

However, Brine, Brown, and Hackett (2007) studied CSR disclosures and financial performance of Australian firms. His results found no statistically significant relation between CSR disclosure and financial performance. Instead, they found that many firms within Australia are voluntarily disclosing CSR regardless of their financial performance. Menassa (2010) studied an exploratory study of the quality and extent of social disclosures by Lebanese commercial banks. In her study, she found the strong relationship between bank profitability. Higher profitable banks had disclosed more compared to less profitable banks.

#### **2.4 Global Reporting Initiatives and CSR disclosures**

The Global Reporting Initiative (GRI) is an independent institution established in 1997 as a non-profit organization whose mission is to develop and disseminate globally applicable sustainability reporting guidelines that help organizations to report on the economic, environmental, and social dimensions of their activities, products, and services. GRI is also known as ecological footprint reporting, environmental, social governance (ESG) reporting, Triple Bottom Line (TBL) reporting, and corporate social responsibility (CSR) reporting (wikipedia.org). The aim of the GRI framework is to assist reporting organizations and their stakeholders in articulating and understanding contributions of the organization to sustainable development through their report (<https://www.globalreporting.org/>).

With time and practice, organizations are encouraged to move gradually towards more comprehensive reporting built on the content of the GRI framework. GRI's premise was that the standardized information could be used for benchmarking and ranking companies, providing a valuable supplement to financial reporting for different stakeholders and empowering civil society organizations (Fiorino, 2006). GRI is now the most widely used sustainability reporting guideline, which consists of four key elements,

namely the guidelines, Indicator protocols, sector supplements and the technical protocols. It can be used based on the capacity of the organizations, hence useful from larger organizations to smaller organizations. As of 2015, 7500 organizations used GRI Guidelines for the sustainability reports (wikipedia.org).

The growing demand of the GRI framework by business organizations is the flexibility of GRI that organizations can take steps to reflect the context in which they operate. Furthermore, GRI is widely used as an underlying guideline for the coding structure of the content analysis of annual reports in both developed and developing countries context (H. U. Z. Khan et al., 2011). Hence, most of the companies from Fortune 500 and other major stock exchanges are preparing CSR report based on GRI guidelines.

The impact of GRI in developing countries is quite hard to assess. Thus, it is assumed that GRI has been derived, at least, some of its impetus, from the Western countries to poor labour conditions in developing countries that have been owned by foreign multinational companies (Levy & Brown, 2013). Moreover, different cultural factors, government rules and regulations, poverty, the cost of adoption and the unawareness on social responsibility makes harder to follow GRI guidelines in developing countries even though GRI is one of the best methods of reporting social disclosures.

Although, the proponents of GRI defend the criticism in developing countries that GRI is only the tool that serves as an instrument of civil-private regulation by mobilizing its recipients to demand certain performance level and providing a channel for transparency and accountability (Levy & Brown, 2013). Since GRI became independent in 2002, it incorporates the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organizations from around the world, and is an official collaborating centre of the United Nations Environment Program (UNEP).

To report on financial sectors, GRI had provided the specific guidelines called Financial Service Sector (FSS), widely known as GRI-FSS. GRI guidelines for financial institutions are major initiatives that tend to focus on promoting the key responsibility of financial sector CSR disclosures. As a matter of fact, the GRI builds upon the foundations of triple bottom line to provide a framework for reporting and social accounting and provides a comprehensive sustainability reporting guideline based on a global, multi-



stakeholder process.(Elkington, 1997). GRI provide the holistic overview of Triple Bottom Line approach. The GRI guidelines set out some specific principles and indicators that a bank can use to measure and report its social, economic and environmental disclosures (<https://www.globalreporting.org/>). Those specific guidelines are focusing to cover culture and norms of the country where the bank operates.

The GRI intends to develop a voluntary reporting framework that tries to promote sustainability reporting practices to a level equivalent to that of financial reporting in rigor, comparability, above all its universal recognition. Until present, it is not known whether banking institutions operating in Nepal embrace GRI guidelines within their CSR reporting practices. Since no such systematic study has yet been undertaken to understand whether CSR disclosure by Nepalese banks can be compared with the key disclosure index outlined in GRI G4 guideline, this thesis endeavors to understand what Nepalese banks disclose as compare to GRI G4 guideline.

## **2.5 Theoretical Framework**

Corporate social disclosure is “the process of communicating the social and environmental effects of organizations’ economic actions to particular interest groups within society and society at large” (Gray, Kouhy, & Lavers, 1995). CSR disclosures have covered all social, environmental and economic aspects including community engagement, employee training and development, adoption of triple bottom line accounting aligning with different theories (Carroll, 1976; Davis, 1973b; Wood, 1991). Scholars have used various theories, including legitimacy, stakeholders and institutional theories (Haniffa & Cooke, 2005) to proliferate the CSR issues. Within the legitimate perspective, studies have shown those stakeholders’ pressures, and public image (Davis, 1973a) is some of the legitimate factors that motivate firms to voluntary provide their corporate social disclosures. Thus, the legitimacy perspective suggests that organizations require legitimacy to be able to continue to operate and that organizations use CSR disclosure to legitimize their relationships with the society and their stakeholders. Matten and Moon (2008) found that organizations changed their activities in order to be considered legitimate. Likewise, Carnvale and Mazzuca (2012)

found that CSR report is considered as one of the most important and exhaustive documents through which an organization shows its commitment to CSR.

### **2.5.1 Legitimacy Theory**

Legitimacy theory is based on the simple idea that a "social contract" exists between business and society. Society is considered to allow companies to exist and have rights, and in return expecting them to fulfil its expectations about how their operations should be conducted. Therefore, in order to survive a company must ensure that the activities it undertakes are perceived as being by the values and norms of society. A breach of contract exists when the corporations' act does not fulfil society's expectations by social values and norms (Branco & Rodrigues, 2006). Legitimacy theory studies suggest that companies with a high visibility are expected to exhibit greater concern to improve the corporate image, as this is susceptible of influencing sales and may be considered more likely to make social responsibility disclosure.

Legitimacy theory posits that for a corporation to continue to exist it must act in congruence with the society's values and norms (Dowling & Pfeffer, 1975). Suchman (1995) defined legitimacy is 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.

Legitimacy theory has the role of explaining the behaviour of organizations in implementing and developing voluntary social and environmental disclosure of information in order to fulfil their social contract that enables the recognition of their objectives and the survival in a jumpy and turbulent environment. One way corporation act to remain legitimate in the society which it operates is to disclose voluntarily social and environmental information in its annual report, website or stand-alone report.

Legitimacy theory has become one of the most cited theories within the social and environmental accounting area. However, researchers are sceptical on the voluntary disclosures of corporations (Tilling, 2004). High legitimacy within the organization will build the corporate image within the stakeholders whereas low legitimacy will have particularly dire consequences for an organization, which could ultimately lead to the forfeiture of their right to operate (Suchman, 1995; Tilling, 2004)

In a study by (Barkemeyer, 2007) in developing countries context found that large companies with high brand visibility (which is tantamount to the neglect of small-scale operations), the essential role of civil society pressure, as well as the limitations of CSR regarding its use as a public relations channel, focusing on the business of CSR and thereby largely ignoring those aspects of CSR which do not directly contribute towards a company's financial bottom-line. However, regarding CSR in a developing country context, the explanatory power of organisational legitimacy goes beyond its strategic tradition. Also, large corporations are more likely to disclose voluntarily than small corporations in both developed and developing countries.

In the banking sector, theory suggests that banks are bound by the social contract where an agreement is made between the society and banks to perform various socially desired actions and continue to exist. There are various ways for companies to be legitimate in the society, including making a voluntary disclosure of social and environmental information in their annual or stand-alone CSR reports. Prior literature supports the notion of voluntary disclosures of CSR information as a strategy to maintain companies' legitimacy (Taylor & Shan, 2007). Deegan (2002) suggested that social values, norms and beliefs must be adopted within the firms' desire to exist and to be legitimate.

Hamid (2004) studied social responsibility disclosure in annual reports by banks and finance companies in Malaysia and found out that product/service related disclosure seems to be more frequent than environmental and energy, human resources or community-related disclosures. Findings also suggest that size, listing status and age of business are positively associated with social responsibility disclosure, thus suggesting that legitimacy theory may be an explanation of social responsibility disclosure by Malaysian banks and finance companies.

Banks are more likely to consider important issues of community involvement and disclose information related to such involvement. It can be anticipated, therefore, that a bank will have different environmental and community involvement disclosure practices than a company in the extractive industry with little visibility among the general public, probably disclosing more community relations information and less environmental information, although they can have a similar level of total social responsibility disclosure.(Branco & Rodrigues, 2006; Clarke & Gibson-Sweet, 1999). Therefore, it is

expected that voluntary CSR disclosures play a vital role to keep a good relationship with stakeholders in the Nepalese banking sector where social value, norms and beliefs are embedded within the firms' visions, missions, and strategies.

### **2.5.2 Institutional Theory**

Institutional theory suggests that CSR is not only a voluntary action but an essential component of economic governance characterized by different modes of the market structure and government regulations (Brammer, Jackson, & Matten, 2012). The change in the institutional isomorphism helps firms to interact more easily with different organizations and develop the legitimacy, which helps to fulfil the societal expectations

Cambell (2007) studied the institutional theory of CSR consisting a series of propositions specifying the conditions under which corporations are likely to behave socially responsible ways. He found that the relationship between basic economic conditions and corporate behaviour is mediated by several institutional conditions such as public and private regulations, presences of NGOs and INGOs, institutionalized norms regarding appropriate corporate behaviour and associative behaviour among corporations themselves. In addition, Campbell also found that the firms with better financial performance disclose more CSR than a weak performer.

More specifically, in recent studies, scholars have argued that the tendency toward socially responsible corporate behaviour varies across countries. . A seven-country study of CSR by (Chambers, Chapple, Moon, & Sullivan, 2003) found that assumptions of social responsibility by corporations remain contextualized by national institutional frameworks and, therefore, differ among countries. Thus, social and economic factors constitute an institutional structure of a particular environment, which provides firms with advantages for engaging in specific types of activities.

Campbell (2007) criticized that most of the literature on CSR does not explore whether institutional conditions affect the tendency for firms to behave in socially responsible ways. Waddock and Graves (1997) found that an increase in corporate financial performance is positively associated with an increase in CSR.

CSR in terms of the Nepalese banking sector is rooted in institutional theory where mimetic isomorphism deeply rooted. It is likely that once the larger and older banks

start disclosing the CSR in websites as well as in the annual report, other banks would imitate quickly. However, sometimes, normative isomorphism may occur as the pressure from society and other stakeholders to disclose CSR information.

## **2.6 Conclusions**

The status of CSR in developing countries is still at the infant stage. Most of the countries are aware of the term “CSR” and doing their best to disclose transparently. Studies around the globe found that developing countries are contributing towards CSR in the form of philanthropic contributions, donations for the good cause, organizing different community engagement programs. However, those countries are lagging behind on environmental disclosures compare to the Western countries (Brine et al., 2007). Financial institutions in developed countries such as Japan, USA, UK, Hong Kong, Germany, and Australia are more focused on environmental disclosures in special issues such as global warming, carbon emissions, and sustainability.

Prior studies noted that the firm size, firm age, profitability and ownership structure are some of the determinants of non-disclosures of CSR in developing countries (Belal & Cooper, 2011; Belal & Momin, 2009; Fan & Wong, 2002; M. H. U. Z. Khan et al., 2009; Visser, 2008). Corporate responsibility is rooted in the obligation of the company to perform its duty, and function by law and regulation and corporate responsibility imposes an obligation to the company to do for the citizen (Haniffa & Cooke, 2005). Based on the literature on CSR, the next chapter discusses the hypothesis framework and the research design for the study.

## Chapter Three: Research Framework and Hypotheses Development

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### **3.1 Introduction:**

Chapter Two reviewed the literature related to CSR disclosures in financial institutions around the globe and the factors affecting CSR disclosures primarily in developing countries. The purpose of this chapter is to discuss the research framework of the study and propose hypotheses based on the literature review. There are seventeen hypotheses relating to the factors affecting CSR disclosures in the Nepalese banking sector. Each factor tests the relationship between individual CSR disclosure as well as overall disclosure made by commercial (“A” class) and Development (“B” banks) in their annual reports in line with GRI G4 guidelines. Then, one hypothesis test compares the amount of CSR disclosure made by those two types of banks, namely, commercial (“A” class) and development (“B” class). This gives the clear understanding of CSR disclosures of different stakeholders on whether commercial banks disclose more or development banks.

The chapter ensues by explaining the research framework of the study in section 3.2 followed by hypotheses development to examine the association between CSR and factors affecting CSR disclosures in section 3.3. Section 3.4 analyses the individual bank characteristics of commercial banks and development banks. Finally, Section 3.6 provides a summary of this chapter.

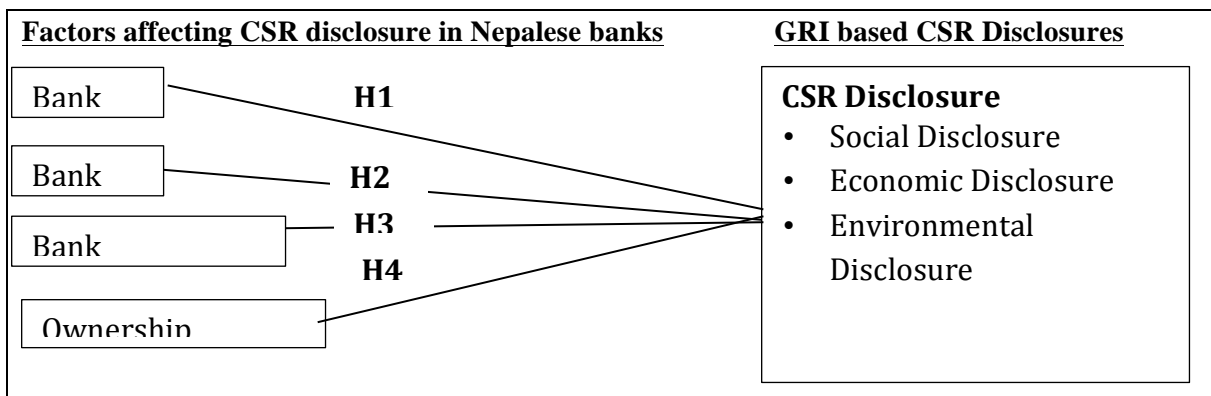
### **3.2 Research Framework**

Banks across the globe have received a considerable amount of pressure from its stakeholders to carry out business in a responsible and ethical manner (Belal & Cooper, 2011; Kotonen, 2009; Samah et al., 2012). Hence, banking institutions are disclosing CSR information even though they are not directly involved in the adverse effect on environment, society caused by other business. Developing countries are lagging far behind the standard sustainability disclosures made by the developed Western countries as they are struggling with the necessities. However, whether its developed or developing

countries, a strong stakeholder’ engagement have a likely impact to be the main driver to revolutionize in CSR disclosing practice (H. U. Z. Khan et al., 2011).

Visser (2008) contended that factors such as the size, age, and culture and ownership structure of the firms have a significant effect of CSR disclosures in developing countries. Belal and Cooper (2011) supported the view that those factors are the reason behind the poor CSR disclosure in Bangladeshi firms. In addition, they found that policies implemented by the government on CSR have also played a vital role in Bangladeshi firms. Their result suggests that voluntary disclosure is very poor with weak policies from the governing bodies compare to mandatory disclosure.

There is numerous paper in CSR in developing countries such as Bangladesh, Kenya, Nigeria, Nepal, Philippines (Belal & Momin, 2009; Chapagain, 2012; H. U. Z. Khan et al., 2011; M. H. U. Z. Khan et al., 2009; Shah, 2012). However, the majority of the research on CSR is on other than banking sectors with some exceptions (Hossain & Reaz, 2007; H. U. Z. Khan et al., 2011; M. H. U. Z. Khan et al., 2009; Narwal, 2007). Therefore, this proposed study examines the factors that are affecting the implementation of CSR disclosures as well as employees’ perception on CSR in Nepalese banks. In addition, this study examines the current status of CSR in Nepalese banks while examining the factors affecting CSR disclosures from Nepalese banking sectors. Nepalese banking sector primarily consists of commercial banks (“A” class) and development banks (“B” class). Hence, this study will look after combining both for further analyses will perform the factors affecting CSR disclosures in both class and aggregate result. The following figure 3.1 demonstrates the research framework for this study.



**Figure 3.1: Research Framework for the Study**

Figure 3.1 shows four factors influencing CSR disclosures and level of CSR disclosures in line with the GRI, G4 principle in commercial and development banks of Nepal. Bank size, bank age, bank performance and ownership structure of the bank has a positive relationship in terms of CSR disclosures in developing countries. This study will examine the relationship between those individual factors and their relationship with CSR disclosures in line with GRI G4. Annual reports of commercial banks (“A” class) and development banks (“B” class) are used to scan the CSR disclosures. The following table 3.1 shows the predicted sign, measures of independent variables and other descriptive information.

**Table 3.1: Independent variables and their predicted sign**

Independent Variables	Acronym	Predicted Sign	Measures
Bank Size	SIZE	+	Market Capitalisation
Bank Age	AGE	+	No. of Year in Business
Bank Profitability	PROFITABILITY	+	Return on Assets (ROA)
Ownership Structure	OWNSTRUCTURE	+	Classification based on domestic private banks and Joint venture banks

The Table 3.1 summarizes the four independent variables and their symbol, predicted sign and proxies used for the study.

### 3.3 Hypotheses Development

#### 3.3.1 Bank Size

Mankelov and Quazi (2007) detected a direct positive relationship between the contents of the CSR report and the size of the firm. In the study of small, medium enterprises (SMEs), the size of the firm has potential influence over the amount of disclosure information in developing countries although most of the information are in charitable donations for good causes and community program. A study (Bayoud et al., 2012b) in



Libyan firms that larger firms disclosed more CSR information than smaller ones. Another study by Hamid (2004) provided empirical evidence on the CSD practice by Malaysian banks and finance companies and reported Similarly, Menassa (2010) found a strong relationship between bank size and the amount of CSR disclosures in Lebanese banks. She argues that research related to obvious relationships between CSR and size tend to be somewhat inconclusive; they produce more consistent results than studies relating CSR to other factors such as performance, firm age and ownership structure.

Fortanier, Kolk, and Pinkse (2011) found that big firms in developing countries provided more CSR information in their annual reports compared to the smaller sized firms. Being a service industry, banks are exposed to more customers and new markets as they grew and eventually acquire the public trust of the society with effective corporate social behaviour. To keep the public trust and going concern of the business, those firms heavily invest in community programs such as health, employment, education and other philanthropic activities in a timely manner. In a study by (Kiran & Sharma, 2011)found that CSR disclosures are varied by the size of the firm in Indian firms.

However, Singh and Ahuja (1983) found no relationship between the size of the firms and the amount of CSR disclosures. Instead, they concluded at CSR is highly related to the nature of the industry. This view supports the conclusions made by Davey (1982) regarding the relationship between CSR disclosures and the firm size. In another study by (Kolsi, 2012) in Tunisian capital markets found no relationship between voluntary CSR disclosure and the firm size because of the homogenous size of Tunisian firms.

Simpson and Kohers (2002) noted that “banks have a legal and social responsibility because they lend to firms that pollute and produce unsafe products.” Therefore, the bank must make an appropriate decision while lending. This suggests that bigger banks lend huge amounts of money eventually reports more CSR information to show their commitments towards sustainability.

Nevertheless, (Hamid, 2004) and (Branco & Rodrigues, 2006) conducted research in Malaysian banks and financial institutions and Portuguese banks respectively and concluded that there is a strong relationship between bank size and the amount of CSR

disclosures made by the banks. In a study by (Kahl & Belkaoui, 1981) investigated the overall extent of disclosure by 70 banks located in 18 countries. Their results indicated that the extent of disclosure was different among the countries examined and that there was a positive relationship between the size of the bank and the level of disclosure indicated. Hossain (unpublished M.Phil. thesis) cited in (Hossain & Reaz, 2007) empirically investigated the extent of CSR disclosure of 25 banks in Bangladesh and associations of company size with disclosure level. A total of 61 items of information, both voluntary and mandatory, were included in the disclosure index; the approach to scoring items was dichotomous. The results showed that size of the banks is statistically significant in determining their disclosure levels.

Gajurel and Pradhan (2012) studied the market concentration and competition of Nepalese banking sectors. Their study found that the size of the bank plays a significant and equal role in generating revenue in the interest-based market. Nepalese banking industry is primarily comprised of large banks primarily known as “A” class commercial banks and smaller banks known as “B” class banks. Therefore, this study presumes that commercial banks disclose more information compare to development banks. Although, to understand the amount of CSR disclosures made by both class banks, the following hypotheses are proposed.

*H1a: There is a positive relationship between bank size and the extent of economic disclosure by the Nepalese banks.*

*H1b: There is a positive relationship between bank size and the extent of social disclosure by the Nepalese banks.*

*H1c: There is a positive relationship between bank size and the extent of environmental disclosure by the Nepalese banks.*

*H1d: There is a positive relationship between bank size and the extent of total CSR disclosure by the Nepalese banks*

### **3.3.2 Bank Age**

In addition to the bank size, the extent of a company’s disclosure may be influenced by its age, i.e. stage of development and growth (Akhtaruddin, 2005). Companies strive to maintain reputation developed throughout the years of existence (Menassa, 2010). Scholars have linked the CSR disclosures and age as a legitimacy theory “which predicts

that the age of a corporation is related to its reputation in the society and its history of involvement in CSD activities” (Hamid, 2004). A number of studies have used company age as one of the most important factors that could affect the level of CSR disclosures. In a study by (Bayoud et al., 2012b) in Libyan firms found that company age has a significant effect on the amount of CSR disclosures.

Similarly, Liu and Anbumozhi (2009) in Chinese listed companies found a positive relationship between the social and economic disclosures and company age. In another study by Daniel Okwoma in Kenyan, commercial banks found that bank age has a significant effect in voluntary CSR disclosures as well as financial performance (Okwoma, 2010).

In contrast, El-Bannany (2007) investigated the factors of social disclosure level in British banks over the period 1981-1996 and noted that age factor has no impact on the level social disclosure. Likewise, (Menassa, 2010) found a weak relationship between the age factor and the level of CSR disclosure in Lebanese banks. A study from (Rettab et al., 2009) in Dubai firms found a negative relation between CSR and the company age, while (Liu & Anbumozhi, 2009) found a negative relation between environmental disclosure and the company age.

Nepalese banking sector has a short span of history where the central bank was established in 1956. The banking institutions are still opening in the market where the study of CSR disclosures based on age is significant for this study. However, it is not possible to reach a conclusion that long-established banks can disclose more information or be more compliant than newly established banks. Bank merger and acquisitions are in a rise to increase the market concentration and reduce the operating costs in Nepalese banking industry ("Bank and Financial Statistics," 2014). On the other hand, newer banks may face stiff competition and may not be able to put up with the cost associated for CSR disclosures.

In this paper, the age of the bank is computed from the date of establishment until the end of July 2013. The following hypotheses are proposed for the study.

*H2a: There is a positive relationship between bank age and the extent of economic disclosure by the Nepalese banks.*

*H2b: There is a positive relationship between bank age and the extent of social disclosure by the Nepalese banks.*

*H2c: There is a positive relationship between bank age and the extent of environmental disclosure by the Nepalese banks.*

*H2d: There is a positive relationship between bank age and the extent of total CSR disclosure by the Nepalese banks.*

### **3.3.3 Bank Profitability**

As the concept of CSR grows, different studies have been performed to find out the relationship between CSR and the financial performance. Reverte (2009) summarized the major papers in examining the association between CSR disclosure and financial performance provided the mixed results. For instance, a positive relation was found between social disclosure policy and financial performance in prior research by (Cowen, Ferreri, & Parker, 1987; Kahl & Belkaoui, 1981).

Similarly, Tsoutsoura (2004) found a positive and statistically significant relationship between CSR and financial performance. This result supports the view that socially responsible corporate performance could be associated with a series of bottom-line benefits in S&P 500 firms from 1996-2000. Another study also found that the increase in corporate financial performance is positively associated with the increase of the corporate social responsibility behaviour of the firms (Carnevale et al., 2012). Hackston and Milne (1996) provided evidence of a positive relationship between short-term profitability measurements and CSD and did not observe any association between CSD and long-term profitability ratios.

Hassan, Giorgioni, and Romilly (2006) found a positive association between voluntary disclosure and firm performance in Egyptians firms, however, Samah and Dahawy (2010) found no relationship between CSR disclosures and firm performance. They believed that no relationship was due to the high cost involved in voluntary CSR disclosure.

Similarly, bank's financial performance and level of CSR disclosures are inconsistent proxied by profit, return on equity (ROE) and return on asset. According to Margolis and Walsh (2001), one hundred twenty-two empirical studies had been published between

1971-2001 that examined the relationship between CSR and financial performance. In those empirical studies, the authors found mixed relationships with many suggested positive relationships between CSR and financial performance when proxied by profits and ROE but no relationship with return on asset (ROA). In another study by Waddock and Graves (1997), for example, found significant positive relationships between an index of corporate social performance and performance measures, such as ROA in the following year.

Managers of the banks are familiar on how to make their bank more profitable and as well as knowledge on CSR issues such as community welfare, charity, donation, environmental protection, responsible lending, mortgage free micro loan. Giner (1997) argued that managers of higher performing companies are more likely to provide voluntary CSR disclosures in the annual reports than poor performers to support their continuation of positions and to boost the levels of current and future compensations.

In Nepalese context, the relationship between bank's performance and CSR has not been studied in prior research. However, other developing countries show the positive relationship between performance (profitability) and the amount of CSR disclosure. It is presumed that Nepalese profitable banks are more likely to provide more CSR information in their annual reports than non-profitable banks. Thus, the following hypothesis is proposed in relation to CSR and financial performance.

*H3a: There is a positive relationship between bank profitability and the extent of economic disclosure by the Nepalese banks*

*H3b: There is a positive relationship between bank profitability and the extent of social disclosure by the Nepalese banks.*

*H3c: There is a positive relationship between bank profitability and the extent of environmental disclosure by the Nepalese banks.*

*H3d: There is a positive relationship between bank profitability and the extent of total CSR disclosure by the Nepalese banks.*

### **3.3.4 Ownership Structure**

Ownership structure has a significant effect on the level of voluntary CSR disclosure in the firm. Some prior studies found that the ownership structure of the firm has a positive relation with CSR disclosure while some studies did not see any relations between the

ownership structure and CSR disclosure. A study by Jussila and Tuominen (2010) in Finish forest industry found that public limited companies are more active in disclosing CSR than other companies whereas a study by Hussainey, Elsayed, and Razik (2011) found that public companies disclose less CSR than privately own companies. Although, Adams, Larrinaga-González, Adams, and McNicholas (2007) found that the personal perspective and integrity of a manager or CEO of the firm also influence the amount of CSR disclosure regardless of ownership structure.

In contrary, Kolsi (2012) the determinants of voluntary disclosure of Tunisian capital markets. The results did not show any kind of relationship between firm's ownership structure and the level of CSR disclosure due to a family character with a concentrated ownership structure.

El-Gazzar (1998) claimed that a higher concentration of institutional ownership in a particular firm is likely to motivate management to provide additional voluntary disclosures to maintain stakeholders' confidence level towards the firm. Murcia and Santos (2010) argued that companies with more dispersed ownership disclose more voluntary information in order to attenuate agency conflicts (Jensen & Meckling, 1976) between insiders and outsiders.

Ghazali (2007) found that where directors hold a higher proportion of equity shares (owner-managed companies) disclosed significantly less CSR information while companies in which the government is a substantial shareholder disclosed significantly more CSR information in their annual reports. There is always a conflict between the owners and managers in the companies where shares are widely distributed rather than closely held companies (e.g. family owned business). In companies where shares are widely distributed (i.e. ownership dispersed), the owners have little to no control over the managers and therefore must be monitored via disclosures of different reports. Consequently, voluntary disclosures are likely to be much higher in such firms allowing owners to monitor effectively. On the other hand, managers can signal that they are acting at their best towards owners' interest (Chau & Gray, 2002). On the other hand, small family-owned businesses have little motivation to disclose information voluntarily to public. Hence, it is assumed that companies with dispersed ownership are likely to disclose more CSR-related information in their annual reports or websites to reduce the

potential political cost (i.e. cost of pollution, carbon footprint, employee H&S) (Deegan, 2008).

The Nepalese banking sector consists of 3 types of ownership structure. 1) Public commercial banks (fully state owned) 2) Joint venture banks (49% foreign and 51% domestic) and 3) Private commercial banks. In Nepal, the vast majority of private banks are owner-managed companies who own the majority of the outstanding shares. Hence, the following hypothesis can be constructed.

*H4a: There is a positive relationship between bank's ownership structure and the extent of economic disclosure by the Nepalese banks.*

*H4b: There is a positive relationship between bank's ownership structure and the extent of social disclosure by the Nepalese banks.*

*H4c: There is a positive relationship between bank's ownership structure and the extent of environmental disclosure by the Nepalese banks.*

*H4d: There is a positive relationship between bank's ownership structure and the extent of total CSR disclosure by the Nepalese banks.*

### **3.4 Commercial and development banks' CSR disclosure**

Despite different factors affecting CSR disclosure in Nepalese banks, the class of bank may affect the amount of CSR disclosure information. For instance, commercial banks ("A" class) are bigger in size, assets, capital and operational area compare to development banks ("B" class) whose size assets, capital and operational area are small. All the commercial banks can operate nationwide and had invested from the hydropower project, agriculture and manufacturing. Thus, they have more liability to its wider stakeholders. To show their loyalty, they disclose a greater amount of CSR information. In contrary, most of the development banks have given the specific region to operate the business by the central bank of Nepal. This increases the chance of neglecting the CSR disclosures. However, being a local bank, these banks may contribute more to the community and its people to create the corporate image and compete with other "A" class banks operating nearby. Therefore, the following hypothesis predicts the amount of CSR disclosures by two types of banks.

*H5: In Nepal, commercial banks disclose more CSR information in their annual reports than development banks.*

### **3.5 Conclusion**

This chapter presents the research framework for the study and develops hypotheses from the literature review in Chapter Two. The framework is developed based on the concept of legitimacy theory and institutional theory. Based on the framework, sixteen hypotheses have been proposed on influencing factors—bank size, age, profitability and ownership structure to measure CSR disclosure in Nepalese banks by scanning the annual reports based on the GRI G4 guideline.

Central bank of Nepal has classified bank and financial institutions in different classes based on the area of operation and paid up capital—such commercial banks, development banks, finance companies, etc. Currently, commercial bank and development bank have a minimum paid-up capital of Rs. 2 billion and Rs. 640 million, respectively. The seventeenth hypothesis was made based on the amount of CSR disclosure by two types of banks. The next chapter discusses the methodology and data analysis to test the proposed hypothesis in this chapter.



### **4.1 Introduction**

This chapter provides an explanation of sample selection and research design used to test the hypotheses proposed in Chapter Three. This chapter explains the total study population and the final sample size that is a total number of Nepalese banks and the net banks to be used for a study in Section 4.2 followed by the process of data collection section 4.3. Section 4.4 provides the overall research design of the study. Section 4.5 clarifies the relationship between influencing factors—such as bank size, bank age, bank performance as an independent variable and bank’s ownership structure and four-disclosure level—such as economic, social, environmental and total disclosure as the dependent variable. Content analysis is also conducted to code the items from banks’ annual report in subsection. Section 4.6 presents the empirical model that tests the relationship between influencing factors and CSR disclosure levels and their predicted sign followed by the multiple regression models to analyse the relationship between CSR disclosures and influencing factors (Branco & Rodrigues, 2008; Reverte, 2009) in section 4.6. Section 4.7 presents the different diagnostic tests—normality, an outlier, multicollinearity, and autocorrelations in section 4.7 followed by the assumptions test for multiple regression analysis in section 4.8. At last, section 4.9 concludes the chapter.

### **4.2 Study population and sample size**

This study examines the factors affecting CSR disclosures in the Nepalese banking sector from the companies’ annual report. Gray, Kouhy, and Lavers (1995) state that annual report is the only document regularly produced to comply with regulatory requirements, and, more importantly, is a key to the organisation’s construction of its own external image. Nepal has no official regulation on how to report on social, economic and environmental aspects in the annual report. Hence, CSR disclosure is completely a voluntary practice. For the study purpose, this research considers all the voluntary information disclosed by Nepalese banks in their annual reports for the year 2014.

All companies registered under Nepal Stock Exchange (NEPSE) are required to prepare annual reports as well as quarterly financial reports required by the central bank of Nepal. Such reports must include stock issues, the board of directors, liquidity status, market capitalization, tax liability, risk management and other information required by the stakeholders.

All banking institutions<sup>1</sup> listed under Nepal Stock Exchange (NEPSE) and a public bank, Rastriya Banijya Bank, are used for the study. There are 30 commercial banks, including one public bank and 84 development banks as of mid-July 2014 where commercial bank group occupied 77.9 percent of total assets/liabilities followed by development banks 13.6 percent making to 91.5 percent of market share ("Bank and Financial Statistics," 2014). Banks with incomplete annual reports or which were delisted during the sample period were excluded as well as banks that experienced significant mergers, or reconstruction was also excluded. The final sample of 82 banks in which 27 are commercial banks and 55 are development banks. Table 4.1 lists the final sample for the study.

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<sup>1</sup> Only Commercial banks ("A" Class bank) and Development Banks ("B" class bank) are used in this study.

**Table 4.1: Final samples of the study**

<b>Sample Selection Process</b>	
Commercial banks listed in banking and financial statistics of Nepal Rastra Bank 2014	30
Less:	
Banks with missing information in annual reports	1
Banks involved with significant mergers or reconstruction	2
<b>Total Commercial banks</b>	<b>27</b>
Development banks listed in banking and financial statistics of Nepal Rastra Bank 2014	84
Less:	
Banks with missing information in annual reports	2
Banks in merger position	27
<b>Total Development Banks</b>	<b>55</b>
<b>Final Sample of banks for the study</b>	<b>82</b>

### 4.3 Data collection

This study focuses on the factors affecting CSR disclosures in the Nepalese banking sector. As discussed in earlier papers, CSR disclosures are differ between countries (Chapple & Moon, 2005) and no universal definition (Bayoud, kavanagh, & Slaughter, 2012a; Belal & Cooper, 2011; Hossain & Reaz, 2007; Jamali & Mirshak, 2007; Menassa, 2010; Visser & Macintosh, 1998). To generate a homogeneous dataset, this study only concentrates on commercial (“A” class) and development (“B” class) banks from a developing country context-Nepal. The list of banks is provided in Appendix A. The annual reports of this study were collected through using the company web pages and by visiting the company office. Personal relationships were utilized to find contacts who could obtain the required annual reports if not available in their websites.

All the annual reports from Fiscal Year mid-July 2014 were used for the study. This period was chosen in order to focus on the cross-sectional variation of voluntary disclosure factors of Nepalese banks. Botosan (1997) used one year study because disclosure policy appears to be relatively constant during that time and the study was limited to one industrial sector because different industries display numerous patterns of disclosures. Similarly, Hackston and Milne (1996) also studied the determinants of CSR in NZ firms for the year 1992.

#### **4.4 Research design**

This thesis selects the factors affecting CSR disclosure level in Nepalese banks are bank size, bank age, bank profitability and the bank's ownership structure while disclosure levels are social disclosure, economic disclosure and environmental disclosure. In particular, this study investigates the relationship between the factors of CSR and individual disclosures (e.g. economic, social and environmental) as well as total CSR disclosures (combination of all disclosures). Moreover, this study investigates the knowledge on CSR from the managers and employees of sample banks.

This thesis uses the quantitative research methods to collect and analyze data obtained from the annual reports of sample banks for the fiscal year 2014. The use of purely quantitative methods in social science have been criticised as positivist and reductionist and, therefore, do not necessarily promote a proper understanding of social construct (Silverman, 2013). Quantitative methods are often treated as 'ad hoc procedures to define, count and analyse its variables' (Silverman, 2013, p. 13).

A purely positivist approach may thus exclude important information about the interrelationships between levels of CSR disclosure and factors influencing of levels of CSR disclosure. In particular, the task of the social scientist is not only to gather facts and quantitatively measure how often certain patterns occur but, also understand different construct and interpret events with regard to the meanings people bring to them (Lincoln & Denzin, 2000). Therefore, this study applies quantitative methods with through understanding of content analysis, which allow a deeper understanding, and results in data being more reliable and trustworthy (Bayoud et al., 2012a).

## **4.5 Measures**

### **4.5.1 Content Analysis**

This study employed content analysis as a systematic method of categorizing and analysing the content of texts from annual reports of sample banks. Content analysis is perhaps one of the most used technique to analyse and understand the collections of text in qualitative research (Bayoud et al., 2012a; Branco & Rodrigues, 2008; Gamerschlag, Moller, & Verbeeten, 2011b; Gray et al., 1995; Hackston & Milne, 1996; Menassa, 2010; Reverte, 2009). Content analysis is a method of codifying written text into various groups or categories on the basis of selected criteria (Webber, 1988). Prior literature suggests that content analysis provides valid results for CSR disclosures in both developed countries (Deegan, 2008; Gamerschlag et al., 2011b; Hackston & Milne, 1996) and developing countries (Akhtaruddin, 2005; Belal & Cooper, 2011; Hassan et al., 2006; M. H. U. Z. Khan et al., 2009).

#### **4.5.1.1 Unit of Analysis**

The key issue in content analysis is with the unit of analysis (Gamerschlag et al., 2011b). A unit of analysis is an identifiable component of communication through which variables are measured (Krippendorff, 2004). As per the requirement of the analysis, there are several ways of applying content analysis, for instance, by counting words, sentences, sections or paragraphs. The simplest form of content analysis consists of detecting the presence or absence of information in the document (Haniffa & Cooke, 2005).

Content analysis is not free from criticism. Branco and Rodrigues (2008) criticized that detecting information does not allow measurement of the extent of information disclosure and, therefore, the coded data do not reflect the emphasis that companies attach to each information item. However, the number of different topics discussed is considered as a reasonable measure of management's willingness to provide social responsibility information in general (Bewley & Li, 2000, p. 206).

Branco and Rodrigues (2008) considered that detecting presence and absence of information is a more appropriate method than counting words, sentences or proportions of the page when the study is from annual reports. Moreover, the coding benchmark such

as GRI guidelines, UN Global Compact, Equator Principles are already validated by both industry and academic, the detecting of presence and absence of information gives valid results. Coding is done through a planned process which entails the selection of the content/document to be analysed, the determination of the selection criteria and measurement unit, and the codification of the text as well as the implementation of appropriate measures to enhance validity and reliability (Menassa, 2010).

Therefore, this study uses words or terms as the unit of analysis consistent with the study of (Gamerschlag et al., 2011b). Moreover, searching for specific terms or words in the text is regarded as the most reliable form of content analysis which gives the same results in repeated trials as it can be easily replicated (Abdolmohammadi, 2005).

#### **4.5.1.2 Identification of Key Words**

Once finalizing the unit of analysis, identification of key words is the major task of content analysis. Thus, in line with prior research (Gamerschlag et al., 2011b; Guthrie & Farneti, 2008; Holder-Webb, Cohen, Nath, & Wood, 2008), this study derives the key words or terms for the content analysis from the guideline of the Global Reporting Initiatives (GRI) G4 guidelines. GRI is regarded as one of the most relevant institutions in the context of CSR disclosure and often referred as the global standard (Moneva et al., 2006). The GRI guidelines are developed through a global multi-stakeholder process involving representatives from business, labour, civil society, and financial markets, as well as auditors and experts in various fields; and in close dialogue with regulators and governmental agencies in several countries. The GRI offers range of services such as reporting principles, standard disclosures and an implementation manual for the preparation of sustainability/disclosure reports by organizations, regardless of their size, sector or location. The Guidelines also offer an international reference for all those interested in the disclosure of governance approach and the environmental, social and economic aspect of organizations (<https://www.globalreporting.org/>). Nowadays, more than 7,800 organizations from around the world are publishing a sustainability report based on GRI sustainability guidelines<sup>2</sup>.

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<sup>2</sup> These data were extracted from the GRI web page in July 2015 ([www.globalreporting.org](http://www.globalreporting.org)).

The GRI guidelines cover all the aspect of CSR, as they consider social, economic and environmental perspective. All the disclosing perspectives are of voluntary in nature, and firms have the flexibility on what information to be disclosed (Gamerschlag et al., 2011b). For instance, manufacturing, energy and mining sectors disclose more information compare to service organization believing that manufacturing firms are creating more adverse effects to the larger community and environment than service organizations. This study incorporates all three aspects of CSR: Social, Economic and Environmental.

The GRI offers two options for an organization to prepare its sustainability report ‘in accordance’ with the GRI G4 guidelines, namely, *Core* and *Comprehensive*. Core indicators are of interest to most stakeholders, and are therefore relevant for most companies while comprehensive indicators are only of interest to some stakeholders and companies as it requires additional disclosures on top of standard requirements (<https://www.globalreporting.org/>). This study derived the keywords for the content analysis of the core indicators by defining one or more keywords for every indicator in line with the study of (Gamerschlag et al., 2011b). Being derived the keywords from a well-grounded guideline like the GRI guidelines, this study improves the results’ validity, as the guidelines can be assumed to reflect CSR’s “real meaning.”

#### **4.5.2 Dependent Variables: CSR Disclosures**

The dependent variables for this study are namely social disclosure, economic disclosure and environmental disclosure. Those variables are measured by the key words or terms from Global Reporting Initiative (GRI) G4 guidelines. The GRI intended to develop a voluntary reporting guideline that tries to promote social responsibility disclosures of a corporation to a level equivalent to that of financial reporting in rigour, comparability and above all GRI has universal recognition (Guthrie & Farneti, 2008; Moneva et al., 2006). Next, the GRI guidelines surround comprehensive procedures, both for the qualitative and the quantitative information (<https://www.globalreporting.org/>). Finally, the GRI provides a structured guideline for the base content of sustainability reports i.e. environmental disclosure, social disclosure and economic disclosure.

#### 4.5.2.1 Scoring of Disclosure Index

The study examines the each of the annual reports of sample banks as recommended by (Cooke, 1993; Hossain & Reaz, 2007) that entire annual report should be read well before any decision is made. Gamerschlag et al. (2011b) used the same methodology to measure the CSR disclosure made by German firms in line with GRI guideline. Thus, in this study, the disclosing categories are extracted from GRI G4 guidelines. A total of thirty-seven items of CSR disclosure information has been collected from the GRI G4 module. Among them, ten items related to economic disclosure; seventeen items related to social disclosure; and ten items related to environmental disclosure. Those disclosure indices are similar to the items disclosed by the prior researcher (Branco & Rodrigues, 2008; Gamerschlag et al., 2011b; Hossain & Reaz, 2007; Menassa, 2010). The following table 3 provides the list of disclosure index of all three aspects of CSR.

**Table 4.2: Disclosure Index for content analysis derived from the GRI guideline**

Economic (10)	Social (17)	Environmental (10)
1. Discussions of bank's financial position	1. Employee Health and Safety	1. Environmental policies
2. Future plans on banking activities	2. Equal opportunities	2. Environmental management, systems and audit
3. Information on dividend per share	3. Employee training	3. Pollution from business operations
4. Information on technology development	4. Employee assistance/benefits	4. Policies on socially responsible investment
5. Mission/vision statements	5. Information on anti-corruptions	5. Bio-diversity
6. Disclosure of accounting policy	6. Employee morale	6. Promotion of reuse and recycling activities
7. Information on risk management	7. Bank's industrial relation	7. Sustainability
8. Disclosure of Auditor's report	8. Product responsibility	8. Protection of environmental
9. Internal Control system	9. Charitable and political contributions	
	10. Support for the arts and culture	
	11. Support for public health	
	12. Sponsoring sporting or recreational projects	



<p>10. Corporate Governance</p>	<p>13. Supporting gov. sponsored social campaigns</p> <p>14. Information on social banking activities</p> <p>15. Information on international banking facilities</p> <p>16. Information on Anti-money laundering</p> <p>17. Support on emergency relief funds to government</p>	<p>habitats</p> <p>9. Investment in renewable energy</p> <p>10. On-line banking facilities</p>
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A dichotomous approach to scoring the items was adopted, in which an item scores one (1) if disclosed and zero (0) if not disclosed. This procedure is conventionally termed the unweighted approach, and it was adopted for the study as other researchers have used it successfully (Cooke, 1993; Hossain & Reaz, 2007). The benefit of using an unweighted disclosure method is that misranking of disclosure is avoided as all the items are treated equally (Marston & Shrives, 1991). Thus, the unweighted disclosure method measures the CSR disclosure score of a bank as additive to each disclosing categories, i.e. social, economic and environmental (Cooke, 1992; Hossain & Reaz, 2007) as follows:

$$CSR = \sum_{j=1} \frac{d_j}{n}$$

Where,

$d_j = 1$ , if the item is disclosed; and 0 if the item is not disclosed

$n =$  number of items

#### **4.5.3 Independent variables: Factors of CSR Disclosures**

The measurement of independent variables is adopted from prior studies by (Bayoud et al., 2012a; Gamerschlag et al., 2011b; Hackston & Milne, 1996; Hossain & Reaz, 2007; Menassa, 2010; Reverte, 2009).

##### **Bank Size (SIZE)**

Following the prior literature (Reverte, 2009), bank size is measured by the market capitalization extracted from the annual report of the sample banks. Market capitalization can be calculated as follows:

$$\text{Market Cap} = \text{Total outstanding share} \times \text{price per share}$$

##### **Bank Age (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 end of fiscal year mid-July 2014.

$$\text{Bank Age} = \text{Current year} - \text{Year of Establishment}$$

##### **Bank Profitability (PROFITABILITY)**

Bank's performance can be measured by either accounting- or market-based measures. Market-based measures are less subject to bias by managerial manipulation and do not rely on past performance (McGuire et al., 1988). In fact, market-based measures are based on investors viewpoint on company performance which gives less importance for other stakeholders (Reverte, 2009). Therefore, this thesis adopted the accounting-based measure such as net profit (Hossain & Reaz, 2007; Narwal, 2007).

$$\text{Profitability} = \text{Net profit after tax}$$

##### **Ownership Structure (OWNSTRUCTURE)**

The Nepalese banking sector consists of public banks, joint ventures and private banks. All the joint venture and private banks are registered in Nepal Stock Exchange (NEPSE). Due to the lack of data, public banks are excluded from the study. Hence, the ownership structure is measured on joint venture and private banks. Thus, if a bank is fully owned

by Nepalese shareholder, a value of one is assigned, and if a bank is joint ventured, the value of zero is assigned.

#### **4.5.4 Measuring commercial and development bank CSR disclosure**

Nepalese banking sector, primarily, consists of commercial banks and development banks. CSR disclosure is a voluntary practice in Nepal. Hence, it is a keen interest of this study to perform a comparative analysis of the disclosure information between those two types of banking institutions. Therefore, to check the amount of CSR disclosure, all the CSR-related items listed in the annual reports of the sample banks is counted in line with GRI G4 guideline (Appendix A). The total items from social, economic and environmental are added to get the total disclosure score. The banks are categorised into two parts, namely, commercial and development banks and the score of each bank is assigned to get the full picture of CSR disclosure.

#### **4.6 Regression Model**

Once organizing the data from the annual reports of the sample banks, the regression model is presented to analyse the relationship between the infusing factor and the CSR disclosure level. The data analyzed from Statistical Progress for Social and Science (SPSS) 22.0. Firstly, descriptive analysis of data is performed, following with univariate and correlation analyses to test the relationships between each independent variable (bank size, bank age, bank profitability and ownership structure) and the dependent variable (economic, social and environmental) as well as overall CSR disclosure made by Nepalese banks. Then, a multiple regression analysis is used to assess the relationships between the dependent variable, CSR, and the four independent variables.

Wallace, Naser, and Mora (1994, p. 15) stated that “the regression method can be used to model any situation as long as there exists a strong causal relationship between the dependent and independent variables.” El-Bannany (2007) also studied the factors influencing UK banks’ voluntary disclosure level via regression analysis to predict the relationship between independent and dependent variables. From the prior research, the conclusion is made that there is a strong causal relationship between the dependent variables and the independent variables. Hence, the researcher is expecting that there is a causal relationship between dependent and independent variables in

Nepalese banks and, thus it is suitable to use regression technique for this study. The following regression model is developed based on the hypotheses one to four.

$$ECOD = \beta_0 + \beta_1 SIZE + \beta_2 AGE + \beta_3 PROFITABILITY + \beta_4 OWNST + \varepsilon$$

$$SOCD = \beta_0 + \beta_1 SIZE + \beta_2 AGE + \beta_3 PROFITABILITY + \beta_4 OWNST + \varepsilon$$

$$ENVD = \beta_0 + \beta_1 SIZE + \beta_2 AGE + \beta_3 PROFITABILITY + \beta_4 OWNST + \varepsilon$$

$$TOTD = \beta_0 + \beta_1 SIZE + \beta_2 AGE + \beta_3 PROFITABILITY + \beta_4 OWNST + \varepsilon$$

WHERE,

<i>ECOD</i>	<i>Economic Disclosures made by Nepalese banks</i>
<i>SOCD</i>	<i>Social Disclosure made by Nepalese banks</i>
<i>ENVD</i>	<i>Environmental Disclosure made by Nepalese banks</i>
<i>TOTD</i>	<i>Total disclosure (sum of ECOD, SOCD &amp; ENVD)</i>
<i>CSR</i>	<i>Total CSR = ECOD + SOCD + ENVD</i>
<i>SIZE</i>	<i>Bank Size proxies by market capitalization</i>
<i>AGE</i>	<i>Bank Age proxies by number of years in operation (business)</i>
<i>PROFITABILITY</i>	<i>Bank Profitability proxies by net profit after tax</i>
<i>OWNERSHIP STRUCTURE</i>	<i>Ownership structure measured by fully owned by Nepalese and join venture with foreign companies</i>

#### 4.7 Additional Analysis

The regression model presents the factors affecting CSR disclosure in Nepalese banks. As described in chapter one, the central bank of Nepal has classified banks into different categories such as commercial bank, development bank, finance companies and other cooperative firms. Although more than 90% of capital is from commercial and development bank. As per the regulation imposed by the central bank, all commercial banks are a national level bank which means they can operate anywhere in the country. Development banks consists of national level and regional level bank where the national level bank can operate anywhere in the country, and regional banks are allowed to operate only in a specified area as mentioned at the time of application. Therefore, in this additional analysis, the researcher is

concerned on which types of banks disclose more CSR information in their annual report. To do so, the following simple model is presented based on hypothesis five.

***CSR COMMERCIAL > CSR DEVELOPMENT***

WHERE,

*CSR COMMERCIAL: Total CSR disclosed by commercial banks in their annual reports.*

*CSR DEVELOPMENT: Total CSR disclosed by development banks (national level and regional level) in their annual reports*

**4.8 Diagnostic Tests:**

Several diagnostic tests were performed on the sample data of this thesis. For instance, tests for normality, extreme outliers and multicollinearity were carried out. In addition, several regression analysis assumption tests were carried out on the sample data to get the stout results.

**4.8.1 Normality**

Normality, which refers to the shape of the data distribution for an individual metric variable and its correspondence to the normal distribution, is the most fundamental assumption in multivariate analysis. If there is a sufficiently large deviation from normal distribution, all resulting statistical tests are invalid.

Normality of a variable can be assessed by statistical or graphical method (i.e. histogram and curve). Skewness and Kurtosis are two statistical measures to describe the shape of any distribution. The Kurtosis deals with the “peakedness” or “flatness” of the distribution of the variables compared to the normal distribution (Hair, Black, Babin, Anderson, & Tatham, 2006). The Skewness refers to the symmetry of the distribution, and a skewed variable is a variable whose mean is not in the centre of the distribution (Tabachnick & Fidell, 2007). A positive skew reflects a distribution shifted to the left while a negative skew denotes a shift to the right (Hair et al., 2006). When a distribution is normal, the values of skewness and kurtosis are zero. A reliable graphical analysis of normality is the normal probability plot, which compares the cumulative distribution of actual data values with that of a normal distribution. If a distribution is normal, the line

representing the actual data distribution follows the straight diagonal line formed by the normal distribution (Hair et al., 2006).

The effects of sample size should be considered to test the normality of data. According to Hair et al. (2006), larger sample sizes reduce the detrimental effects of non-normality. Green (1991) proposed a rule of thumb for sample size in regression analysis. Specifically, he proposed that to test the relationship over independent and dependent variables that the number of observation is at least as described by the following equation.

$$50 + 8 * K$$

Where,

$K$  is the number of independent variables.

According to Central Limit Theorem (CLT), the large sample size consists of normal distribution no matter what the shape of the population (Field, 2013, p. 172). Hence, the researcher can assume normality regardless of the shape of the sample data (Lumley, Diehr, Emerson, & Chen, 2002). Andy Field defines sample size over 30 are considered a large sample size where outliers are a more pressing concern than normality. He further stressed the importance of setting parameter for the model where normality doesn't matter (Field, 2013, p. 172)

Results of the normal probability plot of models employed in this study indicate some deviation from normality due to the nature of data. Economic disclosure is slightly negatively skewed whereas environmental disclosure is positively skewed. But, social disclosure and total CSR disclosure are normally distributed. Since the sample size of this study is large, the deviation may not distort the results, and the sample size considered as normally distributed for the study.

#### **4.8.2 Outlier**

An outlier is a case with an extreme value of a variable or a unique combination of values across several variables that make the observation stand out from the others (Hair et al., 2006) Researcher often consider values more than 3 standard deviations away from the mean as a potential outlier (Field, 2013). If an outlier does not change the result but affects the assumption, the researcher may drop that outlier. However, it needs to be

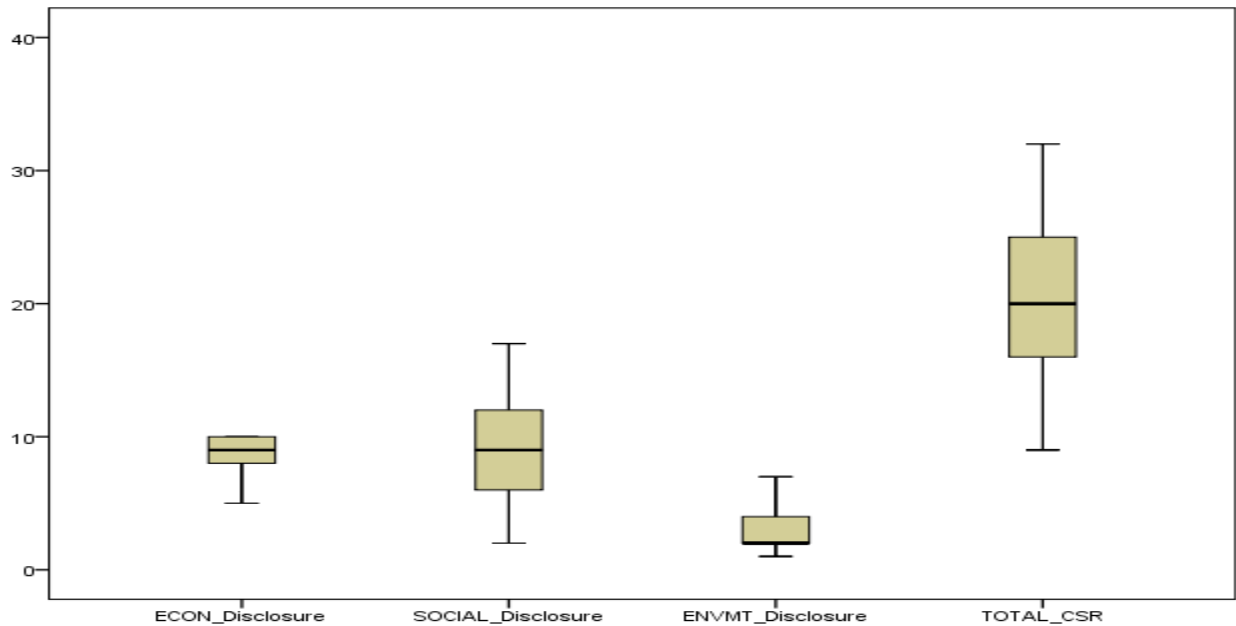
noted in the footnote (Field, 2013). The other ways to deal with outliers are either (1) modify the outlier by replacing the outlier's value with one that is less extreme, or (2) transform the dependent variable.

To replace outlier with a less extreme variable is winsorizing. It is a method to assign outliers the next highest or lowest value found in the sample that is not an outlier (Field, 2013). A typical winsorizing strategy is to set outliers to a specific percentile of data. In winsorizing, the outliers are replaced and thus the sample size remains the same and power is unaffected (Lusk, Halperin, & Heiling, 2011).

There are different methods of data transformation in SPSS—such as Log, Reciprocal, Square Root, etc. Data transformation can be an option as it can lead to outliers being disproportionately affected ("reduced in size") so that they are no longer classified as outliers. However, that transformation can affect homoscedasticity and normality so researcher should check these before transforming the data. After data transformations, all assumptions of regression analysis must run again.

There were no outliers in the data set as assessed by the boxplot analysis in economic, social, environmental and total disclosure level. The data was collected from the GRI G4 guidance, hence, resulting to outlier-free boxplot CSR disclosures from Nepalese banks. Therefore, no data transformation is required. The following table depicts the boxplot for

outlier.



**Figure 4.1: Outlier**

### 4.8.3 Multicollinearity

Multicollinearity occurs when independent variables are highly correlated with each other (Tabachnick & Fidell, 2007). This leads to problems with understanding which variable contributes to the variance explained; and technical issues in calculating a multiple regression models. There are two stages to identifying multicollinearity: inspection of correlation coefficients and Tolerance/VIF values. In correlation coefficient, if the value of correlation among independent variables is more than 0.8, then there is a situation of multicollinearity. In addition to the correlation value, tolerance and the test of the variance inflation factor (VIF) for the independent variable can be used to test the presence of multicollinearity. In general, a variable with tolerance value less than 0.1 and VIF value over 10 suggests the existence of multicollinearity. In reality, VIF is simply the reciprocal of Tolerance. This study does not consist of correlation values higher than 0.8. All of the Tolerance values are higher than 0.1, and all VIF values are less than 10.



All taken into consideration, it could be concluded that overall there is no existence of multicollinearity.

#### **4.8.4 Testing the assumptions of multiple regression analysis**

In regression analysis, assumptions should meet to produce the valid results and satisfying those assumptions are imperative in multivariate analysis (Stevens 1992 p.107). There are five regression analysis assumptions to be tested to generate a valid result (Mooi & Sarstedt, 2011). If these assumptions are violated, the researcher needs to re-run the assumptions test after reviewing the data or find the alternative statistical test for the study. In real-world data, it is not uncommon to violate those assumptions. However, there are some techniques to overcome those violations. Once all the assumptions met, it will allow the researcher to provide the following information.

- Provide information on the accuracy of the predictions
- Test how well the regression model fits the research data
- Determine the variation in the dependent variable explained by independent variable
- Test hypotheses on regression equation

#### **Independence of Observations**

The Durbin-Watson test is a test for a particular type of independence of errors of the observations. This test is for a particular type of (lack of) independence such as autocorrelation. The Durbin-Watson statistic can range from 0 to 4. However, the score around 2 indicates that there is no correlation between residuals.

The Durbin-Watson statistic for this analysis for Economic Disclosure, Social Disclosure, Environmental Disclosure and Total CSR disclosure are 2.194, 2.165, 1.781 and 2.022 respectively.

Therefore, it can be concluded that there is an independence of residuals as assessed by a Durbin-Watson statistic where all four disclosures score range from 1.781 to 2.194.

## Normality of Residual

The error of regression model is approximately normally distributed as assessed by the use of plots. The following figures show the normality of residuals. Hence, the assumptions fulfilled.

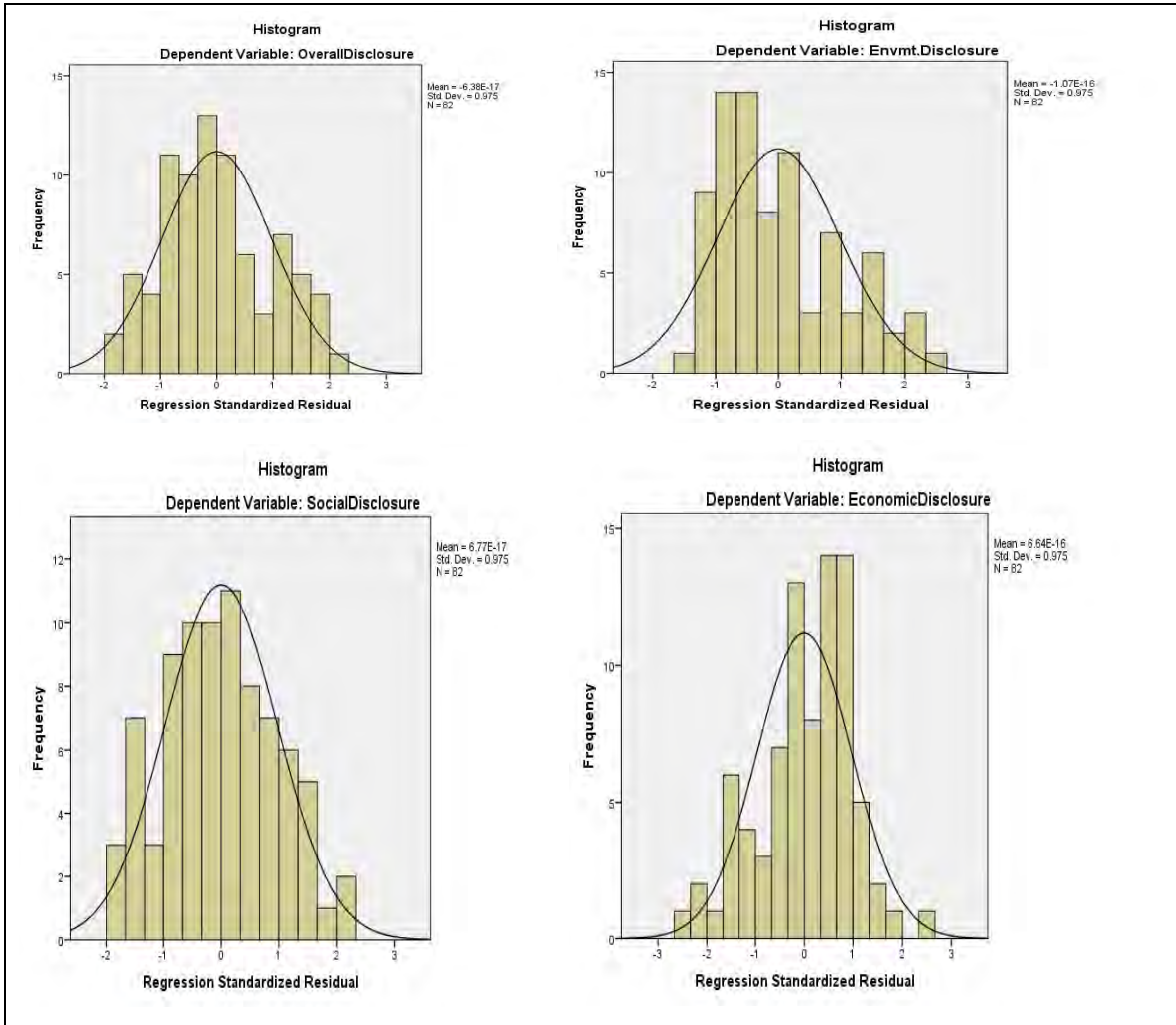


Figure 4.2: Normality of residual

## Linearity

An assumption of multiple linear regression is that the overall independent variables are linearly related to the dependent variable and also that each independent variable is linearly related to the dependent variable. There is a linear relationship between independent variables and dependent variables in this study.

### **Homoscedasticity**

Homoskedasticity refers to the assumption that dependent variables have equal levels of variance across the range of explanatory variables (Hair et al., 2006). If the variance is unequal across values of the explanatory variable, then the situation is known as heteroskedasticity. Homoscedasticity is important because the variance of the dependent variable should not be dominant in only a limited range of the explanatory values (Hair et al., 2006). This study did not violate the assumptions of homogeneity of variance assessed from scatter plot while checking the linearity.

### **4.9 Conclusion**

This chapter discusses the sample and data selection, measurement of all variables and research design used to test the hypotheses of this thesis. A sample of 82 Nepalese commercial and development banks is selected for the mid-year 2014 and information for all variables is retrieved from banks' annual reports in line with GRI G4 guideline.

The process of content analysis is explained with the identification of key words and unit of analysis based on GRI G4 guidelines. Total of 37 key items/ words are used to understand the level of CSR disclosure in Nepalese banks.

Moreover, there are four groups of dependent variables in the regression models: economic disclosure, social disclosure, environmental disclosure and total CSR disclosure. In addition, a model on the amount of CSR disclosure between national level bank and regional level banks is presented to observe the status of CSR in a different level.

Finally, diagnostic tests and assumption tests such as normality, an outlier, multicollinearity, and homoscedasticity, linearity independence of observations and normality of residuals are conducted. The sample data of the study have fulfilled all the assumptions.

### **5.1 Introduction:**

The overall objective of this research is to understand the current status of CSR and the factors influencing CSR disclosure in Nepalese banks. The method of content analysis and the regression models to test the hypotheses were introduced in Chapter Four. This chapter reports and discusses the results obtained from content analysis of annual reports and multivariate data analysis technique as explained in preceding chapter. Section 5.2 discusses the descriptive statistics of the study followed by a simple content analysis of the annual reports in section 5.3. Correlation analysis is discussed in section 5.4, and the multiple regression analysis is explained in section 5.5. Similarly, section 5.6 discusses the results on proposed hypothesis based on correlation analysis and regression analysis followed by additional analysis in section 5.7 to address the hypothesis five on the disclosure level of commercial and development banks. Finally, Section 5.8 concludes the chapter with the conclusion.

### **5.2 Descriptive Statistics**

Initially, descriptive statistics were calculated to examine estimations of central tendency and the distribution of variables for the mean, standard deviation, minimum and maximum value as well as skewness and kurtosis with their standard error.

According to Pagano (2012, pp. 8-9) and Hutomo (1995), descriptive statistics simply postulate a general description of the observed data. To ensure further analysis—such as multivariate analysis—in this study, it is necessary to examine whether the variables meet the assumptions underlying multivariate analysis—such as presence of outlier, normality, linearity, independence of error, multicollinearity and homoscedasticity (Hair et al., 2006; Tabachnick & Fidell, 2007). Those assumptions were already discussed in preceding Chapter Four where all the assumptions were supported. This provides the further avenues to predict the relation between dependent and independent variables in multiple regressions, which will be discussed further in next section.

Table 5.1 reports the descriptive statistics for all CSR disclosure level—such as economic, social, environmental and total CSR; and the four independent variables—

such as bank size, bank age, and ownership structure and bank profitability from 82 Nepalese banks (27 commercial banks and 55 development banks) for mid-year 2014<sup>3</sup>. Out of 82 sample banks, 37 banks are operating at a national level whereas 45 banks are operating at a regional level in different parts of Nepal. Based on the GRI G4 guideline, the minimum disclosure scores are 5, 2, 1, and 9 for economic, social, environmental and total CSR disclosure respectively as well as maximum scores are 10, 17, 8 and 34 for economic social, environment and total CSR disclosure respectively. The huge difference in the disclosure scores between the banks are due to their area of operation, size of the bank, profit imperative and lack of awareness among bankers in developing countries (Belal & Momin, 2009; Farook, Hassan, & Lanis, 2011; Idemudia, 2011; H. U. Z. Khan et al., 2011). From the descriptive table, it can be concluded that some of the banks—namely Janata Bank Ltd., Nabil Bank Ltd. and Nepal Investment Bank Ltd. are voluntarily disclosing more information on all CSR disclosure categories compare to other banks in their annual reports for the year 2014.

The mean score for economic, social, environmental and total CSR disclosures are 8.73, 8.93, 3.2.83 and 20.49 respectively. The mean score for environmental disclosure is lower compared to economic and social disclosure. This may be due to lack of knowledge on adverse effect on the environment from service sector—such as banking. The common belief among service sectors is that banks do not pollute as much as compared to other manufacturing industries hence disclose less information in their annual reports. Prior studies from developing countries from (Juniati Gunawan, 2008; Hossain & Reaz, 2007; M. H. U. Z. Khan et al., 2009) as well as developed countries (Bayoud et al., 2012b; Branco & Rodrigues, 2006; Gamerschlag, Moller, & Verbeeten, 2011a; Hackston & Milne, 1996) found that environment disclosures are lower in financial sector compare to non-financial sector. Therefore, the mean score on environmental disclosure is lower and acceptable in developing country context. Similarly, the standard deviation for economic, social, environmental and total CSR disclosure is 1.33, 3.52, 1.68, and 5.88 respectively. This shows that total disclosures and

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<sup>3</sup> Nepalese financial year is based on Nepalese calendar year, which ends around mid-July of Anno-Domino calendar year.

social disclosures sample scores are extent more than other disclosure level in Nepalese banks.

Moreover, the economic disclosure is slightly negatively skewed (-0.898) and environmental disclosure is somewhat positively skewed (0.986). However, other dependent variables are considered normal. The acceptable range for skewness or kurtosis between -1.5 and +1.5 (Tabachnick & Fidell, 2007). Hence, the skewness and kurtosis are considered normal in this study.

On independent variables, data transformation—Log was performed on bank size, which varies from 4.10 to 11.15 with a mean size value of 7.57. Most of the large size banks are national level banks whereas regional banks are small size banks in Nepal. The age of banks varies between 1 and 55 with a mean age of 10.63. Of the sample banks, 37 banks are operating at the national level, and 45 banks are operating at the regional level. The regional level banks have an operational area of one to ten districts<sup>4</sup>. The oldest bank<sup>5</sup> is NIDC development bank (1959) whereas the youngest banks are Reliable development bank (2013) and Apex Bank (2013) in the sample. Regarding ownership structure, 75 banks are fully owned and operated by Nepalese shareholders whereas seven banks are operated under a joint venture with foreign banks. Data transformation—Log net profit was performed on profitability. The net income of banks is higher in commercial banks compare to development banks due to larger size and range of services in national level. The maximum value for profitability (log net profit) after tax is 21.56 from Nabil Bank Ltd. where the minimum value of profitability (log net profit) is 13.82 from Mount Makalu Development Bank Ltd. The average profitability (log net profit) of banks is 18.21, and standard deviation is 1.6

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<sup>4</sup> As of Mid-July 2014, there are 75 districts in Nepal.

<sup>5</sup> The oldest bank of Nepal is Nepal Bank Limited is omitted due to missing annual report for the study.

**Table 5.1: Descriptive Statistics**

	N	Min	Max	Mean	Std. Deviation	Skewness Stat.	Error	Kurtosis Stat.	Error
Economic Disclosure	82	5	10	8.73	1.33	-.898	.266	.123	.526
Social Disclosure	82	2	17	8.93	3.52	.062	.266	-.795	.526
Environmental Disclosure	82	1	7	2.83	1.68	.986	.266	.133	.526
Total CSR Disclosure	82	9	32	20.49	5.88	.109	.266	-.639	.526
Bank Size (Log)	82	4.10	11.15	7.57	1.64	.135	.266	-.726	.526
Bank Age	82	1	55	10.63	9.66	2.764	.266	8.777	.526
Ownership Structure	82	0	1	0.49	0.50	.050	.266	-2.048	.526
Profitability (Log)	82	13.82	21.56	18.21	1.64	-.101	.266	.092	.526

From the table 5.1, it can be concluded that majority of the Nepalese banks participate in voluntary CSR disclosures. Most of the banks in the sample are concerned of the economic disclosure. 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 disclosure scores range from a minimum of 4 from Rastriya Baniya bank to maximum of 10 from the majority of banks with a mean score of 8.73, as well as standard deviation of 1.33 for economic disclosure.

Nepalese banks are more concerned of their social disclosure items after economic disclosure. The majority of the Nepalese banks have disclosed more than 85% of disclosure items in their annual report. The mean score is 8.93, and the standard deviation is 3.52. The highest score of 17 from Standard Chartered Bank Ltd. and the lowest score of 2 from Jhimruk Bikas Bank Ltd. The descriptive statistics on social disclosure is consistent with the prior literature in developing countries (Dobers & Halme, 2009; Hossain & Reaz, 2007; Idemudia, 2011; Jamali, 2010; Narwal, 2007).

The majority of the sample banks are lagging behind in terms of environmental disclosure where the minimum score is 2 and maximum is 9. The highest scores are from Janata Bank Ltd., Global IME Bank Ltd. and Civil Bank Ltd. with a score of 9, 8 and 8 respectively out of 10 disclosure index items. The mean score is 2.83, and the standard deviation is 1.68. 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.

Overall CSR disclosure on Nepalese banks shows the average disclosure of 20.49 and standard deviation of 5.88. The scores suggest a moderate CSR disclosure in a developing country—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 market capitalization, is 7.57 whereas average age is 10.63 years. The average net profit, measured by log net profit after tax, is 18.21, and average ownership structure is 0.49.

### 5.3 Content Analysis

Content analysis is widely popular among CSR researcher. Prior studies had used this data analysis technique to study the content—such as the number of lines, the number of pages, absence or presence of items, search for key words (Bayoud et al., 2012b; Gamerschlag et al., 2011a). This thesis employed content analysis as a systematic method of categorising and analysing the content of texts based on the GRI G4 guideline. The form of content analysis analyses the corporate social responsibility disclosure of each category using a “yes/no” or (1, 0) scoring methodology from the annual report of Nepalese banks. If there is information of subcategories (items), these subcategories will gain a score of 1 whereas a score of 0 will be awarded if no information subcategory is disclosed. The aggregate score for each bank is determined by adding up scores of 1 (Bayoud et al., 2012b; Tuwaijri, Christen, & Hughes, 2004). Finally, the final disclosure score indexes for each category are calculated using the following formula.

$$CSR = \sum_{j=1} \frac{dj}{n}$$

This index indicates the level of CSR disclosure for a bank  $j$ , where  $n$  is the maximum relevant subcategories of a sample bank may disclose and  $dj$  is equal to 1 if disclosed and 0 if not disclosed (Bayoud et al., 2012b; Branco & Rodrigues, 2006; Hackston & Milne, 1996). Table 5.2 summarizes the CSR disclosure areas and the quantity of information disclosed by Nepalese banks.



**Table 5.2: Corporate Social Responsibility Disclosure Area**

<b>Economic Disclosure:</b>	<b>Annual Report</b>	
	<b>No.</b>	<b>%</b>
1. Discussions of bank's financial position	82	100.00
2. Future plans on banking activities	59	71.95
3. Information on dividend per share	74	90.24
4. Information on technology development	75	91.46
5. Mission/ vision statements	67	81.71
6. Disclosure of accounting policy	75	91.46
7. Information on risk management	43	52.44
8. Disclosure of Auditor's report	81	98.78
9. Internal Control system	77	93.90
10. Corporate Governance	80	97.56
<b>Social Disclosure:</b>		
1. Employee Health and Safety	9	10.98
2. Equal opportunities	48	58.54
3. Employee training	72	87.80
4. Employee assistance/benefits	64	78.05
5. Information on anti-corruptions	7	8.54
6. Employee morale	53	64.63
7. Bank's industrial relation	80	97.56
8. Product responsibility	19	23.17
9. Charitable and political contributions	70	85.37
10. Support for the arts and culture	38	46.34
11. Support for public health	48	58.54
12. Sponsoring sporting or recreational projects	26	31.71
13. Supporting govt. sponsored social campaigns	11	13.41

14. Information on social banking activities	35	42.68
15. Information on international banking facilities	48	58.54
16. Information on Anti-money laundering	75	91.46
17. Support on emergency relief funds to government	17	20.73
<b>Environment Disclosure:</b>		
1. Environmental policies	17	20.73
2. Environmental management, systems and audit	6	7.32
3. Pollution from business operations	5	6.10
4. Policies on socially responsible investment	33	40.24
5. Bio-diversity	6	7.32
6. Promotion of reuse and recycling activities	8	9.76
7. Sustainability	19	23.17
8. Protection of environmental habitats	18	21.95
9. Investment in renewable energy	81	98.78
10. On-line banking facilities	62	75.61

From the disclosure index, Nepalese banks are disclosing economic information more than any other disclosure items. Except risk management item, all other items are disclosed by more than 70% of the Nepalese banks. Under social disclosure items, the least disclosure items are employee benefits, employee morale and information on anti-corruption. This shows those employees' rights and benefits in Nepalese banks are still lagging behind. Charities and political contribution, employees training are some of the items that most of the banks are implementing. Environmental disclosure items are the least disclosed items by the banks. Online banking facilities and investment in renewable energy are the highest items that have been disclosed by Nepalese banks whereas other environmental related items have been disclosed by less than 15% of Nepalese banks.

This thesis detects the absence or presence of items from the annual reports of sample banks. There are a total of 37 items from economic (10 items); social (17 items); and environmental (10 items) based on the GRI G4 guidelines. Table 5.3 provides the holistic

overview on the disclosure level on CSR related items in their annual report for the year 2014.

**Table 5.3: CSR disclosures of Nepalese banks**

Bank	Economic disclosure (10 items)	Social Disclosure (17 items)	Environment Disclosure (10 items)	Total CSR disclosure (37 items)
Agricultural Development Bank Ltd.	10	10	4	24
Rastriya Banijya Bank Ltd.	6	12	3	21
Bank of Kathmandu Ltd.	10	13	5	28
Century bank Ltd.	9	9	2	20
Citizens Bank International Ltd.	10	11	5	26
Civil Bank Ltd.	10	13	7	30
Everest Bank Ltd.	10	10	4	24
Global IME Bank Ltd.	10	12	6	28
Grand Bank Ltd.	7	10	2	19
Himalayan Bank Ltd.	8	6	3	17
Janata Bank Ltd.	10	15	7	32
Kumari Bank Ltd.	9	7	3	19
Laxmi Bank Ltd.	10	11	4	25
Lumbini Bank Ltd.	7	11	2	20
Machhapuchhre Bank Ltd.	10	14	2	26
Nabil Bank Ltd.	10	13	7	30
NCC Bank Ltd.	8	14	5	27
Nepal Bangladesh Bank Ltd.	10	14	6	30
Nepal Investment Bank Ltd.	10	10	5	25
NIC Asia Bank Ltd.	10	15	7	32
NMB Bank Ltd.	10	15	6	31
Prime Bank Ltd.	8	9	3	20
Sanima Bank Ltd.	10	8	3	21
Nepal SBI Bank Ltd.	10	15	5	30
Siddhartha Bank Ltd.	10	13	5	28
Standard Chartered Bank Ltd.	10	17	5	32
Sunrise Bank Ltd.	10	9	2	21
Ace Development Bank Ltd.	10	11	5	26
Alpine Development Bank Ltd.	7	6	1	14
Araniko Development Bank Ltd.	8	5	2	15
Apex Development Bank Ltd.	9	12	4	25
Bhargav Bikas Bank Ltd.	8	8	1	17
Bhrikuti Bikas Bank Ltd.	9	10	3	22
Birat Laxmi Biaks Bank Ltd.	9	8	3	20

Bishwa Bikas Bank Ltd.	10	10	3	23
City Development Bank Ltd.	10	14	5	29
Civic Development Bank Ltd.	7	3	1	11
Clean Energy Development Bank Ltd.	10	13	4	27
Corporate Development Bank Ltd.	6	3	1	10
Cosmos Development Bank Ltd.	8	4	1	13
Country Development Bank Ltd.	9	9	3	21
Ekata Bikas Bank Ltd.	10	9	3	22
Excel Development Bank Ltd.	10	5	1	16
Gandaki Bikas Bank Ltd.	10	6	2	18
Gurkha Bikas Bank Ltd.	8	6	2	16
Hamro Bikas Bank Ltd.	9	9	3	21
H & B Development Bank Ltd.	10	10	2	22
Infrastructure Development Bank Ltd.	10	6	2	18
Innovative Development Bank Ltd.	9	7	1	17
International Development Bank Ltd.	10	5	2	17
Jhimruk Bikas Bank Ltd.	6	2	1	9
Jyoti Bikas Bank Ltd.	10	12	2	24
Kabeli Bikas Bank Ltd.	6	2	1	9
Kamana Bikas Bank Ltd.	10	10	2	22
Kanchan Development Bank Ltd.	8	5	1	14
Kailash Bikas Bank Ltd.	10	11	4	25
Mahakali Bikas Bank Ltd.	5	7	1	13
Malika Bikas Bank Ltd.	5	3	1	9
Manaslu Bikas Bank Ltd.	8	5	2	15
Metro Development Bank Ltd.	9	8	2	19
Miteri Development Ltd.	8	7	2	17
Mount Makalu Development Bank Ltd.	8	6	1	15
Muktinath Bikas Bank Ltd.	8	11	1	20
NIDC Development Bank Ltd.	7	6	2	15
Paschimanchal Development Bank Ltd.	9	9	3	21
Pathivara Bikas Bank Ltd.	7	4	1	12
Professional Diyalo Bikas Bank Ltd.	8	7	2	17
Purnima Bikas Bank Ltd.	8	5	2	15
Reliable Development Bank Ltd.	9	7	2	18
Sahayogi Bikas Bank Ltd.	7	6	2	15
Sewa Bikas Bank Ltd.	9	11	3	23
Shangri-La Development Bank Ltd.	9	12	2	23
Shine Resunga Development Bank Ltd.	8	5	2	15
Siddhartha Development Bank Ltd.	9	12	3	24
Sindhu Bikas Bank Ltd.	7	5	1	13
Subhechhya Bikas Bank Ltd.	8	6	2	16
Supreme Development Bank Ltd.	9	8	2	19

Tourism Development Bank Ltd.	9	12	2	23
Triveni Bikas Bank Ltd.	8	10	2	20
Vibor Bikas Bank Ltd.	9	7	2	18
Western Development Bank Ltd.	8	5	1	14
Yeti Development Bank Ltd.	9	11	2	22

The annual report of 85 sample banks was studied in this thesis. The information CSR disclosure was analysed by detecting the presence or absence of the items from GRI G4 guideline. Table 5.2 shows that the 20 out of 27 commercial banks had disclosed on all of the sub categories of economic disclosures whereas two commercial banks scored the lowest score of 7 out of 10. Similarly, 12 out of 55 development banks disclosed 10 out of 10 sub categories of economic disclosure whereas two banks scored the lowest score of 5 out of 10.

In the social disclosure, the commercial bank category—Standard Chartered Bank Nepal Ltd. scored 17 out of 17 of sub categories whereas Himalayan Bank Ltd scored the lowest score of 6 out of 17 disclosure sub categories. Similarly, in development bank categories, City Development Bank Ltd scored the highest score of 14 out of 17 disclosure sub categories whereas two banks out of 55 scored the lowest score of 2 out of 17 disclosure items.

In the environmental disclosure, four out of 27 commercial banks scored the highest score of 7 out of 10 disclosure items whereas five out of 27 banks disclosed a lowest score of 2 out of 10 disclosure items. In development banks, two banks out of 55 scored the highest score of 5 out of 10 disclosure items and seventeen banks out of 55 banks scored a lowest score of 1 out of 10 disclosure items.

In total disclosure, two commercial banks scored the highest score of 32 out of 37 disclosure items whereas one bank, Himalayan Bank Ltd, scored a lowest score of 17 out of 37 disclosure items. Similarly, Ace Development Bank Ltd. scored the highest score of 26 out of 37 disclosure items whereas three development banks scored a lowest score of 9 out of 37 disclosure items.

#### 5.4 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 5.2 shows the correlation matrix between dependent variables—bank size, bank age, profitability and ownership structure and independent variables—economic disclosure, social disclosure, environmental disclosure and total disclosure. 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, ownership structure, profitability) and dependent variables (economic, social, environmental, and total disclosure), 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 bivariate correlation between CSR disclosure levels with bank size, bank age and profitability are positive and significant at 1% and 5% level except ownership structure, which shows the negative significant at 1% level.

Before calculating  $r$ , the assumption of normality, linearity and homoscedasticity were assessed and found to be supported. Specifically, a visual inspection of the normal Q-Q plots for each variable confirmed normally distributed. Similarly, visually inspecting a scatterplot of bank size, bank age, ownership structure and profitability against economic, social, environment and total disclosure confirmed that the relationship between those variables was linear and heteroscedastic.

**Table 5.4: Correlation Analysis**

Variables	Bank Size (Log)	Bank age	Ownership structure	Profitability (Log)	Collinearity Statistics	
					Tolerance	VIF
Bank Size (log)	1	0.466**	-0.728**	0.722**	.343	2.912
Bank age	0.466**	1	-0.351**	0.384**	.778	1.286
Ownership structure	-0.728**	-0.351**	1	-0.667**	.428	2.336
Profitability (log)	0.772**	0.384**	-0.667**	1	.433	2.308
Economic Disclosure	0.474**	-0.037	-0.410**	0.470**	-	-
Social Disclosure	0.576**	0.235*	-0.495**	0.474**	-	-
Environment Disclosure	0.673**	0.282*	-0.544**	0.572**	-	-
Total CSR Disclosure	0.644**	0.212	-0.545**	0.554**	-	-

\*\* Correlation is significant at the 0.01 level (2-tailed). \* Correlation is significant at the 0.05 level (2-tailed).

Table 5.4 presents a preliminary indication that most of the independent variables are associated with dependent variables—level of CSR disclosures. Bank size is positive and significant with all CSR disclosure level—economic, social, environmental, and total disclosure (0.474, 0.576, 0.673 and 0.644,  $p$ -value < 0.01) respectively. Economic disclosure has a significant moderate correlation with bank size whereas, strong correlation with social, environmental and total disclosures. Bank size and all CSR disclosure level are significant at  $p < 0.01$  level (*see Table 5.4*).

Similarly, Bank age is positive with all CSR disclosure level. Bank age has almost zero correlation with economic disclosure level and not significant,  $r = 0.037$ . Social disclosure and environmental disclosure have a weak positive correlation ( $r$ ) of 0.235 and

282 respectively significant at 0.05 level. Total CSR disclosure has weak positive correlation but insignificant,  $r = 0.212$ .

Ownership structure is negative but significant with all level of CSR disclosure—economic, social, environmental and total disclosures (-0.410, -0.495, -0.544 and -0.545  $p < 0.01$ ) respectively. Economic and social disclosures are moderately correlated, and environmental and total disclosure is strongly correlated with ownership structure of Nepalese banks.

Profitability is positive and significant with all disclosure level—economic, social, and environmental and total disclosure (0.470, 0.474, 0.572 and 0.554  $p < 0.01$ ) respectively. Economic and social disclosures are moderately correlated with profitability whereas environmental and total CSR are strongly correlated with the profitability of Nepalese banks.

The positive and significant relationship between bank size and disclosure level indicates that larger banks tend to disclose more CSR information compare to smaller banks. Similarly, the positive and significant relationship between bank age and social and environmental disclosures suggests that older banks disclose more information compare to newer banks towards community, employees and the environment. However, the economic disclosure and total disclosure did show any significant correlation with bank age. Profitability is also positive and significant with all CSR disclosure levels, which suggests that profitable banks disclose more information compare to less profitable banks. In contrary, the negative relationship between ownership structure and CSR disclosure level is not consistent with proposed hypothesis, which indicates that the level of ownership does not influence the amount of CSR disclosures in Nepalese banks. Thus, the amount of CSR disclosed by a joint venture and a private bank have no significant differences.

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). Table 5.4 shows that the highest correlation is between bank size and ownership structure at 0.728 and lowest correlation between bank age and ownership structure at 0.358. Therefore, the problem of multicollinearity is not found between the independent variables in the sample of this



study. In addition to the correlation matrix, the test on the variance inflation factor (VIF) is performed to detect multicollinearity. Kennedy (1992) suggests that based on VIF, multicollinearity is a serious problem if continuous independent variables exceed 10. The VIF test ran on the independent variables is shown Table 5.4. The highest VIF is 2.912 for bank size as well as tolerance level is 0.343 for bank size. As described in Chapter Four, VIF that is over 10 and tolerance that is below 0.10 reflects a collinearity problem. Thus, the VIF and tolerance test confirms that there is no multicollinearity problem among the independent variables in the study.

### **5.5 Multiple Regression Analysis**

To investigate the relationship between corporate social responsibility disclosure influencing factors and CSR disclosure level, four sets of regression models were used. Each model is regressed by four independent variables that affect the CSR disclosure level in Nepalese banks. Then, a standard multiple regression analysis was performed by using *Statistical Package for the Social Sciences* (SPSS) program version 22 as described in Chapter Four.

Before interpreting the results of multiple regression analysis, several assumptions were evaluated. First, the variables in the regression were normally distributed and free of a univariate outlier (*see figure 4.1*). Second, normal probability plot of standardised residuals, as well as the scatterplot of standardised residuals against standardised predicted values, indicated that the assumptions of normality, linearity, and homoscedasticity of residuals were met. Third, relatively high tolerance for all independent variables in the regression model indicated that multicollinearity would not interfere the ability to interpret the out of multiple regression analysis.

The results from the multiple regression analysis then analysed on whether to accept or reject the proposed hypotheses. To accept the results, variables must have a significance level up to 10%. This is to protect explanatory variables already admitted in the equation that have a significance level higher than 5% but not over 10% (Draper & Smith, 1981).

### 5.5.1 Economic Disclosure (ECOD)

The following empirical model is employed to identify the effects of bank size, bank age, the profitability of the bank and banks' ownership structure on economic disclosure level in Nepalese banks.

$$ECOD = \beta_0 + \beta_1 SIZE + \beta_2 AGE + \beta_3 OWNST + \beta_4 PROFITABILITY + \varepsilon$$

The diagnostic test in chapter 4.7 shows no significant problem with multicollinearity, the normality of residual and potential outlier. This may be because of the data collected from annual reports of the banks where disclosure index was adopted from GRI G4 guidelines. Therefore, the following Table 5.5 presents the regression for economic disclosure (ECOND).

**Table 5.5: Summary of Multiple Regression of Economic Disclosure**

Variables	Predicted sign	B	SE <sub>B</sub>	β	t-statistics
Constant		2.725	1.952		1.396
Bank Size (log)	+	.315	.127	.387	<b>2.481**</b>
Bank Age	+	-.048	.014	-.349	<b>-3.360***</b>
Ownership Structure	+	-.161	.371	-.061	-.434
Profitability (log)	+	.231	.113	.284	<b>2.044**</b>
F-Value					<b>10.610***</b>
R <sup>2</sup>					.355
Adjusted R <sup>2</sup>					.322
N					<b>82</b>

\*\*\*p<0.01; \*\*p<0.05; \*p<0.10

B = Unstandardized regression coefficient; SE<sub>B</sub> = standard error of the coefficient and β = standardized coefficient

Regression analysis from the above table, economic disclosure, which contains potential factors on CSR disclosure had R<sup>2</sup> = 35.5% and adjusted R<sup>2</sup> = 32.2%. Bank size, bank age, ownership structure and bank profitability statistically significantly predicts economic disclosures of Nepalese banks, F<sub>(4, 77)</sub> = 10.610, p < 0.005. Bank size (p < 0.05) is measured by natural log of market capitalization, bank age (p < 0.01) is measured by

number of year since establishment, profitability is measured by natural log of net profit after tax and ownership structure is measured by banks' ownership by domestic shareholders and foreign joint ventures. Bank size has a positive predicted sign as expected but bank age, profitability and ownership structure have a negative sign which was opposite than the predicted sign.

### 5.5.2 Social Disclosure (SOCD)

The following empirical model is employed to identify the effects of bank size, bank age, the profitability of the bank and banks' ownership structure on social disclosure level in Nepalese banks.

$$SOCD = \beta_0 + \beta_1 SIZE + \beta_2 AGE + \beta_3 OWNST + \beta_4 PROFITABILITY + \varepsilon$$

Social disclosure is one of the most disclosed items in corporate responsibility world. GRI G4 guideline has divided social disclosure in labour practice, human rights, society and product responsibility. However, the above model was prepared by merging all sub-categories as a social disclosure. The following Table 5.6 presents regression results for social disclosure.

**Table 5.6: Summary of Multiple Regression of Social Disclosure**

Variables	Predicted sign	B	SE <sub>B</sub>	β	t-statistics
Constant		-.878	5.183		-.169
Bank Size	+	.939	.337	.437	<b>2.784*</b>
Bank Age	+	-.018	.038	-.051	-.485
Ownership Structure	+	-.963	.985	-.137	-.977
Profitability	+	.184	.300	.086	.614
F-Value					<b>10.291***</b>
R <sup>2</sup>					.348
Adjusted R <sup>2</sup>					.315
N					<b>82</b>

\*\*\*p<0.01; \*\*p<0.05; \*p<0.10

B = Unstandardized regression coefficient; SE<sub>B</sub> = standard error of the coefficient and β = standardized coefficient

Regression analysis for social disclosure with four independent variables that affect the CSR disclosure level had  $R^2 = 34.8\%$  and adjusted  $R^2 = 31.5\%$ . Bank size, bank age, ownership structure and bank profitability statistically significantly predict social disclosures of Nepalese banks,  $F_{(4, 77)} = 10.291$ ,  $p < 0.005$ . Bank size ( $p < 0.10$ ) is measured by natural log of market capitalization, bank age is measured by number of year since establishment, profitability is measured by natural log of net profit after tax and ownership structure is measured by banks' ownership by domestic shareholders and foreign joint ventures. Bank size and bank age have a positive sign as expected, but profitability and ownership structure have a negative sign which was opposite than the predicted sign. Except bank size, all other independent variables are insignificant, at 10 % confidence interval.

### 5.5.3 Environmental Disclosure (ENVD)

The following empirical model is employed to identify the effects of bank size, bank age, the profitability of the bank and banks' ownership structure on environmental disclosure level in Nepalese banks.

$$ENVD = \beta_0 + \beta_1 SIZE + \beta_2 AGE + \beta_3 OWNST + \beta_4 PROFITABILITY + \varepsilon$$

Environmental disclosure 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. GRI G4 framework provides the guidelines on how to disclose on environmental aspects. The following table 5.7 presents the regression results for environmental disclosure of Nepalese banks.

**Table 5.7: Summary of Multiple Regression of Environmental Disclosure**

Variables	Predicted sign	B	SE <sub>B</sub>	$\beta$	t-statistics
Constant		-4.125	2.220		<b>-1.858*</b>
Bank Size	+	.540	.144	.528	<b>3.735***</b>
Bank Age	+	-.009	.016	-.052	-.549
Ownership Structure	+	-.226	.422	-.068	-.537
Profitability	+	.169	.129	.165	1.312

F-Value	<b>17.195***</b>
$R^2$	.472
<i>Adjusted R<sup>2</sup></i>	.444
<b>N</b>	<b>82</b>

\*\*\*p<0.01; \*\*p<0.05; \*p<0.10

B = Unstandardized regression coefficient; SE<sub>B</sub> = standard error of the coefficient and β = standardized coefficient

Regression analysis for environmental disclosure, which consists of four independent variables that affect the CSR disclosure level had  $R^2 = 47.2\%$  and adjusted  $R^2 = 44.4\%$ . Bank size, bank age, ownership structure and bank profitability statistically significantly predict environmental disclosures of Nepalese banks,  $F_{(4, 77)} = 17.195$ ,  $p < 0.005$ . Bank size ( $p < 0.01$ ) is measured by natural log of market capitalization, bank age is measured by number of year since establishment, profitability is measured by natural log of net profit after tax and ownership structure is measured by banks' ownership by domestic shareholders and foreign joint ventures. Bank size and profitability have a positive sign as expected, but bank age, and ownership structure have a negative sign which was opposite than the predicted sign. From the table, only bank size is positively significant at 0.01 level, and all other independent variables are insignificant. The regression analysis shows a higher  $R^2$  and adjusted  $R^2$  in environmental disclosure in Nepalese banks, as most of the banks are aware of environmental disclosure and made an investment in renewable energy. The government of Nepal has mandated a certain percent of investment should be in renewable energy and sustainable development. The result is consistent with the study of voluntary environmental disclosure of Australian mineral mining companies under unweighted index method by (Hutomo, 1995).

#### **5.5.4 Total CSR Disclosure (TOTALD)**

The following empirical model is employed to identify the effects of bank size, bank age, the profitability of the bank and banks' ownership structure on total disclosure level in Nepalese banks. The total disclosure is a summation of economic, social and environmental disclosure level. This is the overall disclosure level regardless of any individual disclosure level.

$$TOTD = \beta_0 + \beta_1 SIZE + \beta_2 AGE + \beta_3 OWNST + \beta_4 PROFITABILITY + \varepsilon$$

The total disclosure provides the overall disclosure activities made by Nepalese banks in all area of sustainability. There is no guidance on reporting such disclosure. 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 (Hossain & Reaz, 2007; Menassa, 2010; Visser, 2008) compare to those in the Western countries (Gamerschlag et al., 2011a; Hackston & Milne, 1996). 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 5.8 presents regression results for total CSR disclosure in Nepalese banks.

**Table 5.8: Summary of Regression Results for Total CSR Disclosure**

Variables	Predicted sign	B	SE <sub>B</sub>	β	t-statistics
Constant		-2.279	7.949		-.287
Bank Size	+	1.794	.517	.500	<b>3.468***</b>
Bank Age	+	-.075	.058	-.124	-1.294
Ownership Structure	+	-1.350	1.511	-.116	-.894
Profitability	+	.584	.461	.163	1.269
F-Value					<b>15.708***</b>
R <sup>2</sup>					.449
Adjusted R <sup>2</sup>					.421
N					<b>82</b>

\*\*\*p<0.01; \*\*p<0.05; \*p<0.10

B = Unstandardized regression coefficient; SE<sub>B</sub> = standard error of the coefficient and β = standardized coefficient

Regression analysis for total CSR disclosure, which consists of four independent variables that affect the CSR disclosure level had R<sup>2</sup> = 44.9% and adjusted R<sup>2</sup> = 42.1%. Bank size, bank age, ownership structure and bank profitability statistically significantly predict overall CSR disclosures of Nepalese banks, F<sub>(4, 77)</sub> = 15.708, p < 0.005. Bank size

( $p < 0.01$ ) is measured by natural log of market capitalization, bank age is measured by number of year since establishment, profitability is measured by natural log of net profit after tax and ownership structure is measured by banks' ownership by domestic shareholders and foreign joint ventures. Bank size and bank profitability have a positive sign as expected, but bank age, and ownership structure have a negative sign which was opposite than the predicted sign. Bank size is positive and significant whereas bank age and ownership structure are negative insignificant and profitability positive and insignificant.

## **5.6 Discussion of Results of Hypotheses Testing**

This thesis proposed five major hypotheses in Chapter Three. The first four hypotheses were further extended in sub-hypothesis to study the factors affecting CSR disclosure individually. Those hypotheses were resolved by regression analysis from *Statistical Package for the Social Sciences* (SPSS) program version 22. And, the fifth hypothesis is simply to compare the CSR disclosure information between commercial banks and development banks, which will be discussed in additional analysis section that will be solved by analysing the CSR disclosure information from the annual report of Nepalese banks by content analysis. The research questions proposed in the chapter is answered along with the results on hypotheses testing on factors affecting CSR disclosure in Nepalese banks. The following sections discuss the results on a hypothesis by hypothesis.

### **5.6.1 Hypothesis 1**

The first hypothesis examines the effect of bank size, which is represented by market capitalisation, to the extent of CSR disclosure in Nepalese banks. The analysis of results is based on the GRI G4 guideline. Hence, the hypothesis one is further divided into economic, social, environmental and total disclosure.

#### **5.6.1.1 Hypothesis 1a**

The influence of bank size towards the economic disclosure in Nepalese banks in their annual hypothesized as follows.

*H1a: There is a positive relationship between bank size and the extent of economic disclosure by the Nepalese banks.*

The size of the bank was calculated from the market capitalisation by multiplying the total outstanding shares and the last traded share price from the annual report of the sample banks for the mid-July 2014. A Pearson's product-moment correlation was run to assess the relationship between bank size and economic disclosure. Preliminary analyses showed the relationship to be linear with both variables normally distributed and there were no outliers. The result shows that there was a moderate positive correlation between bank size and economic disclosure in Nepalese banks for mid-July 2014,  $r = 0.474$ .  $p < 0.01$ . The result is consistent with prior findings of (Bayoud et al., 2012b; Gamerschlag et al., 2011a; Menassa, 2010). Larger banks are disclosing more voluntary information as they are more exposed to different stakeholders and different reporting regulations imposed by the central bank. As a service industry, banks are exposed to the public and they try to reduce political cost through more CSR disclosure. This result is in line with the result of CSR disclosure of German firms studied by (Gamerschlag et al., 2011a). Therefore, the study supports the proposition that larger banks disclose more economic information in their annual report in Nepalese banks.

#### **5.6.1.2 Hypothesis 1b**

The effect of bank size on social disclosure in Nepalese banks is hypothesized as follows:

*H1b: There is a positive relationship between bank size and the extent of social disclosure by the Nepalese banks.*

The score of social disclosures is derived from GRI G4 guideline. Labour practice, community and human rights are categorized as a social disclosure in this study. A Pearson's product-moment correlation was run to assess the relationship between bank size and economic disclosure. The result shows that there was a strong positive correlation between bank size and social disclosure in Nepalese banks for mid-July 2014,  $r = 0.576$   $p < 0.01$ . The result shows the higher correlation than economic disclosure in the Nepalese banking sector due to higher exposure to the community and the society where business is in operation. The result is significant and consistent with prior studies by El-Bannany (2007); Gunawan (2008); Menassa (2010); Purusothaman, Tower, Hancock, and Taplin (2000). However, Chapple & Moon (2005) found a mixed result on the relationship between size and the level of social disclosure. He found no



correlation in some countries and low correlation in other countries. Similarly, a study on Malaysian banks by Hamid (2004) found the size is the possible determinant but cannot confirm due to the low correlation between size and social disclosure. Hence, it can be concluded that Nepalese banks are more concerned in disclosing social disclosure than economic disclosure and the hypothesis is supported.

### **5.6.1.3 Hypothesis 1c**

The influence of bank size on environmental disclosure is hypothesized as follows:

*H1c: There is a positive relationship between bank size and the extent of environmental disclosure by the Nepalese banks.*

Environmental disclosure items are the least disclosed items in Nepali banks. A Pearson's product-moment correlation was run to assess the relationship between bank size and environmental disclosure. The result shows that there was a strong correlation between bank size and the level of environmental disclosure in Nepalese banks for mid-July 2014,  $r = 0.673$   $p < 0.01$ . It can be concluded that an increase in the size of the banks was strongly correlated with the amount of environmental disclosure. The result is significant with developed countries (Gamerschlag et al., 2011; Hackston & Milne, 1996), however, not significant developing countries (Hossain & Reaz, 2007; Idemudia, 2011; M. H. U. Z. Khan et al., 2009; Visser, 2008).

The strong correlation may be due to mandatory minimum investment on renewable energy sectors such as hydropower and solar energy from big banks in Nepal. Further study may require investigating the higher correlation between bank size and the extent of environmental disclosure in Nepalese banks. Therefore, this study accepts the hypothesis that bigger banks disclose more environmental information than younger banks in Nepal.

### **5.6.1.4 Hypothesis 1d**

The effect of bank size on the extent of overall CSR disclosure in Nepalese banks is postulated as follows:

*H1d: There is a positive relationship between bank size and the extent of total CSR disclosure by the Nepalese banks.*

Total CSR disclosure was calculated on the overall voluntary disclosure of CSR items in the annual reports of sample banks. It comprises of economic, social and environmental disclosures. A Pearson's product-moment correlation was run to assess the relationship between bank size and total CSR disclosure. The result shows that there was a strong correlation between bank size and the level of total CSR disclosure in Nepalese banks for mid-July 2014,  $r = 0.644$   $p < 0.01$ . Nepal, being a developing country, the banking sector discloses the reasonable amount of voluntary information in their annual report as market capitalization increase. The result is consistent with the study of (Menassa, 2010) where she found a strong correlation between bank size (measured by total assets) total CSR ( $r = 0.609$ ). Hence, it can be concluded that an increase in the size of the banks was strongly correlated with the amount of total CSR disclosure. Therefore, this study supports the hypothesis that bigger banks disclose more CSR information than younger banks.

Results from the correlation analysis can be concluded that bank size is positively and significantly shows the moderate to strong correlation with all CSR disclosure levels at  $p < 0.01$ . Bank size moderately correlated with economic disclosure whereas strongly correlated with social, environmental and total CSR disclosure. The results are consistent with (Menassa, 2010) except environmental disclosure, where she found an insignificant relation between bank size and environmental disclosure. Although, the environmental disclosure is in line with the study by (Hutomo, 1995) in environmental disclosure in Australian mineral mining companies shows the high correlation between firm size and environmental disclosure level ( $r = 0.502$ ) under unweight index method. Therefore, hypotheses 1a, 1b, 1c and 1d are accepted at 0.01 level.

### **5.6.2 Hypothesis 2**

The second hypothesis examines the effect of bank age on the voluntary disclosure of CSR information in the annual report of Nepalese banks for the mid-July 2014. Bank age was measured by the number of years in business to the extent of CSR disclosure. The

CSR disclosure was further divided into economic, social, environmental and total CSR disclosure for the study.

#### **5.6.2.1 Hypothesis 2a**

The influence of bank age and the extent of CSR disclosure in Nepalese banks are hypothesised as follow:

*H2a: There is a positive relationship between bank age and the extent of economic disclosure by the Nepalese banks.*

Bank age is one of the influential factors for voluntary CSR disclosure in Nepalese banking sector. To assess the relationship between bank age and economic disclosure, the Pearson's product-moment correlation was run. The result shows that there was a insignificant negative result,  $r = -0.037$ . From this correlation, the study did not find any relationship between bank age and the extent of the economic disclosure in Nepalese banks. The result is consistent with the prior study of (Hossain & Reaz, 2007) in Indian banking sector. Hence, this study rejects the hypothesis that older banks disclose more economic disclosure in Nepalese banks.

#### **5.6.2.2 Hypothesis 2b**

The effect of bank age and the extent of social disclosure in Nepalese banks are hypothesised as follows:

*H2b: There is a positive relationship between bank age and the extent of social disclosure by the Nepalese banks.*

The relationship between two variables is assessed by Pearson's product-moment correlation. The result shows that there was a significant positive relationship between bank age and social disclosure,  $r = 0.235$   $p < 0.05$ . The low correlation indicates that older banks tend to disclose some extent of social disclosure information than newer banks in Nepal. Unlike economic disclosure, the social disclosure shows the significant results. This may be due to banks are more concerned in disclosing social information as they are exposed to the community, labour practice and employment structure of their firms. To show gratitude to their employees, and community, Nepalese banks are voluntarily disclosing social disclosure information in their annual reports. A prior study

by (Liu & Anbumozhi, 2009) from Chinese listed companies found that age of the firm has a significant effect on social disclosure. However, Rettab et al. (2009) found no relationship between age and the level of social disclosure in Dubai firms. Although, in this study, the age of firm has a significant effect in social disclosure level as indicated by correlation analysis. Hence, this study, also, accepts the hypothesis that older banks disclose more social disclosure information in Nepalese banks.

### **5.6.2.3 Hypothesis 2c**

The effect of bank age and the extent of environmental disclosure in Nepalese banks are hypothesised as follows:

*H2c: There is a positive relationship between bank age and the extent of environmental disclosure by the Nepalese banks.*

Environmental disclosure activities are the least disclosed items in Nepalese banks. To assess the relationship between bank age and the extent of environmental disclosure, a Pearson's correlation was run. The result shows that there is a low positive significant correlation between bank age and the environmental disclosure in Nepalese banks,  $r = 0.282$   $p < 0.05$ . The low positive correlation indicates that older Nepalese banks are more concerned to the extent of environmental disclosure. Investments in renewable energy, as well as protection of bio-diversity are their areas that older banks invest than newer banks. Furthermore, the regulations imposed by central banks mandates them to invest in renewable energy. This may have a significant effect of environmental disclosure. Previous studies in developing countries show that firm age and environment disclosure have insignificant results (Opstrup, 2013; Rettab et al., 2009). However, Hutomo (1995) found a positive relation between firm age and voluntary environmental disclosure in Australian mining companies. This study also supports the hypothesis that older Nepalese banks disclose more environmental disclosure than younger banks.

### **5.6.2.4 Hypothesis 2d**

The influence of bank age and the extent of total CSR disclosure in Nepalese banks are hypothesised as follows:

*H2d: There is a positive relationship between bank age and the extent of total CSR disclosure by the Nepalese banks.*

The total disclosure was calculated by combining economic, social and environmental disclosure. To assess the relationship between bank age and the extent of total CSR disclosure, a Pearson's correlation was run. The result shows the low positive insignificant correlation between bank age and the extent of total CSR disclosure,  $r = 0.212$ . The lower correlation between bank size and the extent of CSR indicates that to some extent, the older banks disclose more CSR information compare to younger banks but statistically does not support. Therefore, the study rejects the hypothesis that older banks disclose more CSR information than younger banks.

In summary, bank age is insignificant and negatively correlated to social disclosure as well as insignificantly positively correlated to total CSR disclosure. Social and environmental disclosures are significant and positively correlated at 5% level. The results suggest that Nepalese banks are disclosing more CSR information on social and environmental aspect, as they grew older. Prior studies on the relationship between firm age and the extent CSR disclosure showed mixed results. Hossain and Reaz (2007) found no significant relationship between bank age and the extent of voluntary CSR disclosure in India. However, Gunawan (2008) found a low correlation between firm age and CSR disclosure in Indonesian listed firm. This study shows the low correlation between bank age and the extent of social and environmental disclosure and no correlation between bank age and economic disclosure. Hence, hypothesis 2a and 2d are rejected whereas; hypothesis 2b and 2c are accepted at 0.05 level.

### **5.6.3 Hypothesis 3**

The last hypothesis examines the effect of bank profitability, which is represented by net profit after tax, to the extent of CSR disclosure in Nepalese banks. The analysis of results is based on the GRI G4 guideline; hence, the hypothesis is further divided into economic, social, environmental and total disclosure.

#### **5.6.3.1 Hypothesis 3a**

The effects of bank's profitability on economic disclosure in Nepalese banks is hypothesised as follows:

*H3a: There is a positive relationship between bank profitability and the extent of economic disclosure by the Nepalese banks*

Profitability has significant effects on the level of economic disclosure. To assess the relationship between the bank profitability and the economic disclosure in Nepalese banks, a Pearson's product-moment correlation was run. The result shows a moderate significant positive correlation between Nepalese bank's profitability and economic disclosure,  $r = 0.470$   $p < 0.01$ . The result indicates that as the net profit increase, the amount of CSR information increase in Nepalese banks. The result is consistent with prior research in both developed (Branco & Rodrigues, 2006; Gamerschlag et al., 2011; Hackston & Milne, 1996; Tsoutsoura, 2004) and developing countries (Hossain & Reaz, 2007; Menassa, 2010; Visser, 2008). Hence, the study accepts the proposed hypothesis.

#### **5.6.3.2 Hypothesis 3b**

The influence of bank profitability on social disclosure in Nepalese banks is hypothesised as follows:

*H3b: There is a positive relationship between bank profitability and the extent of social disclosure by the Nepalese banks.*

A Pearson's product-moment correlation was run to assess the relationship between bank profitability and the extent of social disclosure. The result shows the moderate positive significant correlation,  $r = 0.474$   $p < 0.01$ . This indicates that when profit increase, the amount of social disclosure increase in Nepalese banks. Prior studies on the relationship between profitability and social disclosure show the positive relationships in both developed (Margolis & Walsh, 2001; Waddock & Graves, 1997) and developing countries (Menassa, 2010). Therefore, the study supports the proposed hypothesis from Nepalese banks.

#### **5.6.3.3 Hypothesis 3c**

The influence of bank profitability on the extent of environmental disclosure in Nepalese banks is hypothesised as follows:

*H3c: There is a positive relationship between bank profitability and the extent of environmental disclosure by the Nepalese banks.*

To assess the relationship between bank profitability and environmental disclosure in Nepalese banks, a Pearson's product-moment correlation was run. The result shows the moderate positive significant correlation between the variables,  $r = 0.572$   $p < 0.01$ . The result indicates that the amount of environment disclosure increase as the net profit of the bank increases. The result is significant and in line with the study by (Bayoud et al., 2012; Hossain & Reaz, 2007; Menassa, 2010). Nepalese banks especially invest a lot in renewable energy and bio diversity as a mandatory requirement by the central bank of Nepal and the amount of investment increase the profit increase. Hence, the study accepts the proposed hypothesis.

#### **5.6.3.4 Hypothesis 3d**

The influence of bank profitability on the extent of overall CSR disclosure in Nepalese banks is hypothesised as follows:

*H3d: There is a positive relationship between bank profitability and the extent of total CSR disclosure by the Nepalese banks.*

Total CSR disclosure is an overall disclosure of economic, social and environment disclosure of Nepalese banks derived from GRI G4 guideline. To assess the relationship between bank's profitability and total CSR disclosure level, a Pearson product-moment correlation was run. The result shows the moderate positive significant correlation between profitability and total CSR disclosure,  $r = 0.554$   $p < 0.01$ . The result suggests that the amount of CSR disclosure in Nepalese banks is moderately depended upon the profitability of the bank. The result is consistent with prior studies of (Baskin & Gordon, 2005; Dobers & Halme, 2009; Purusothaman et al., 2000). Therefore, this study accepts the proposed hypothesis in the Nepalese banking sector.

Profitability and the CSR disclosure in Nepalese banks show the strong positive correlation at 1% level. The correlation result suggests that the amount of CSR information increase as net profit after tax increase in both commercial and development banks. Being the banks developing country, Nepalese banks are disclosing more CSR information as compared to other developing countries (Baskin & Gordon, 2005; Belal & Cooper, 2011; Idemudia, 2011; Menassa, 2010) around the globe. This may be due to the

greater awareness of the general public and the shareholders on the importance of CSR disclosure.

In summary, factors such as bank size and bank profitability show the moderate to strong significant positive correlation ( $r = 0.470$  to  $0.572$ ) with all level of CSR disclosure in Nepalese banks. Ownership structure shows significant negative correlation with all level of CSR disclosure. Bank age shows low significant positive correlation ( $r = 0.235, 0.282$ ) with social and environmental disclosure whereas negative insignificant correlation with economic disclosure and insignificant positive correlation with total CSR disclosure in Nepalese banks. The overall result indicates that are larger, mature and more profitable banks in Nepal are voluntarily disclosing CSR information in their annual report. In contrast with prior research, Nepalese banks show the higher disclosure might be due to the availability of new technology; stakeholders are aware of CSR from different kinds of news and information from The Internet and other digital sources. Those reason needs to be investigated further. However, ownership structure shows the negative relationship between CSR disclosure level is consistent with (Idemudia, 2011; Jamali, 2010; Samah et al., 2012; Shah, 2012; Visser, 2008).

#### **5.6.4 Hypothesis 4**

The third hypothesis examines the relationship between ownership structure and the extent of the CSR disclosure in Nepalese banks. The ownership is measured the bank's domestic shareholders and foreign joint ventures.

##### **5.6.4.1 Hypothesis 4a**

The influence of ownership structure on economic disclosure of Nepalese banks are hypothesised as follows:

*H4a: There is a positive relationship between bank's ownership structure and the extent of economic disclosure by the Nepalese banks.*

Ownership structure is divided into two types that are domestic shareholders and foreign joint venture. To assess the relationship between ownership structure and the extent of economic disclosure, a Pearson's correlation was run. The result shows negative significant correlation between the variables,  $r = -0.410$   $p < 0.01$ . The negative correlation between ownership structure and economic disclosure suggests that economic



disclosures reported in the annual report of the banks have not much difference based on the ownership concentration. Fully owned domestic banks are also disclosing CSR information as the joint venture banks. The result is in line with Ahmed et al. (2008). Hence, this study rejects the proposition that ownership structure affects the economic disclosure in Nepalese banks.

#### **5.6.4.2 Hypothesis 4b**

The influence of ownership structure on social disclosure of Nepalese banks are hypothesised as follows:

*H4b: There is a positive relationship between bank's ownership structure and the extent of social disclosure by the Nepalese banks.*

A Pearson's product-moment correlation was run to assess the relationship between ownership structure and social disclosure. The result shows that there is a significant negative correlation between ownership structure and social disclosure,  $r = -0.495$   $p < 0.01$ . The result supports the notion of the previous hypothesis on economic disclosure. The result indicates that fully owned domestic banks disclose less CSR information than joint venture banks in their annual reports. This may be due to joint ventured bank's pressure from the wider shareholders as well as the regulatory body of the foreign bank in their home country. The result is consistent with the study of (Jussila & Tuominen, 2010). Hence, the proposed hypothesis is rejected.

#### **5.6.4.3 Hypothesis 4c**

The effects of ownership structure on environmental disclosure in Nepalese banks are hypothesised as follows:

*H4c: There is a positive relationship between bank's ownership structure and the extent of environmental disclosure by the Nepalese banks.*

Environmental disclosure in Nepalese banks is least disclosed items of total disclosure. Most of the banks are disclosing CSR information on renewable energy. To assess the relationship between ownership structure and environmental disclosure, a Pearson's product-moment correlation was run. The result shows a strong negative significant correlation,  $r = -0.544$   $p < 0.01$ . The strong negative correlation shows that foreign joint ventured banks disclose more environmental disclosure than domestic private banks. The

result is negatively significant and in line with prior research by Ahmed et al. (2008). Therefore, based on the result, the proposed hypothesis is rejected.

#### **5.6.4.4 Hypothesis 4d**

The effect of ownership structure on total CSR disclosure in Nepalese banks is hypothesised as follows:

*H4d: There is a positive relationship between bank's ownership structure and the extent of total CSR disclosure by the Nepalese banks.*

Total CSR disclosure is comprised of all the disclosure level such as economic, social and environmental disclosure. To assess the relationship between ownership structure and total CSR disclosure, a Pearson's product-moment correlation was run. The result shows that there was a significant negative correlation,  $r = -0.545$   $p < 0.01$ . The strong negative correlation between the variables indicates that domestic private banks disclose less information than the banks operated in joint venture partnership. Based on the result, the proposed hypothesis is rejected.

In summary, ownership structure and CSR disclosure in Nepalese banks show the moderate to strong negative correlation at 1% level. The result suggests that an increase in ownership structure decrease in CSR disclosure in Nepalese banks. The results are consistent with Reverte (2009) in Spanish firms.

### **5.7 Additional Analysis**

As discussed earlier, commercial and development banks are the major players of Nepalese banking sector with more than 95% of market capital. There are 27 commercial and 55 development banks studied in this thesis. In reference to that, this study examines the amount of CSR disclosure made by those two types of banks on a comparative basis. Therefore, this study proposed the following hypothesis based on the amount of CSR disclosure in two types of banks.

*H5: In Nepal, commercial banks disclose more CSR information in their annual reports than development banks.*

The following table depicts the descriptive information on CSR disclosures as well as the descriptive information on the key characteristics of such banks.

**Table 5.9: Descriptive Statistics on Commercial and Development Banks**

Variables	Commercial Banks		Development Banks	
	Mean	Std. Deviation	Mean	Std. Deviation
Economic Disclosure	9.33	1.18	8.44	1.32
Social Disclosure	11.70	2.76	7.56	3.04
Environment Disclosure	4.37	1.71	2.07	1.02
Total CSR Disclosure	25.41	4.69	18.07	4.81
Bank Size (log)	9.53	0.68	6.62	0.99
Bank Age	16.07	11.93	7.96	7.03
Ownership Structure	1.00	1.00	0.73	0.45
Profitability (log)	19.56	1.36	17.55	1.34

From the table 6, the mean score on commercial banks for economic, social, environment and total CSR disclosure are 9.33, 11.70, 4.37 and 25.41 respectively and standard deviation of 1.118, 2.76, 1.71 and 4.69 respectively. The mean score on development banks for economic, social, environment and total CSR disclosure are 8.44, 7.56, 2.07 and 18.07 and standard deviation of 1.32, 3.04, 1.02 and 4.81 respectively.

Economic disclosure is not much different in both types of banks due to a mandatory requirement from central bank whereas the big difference in social and environmental disclosure. This shows that commercial banks are disclosing more CSR information compare to development banks in Nepal. This may be due to greater size, profit as well as the corporate image as they grew older.

The key characteristics of CSR disclosure in this study—bank size, bank age, bank profitability and ownership structure between commercial banks and development banks shows that commercial banks are bigger in size and higher in net profit. The average time active in operation is 16.07 year for commercial banks and 7.96 for development banks. NIDC development bank is the oldest bank in the sample. Based on the descriptive

information, it can be concluded that commercial banks disclosed more CSR information than development banks; hence, the study accepts the hypothesis.

## 5.8 Summary

This chapter presents the empirical results obtained from the statistical test. The descriptive statistics indicate that most of the Nepalese banks disclose CSR information in their annual report voluntarily. Based on the GRI G4 guidelines, the most disclosed categories are economic and social, and the least disclosed category is environmental. The descriptive result shows that larger banks are ahead than smaller banks in terms of CSR disclosure in the Nepalese banking sector.

The Pearson correlation analysis was undertaken to examine the relationship between CSR disclosure and the influencing factors proposed in hypotheses. The result suggests that majority of hypotheses are accepted. Bank size is significantly correlated with all the CSR disclosure level at  $p < 0.01$  level and accepts all the sub categories of hypotheses proposed. Those supported hypotheses are consistent with prior studies on the influence of size and CSR disclosure by (Bayoud et al., 2012; Hossain & Reaz, 2007; Menassa, 2010). However, the hypothesis on bank age is not supported on economic disclosure and total CSR disclosure by Nepalese banks. But bank age is positively significant with social and environmental disclosure and supports the hypotheses at  $p < 0.05$  level. Ownership structure is negatively correlated with all the level of CSR disclosure and rejects all the proposed hypotheses. The study accepts all the sub-hypotheses under profitability at  $p < 0.01$  levels. In an additional analysis, the disclosure amount by two types of banks—commercial banks and development banks. The results show that commercial banks disclose more voluntary CSR information in their annual report than development banks. This may be due to the larger size of commercial banks and wider area of operation as well as greater exposure to all the stakeholders.

Multiple regression analyses have also been applied to find the influence between predictor and criterion variables. Economic disclosure has  $R^2 = 35.5\%$  and adjusted  $R^2 = 32.2\%$ . That means 35.5% of the variance in the economic disclosure can be predicted by bank size, bank age, ownership structure and bank profitability in Nepalese banks. Similarly, social disclosure has  $R^2 = 34.8\%$  and adjusted  $R^2 = 31.5\%$  and environmental

disclosure has  $R^2 = 47.5\%$  and adjusted  $R^2 = 44.4\%$ . The overall CSR disclosure has  $R^2 = 44.9\%$  and adjusted  $R^2 = 42.1\%$ . The higher  $R^2$  on environmental disclosure may be due to investment in renewable energy mandated by central bank of Nepal, which need to be investigated further, however, the result is consistent with the result on environmental disclosure of Australian mineral mining companies by (Hutomo, 1995). Further conclusions, future implications and limitations of the study will be discussed in the next chapter.

## Chapter Six: Conclusions, implications, limitations and future research directions

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### **6.1 Introduction**

This thesis examines the factors influencing Corporate Social Responsibility (CSR) disclosure made by Nepalese banks in their annual reports. In addition, this thesis also examines the level of CSR disclosures in Nepalese banks by analysing the disclosure items in their annual reports based on GRI G4 guideline. Chapter Five has presented the outcomes of the hypothesis testing proposed in Chapter Three. Hence, this chapter provides the answers to research questions and the issues about corporate social responsibility activities, which are predicted to influence future CSR disclosure activities are outlined to provide new perspectives for future research, together with some limitations and implications based on this thesis.

The chapter organises as follows. Section 6.2 presents the summary of the thesis followed by a summary of findings in section 6.3. Then, the implications of the thesis are discussed in section 6.4. Limitations of the thesis are explained in section 6.5. Finally, this chapter concludes by providing suggestions for future research in Section 6.6.

### **6.2 Summary of thesis**

In today's globalization era, corporate social responsibility is an integral part of corporate business. Firms around the globe have been disclosing CSR information voluntarily and as required by law. Developed countries disclose CSR in better forms in reference to different guidelines such as Global Reporting, Triple Bottom Line Reporting, Equators Principle, International Standards Organisation (ISO), and firm-specific guidelines. Developing countries have also been disclosing CSR information. However, this information are relatively low compared to those made in the Western countries. Similarly, most of the CSR research have been focused on mining, production, supply, and energy sectors rather than service sectors such as banking, insurance, and hospitality. Researchers have often criticised that CSR in the developing countries and service sectors

are often less prioritised. Therefore, this thesis studies factors affecting CSR disclosures in the Nepalese banks based on Global Reporting Initiatives (GRI) G4 guidelines.

A number of studies have demonstrated the importance of CSR disclosures in both developed and developing countries. However, only a handful of studies has studied the factors affecting CSR disclosure in developing countries (Bayoud et al., 2012a; Belal & Cooper, 2011; Hossain & Reaz, 2007; Menassa, 2010; Narwal, 2007; Visser, 2008). Chapter Two provides a detailed discussion on factors affecting CSR disclosure in different sectors such service and non-service. In prior research, various theoretical frameworks have been used to explain the relationship between firm characteristics and the incidence of voluntary CSR disclosure. This chapter discusses the different guidelines and current trend on disclosing CSR from different countries perspective. CSR disclosure in developed countries based on different guidelines mandated by different organizations, however, CSR is overall still at the infant stage of development in developing countries. Studies from Bangladesh, India, South America and Africa found that the major reason behind companies not disclosing CSR information in their annual reports are a lack of knowledge, corruption, lack of public awareness on CSR and lack of proper rules and regulation in developing countries. However, there are also some common factors that affect the level of CSR disclosure including size, age, performance, profitability, age, listing status, ownership structure, and types of business. The findings of these studies show some consistency with institutional theory and legitimacy theories. To access the factors affecting CSR disclosure level in Nepalese banks, this chapter focuses on four factors namely, the size of the bank, the age of the bank, ownership and the profitability of the bank.

Chapter Three deals with the development of hypotheses. Based on the stakeholder theory and legitimacy theory, sixteen hypotheses were generated to study the relationships between CSR influencing factors and the levels of CSR disclosures in the Nepalese banks. In addition, one hypothesis was developed to compare the CSR disclosure information between commercial and development banks of Nepal.

Chapter Four presents methodologies to test the hypotheses presented in Chapter Three. Annual reports were employed to study the factors affecting CSR disclosure in the Nepalese banks in the year 2014. Global Reporting Initiative (GRI) G4 guidelines were

used to measure the CSR information from the annual reports. The dependent variables are the extent of voluntary CSR disclosure which was divided into economic, social, environmental, and overall CSR disclosures. The independent variables used in this study are bank size, bank age, bank profitability and ownership structure. Unweighted Index method is used to measure CSR information from the annual report of sample banks. If the item is present, a score of “1” is assigned and zero “0” for absent of information. The methodology is consistent with prior studies of Hackston and Milne (1996) in New Zealand firms, Menassa (2010) in Lebanese commercial banks, and Gamerschlag et al. (2011b) in German firms. The sample consists of 82 banks where 27 are Commercial (“A” class) banks and 55 are Development (“B” class) banks.

Statistical problems relating to raw data for both dependent and independent variables were examined, and the existence of problems was resolved by transformation. Bank size and bank profitability were transformed by natural logarithm. Multicollinearity was tested by Pearson correlation matrix, tolerance and VIF test and the study found no multicollinearity problem in the thesis.

Chapter Five presents the empirical results and the summary of the results of the methodology proposed in Chapter Four. The content analysis of the annual reports of the banks suggests that most of the Nepalese banks, at least, disclose some form of CSR disclosure information in their annual reports in descriptive form. Multivariate analysis was applied to test the relationships between the four models of explanatory variables and the extent of CSR disclosures. Correlation analysis results show that influencing factors—bank size, bank age and bank profitability has significant effects on the level of CSR disclosures. However, the ownership structure of bank does not show any effect on CSR disclosures in the Nepalese banks. This thesis contributes to the CSR literature by exploring the factors affecting CSR disclosure in the Nepalese banks—a developing country perspective.

In addition, this thesis compares the amount of CSR disclosures made by two different types of banks—commercial and development banks. The result suggests that commercial banks disclose more CSR information in their annual reports compares to development banks. This may be due to a larger size, and better exposure of commercial



banks compare to the smaller size and regional level of operation of development banks. This needs to be assessed in future studies.

### **6.3 Summary of findings**

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. This section provides a summary of primary findings of the thesis.

#### **6.3.1 Overview of findings based on content analysis**

In general, the results of this study suggest that the amount of CSR disclosure in Nepalese banks are mostly descriptive in nature where most of the banks disclosed primarily on charity, donations, scholarships and health initiatives. The disclosed items in annual reports of the sample banks are in a couple of paragraphs and less than a page. The level of CSR disclosure in Nepalese 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.

Content analysis was used to capture the extent of CSR disclosure made in the annual report of Nepalese banks in relation to GRI G4 guidelines. Unweighted Index method was employed to detect the absence or presence of items in the annual report. The advantage of Unweighted Index method is that users can evaluate CSR disclosure information based on the presence or absence of its disclosure in the annual report without having to consider the relative importance or the amount of information (Hutomo, 1995). 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 SCR activities properly in their annual reports due to lack of guidelines.

In general, the result suggests that Nepalese banks have provided more economic disclosure than other types of disclosures. Within the ten economic disclosure categories, most of the banks provide more than 80% of disclosure information. However, 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. A better reporting on economic disclosure in annual reports may be due to regulations imposed by central banks in lieu of Basel II, banking laws and regulations issued by the Basel committee on banking supervisions.

Social disclosure is the second largest disclosed items in the annual reports of the Nepalese banks. Among the disclosure items, donations and charity are the most disclosed items whereas employee health and safety, and product responsibility is the least disclosed items. It is likely that profit imperativeness of banks leads to such a lower disclosure. Nevertheless, the overall amount of information available in the annual reports of Nepalese banks shows promising progress in CSR disclosure practice in a developing country like Nepal.

Environmental disclosure is the least disclosed item in the annual reports of Nepalese banks. Most of the banks disclose on renewable energy as per the regulation mandated by the government of Nepal. Other than that, only a handful of banks discloses on the other categories of environmental disclosure. Being a service industry, it seems that banking institutions believe that they are not the primary polluter of the environment, and hence, they do not see any need to disclose much information on the other categories of environmental disclosure - not even descriptively.

CSR is a voluntary practice in Nepal. There is a lack of common guidance to disclose CSR activities. Thus information reported in annual reports of Nepalese banks shows a lack of consistency and lower in quality compare to those reported by other countries, which disclose CSR in internationally accepted format. There were different styles of disclosures across the Nepalese banks where every bank has its own characteristics,

priorities and interests. Commercial banks have better disclosure information ranging from donations, charity, employees' welfare, sustainability, and bio-diversity. Government banks and development banks' CSR disclosure are primarily based on social disclosures. None of the sample banks have prepared separate CSR report for the sample period. The location of CSR in the annual report of sample banks is not uniform—ranging from introduction, body and conclusion.

### **6.3.2 Factors influencing CSR disclosures**

This thesis provides empirical evidence on the extent of voluntary CSR disclosure in the annual reports by Nepalese banks within the institutional and legitimacy theoretical framework. CSR disclosure scores were collected from content analysis based on GRI G4 guideline for the year 2014. Based on past literature, four predictor variables were selected and developed the hypotheses to the extent of economic, social, environmental and total disclosure. Four influencing factors—bank size, bank age, ownership structure and bank profitability were measured by market capitalisation (natural log), the number of year in business, area of operation and net profit (natural log) respectively.

Correlation analysis and multiple regression analysis were conducted to predict the relationship between influencing factors and the extent of CSR disclosure. Bank size is found to be significant, and it is a positive predictor to the extent of economic, social, environmental and overall CSR disclosures. Bank size (natural log) is constantly correlated to all CSR disclosures with a significance level of 0.01 (99% of confidence level) as well as the significant asymptotic value (p-value) of 0.000 (*see Table 5.4*). 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 significant result is highly consistent with hypotheses derived from political cost theory. The positive and significant findings may be due to industry effects, since, in general, companies with higher market capitalisation 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 insignificant and negative to the extent of economic disclosure in the Nepalese banks. Bank age is found to be positive and significant to the extent of social and environmental disclosures correlated at 0.05 (95% confidence level) as well as

a p-value of 0.000. The mixed findings show that economic disclosure is consistent with prior work of Hossain and Reaz (2007) on Indian banking; social disclosure is consistent with the work of Liu and Anbumozhi (2009) on Chinese firms; environmental disclosure is consistent with Australian mineral mining firms research by Hutomo (1995).

Bank age is found to be positive but insignificant to the extent of total CSR disclosure. This was calculated by summation of economic, social and environmental disclosures to see the holistic overview of overall CSR disclosure in the annual reports of the Nepalese banks. From the findings, it can be concluded that within the Nepalese banks, age does not matter in economic disclosure as the most content of economic disclosure is covered by the central bank's regulation to prepare a Basel II report. The annual reports of Nepalese banks revealed that all of the banks prepared such reports regardless of their year in operation. However, the age of banks matters on social and environmental disclosures. This shows that the older and established banks disclosed more information compare to the newer banks. They may do that to show their gratitude to the society and the community where they operate, by which to gain the societal recognition of their social behaviour.

The ownership structure of Nepalese banks shows negative and significant to the extent of all CSR disclosures. The result is consistent with the prior literature of Ahmed et al. (2008) in Bangladeshi firms and Reverte (2009) in Spanish firms. The findings suggest that Nepalese banks disclose on all aspect of CSR regardless of their ownership concentration.

Bank profitability (natural log Net profit) is found to be significant, and it is a positive predictor to the extent of economic, social, environmental and overall CSR disclosures. Profitability is constantly correlated to all CSR disclosures with a significance level of 0.01 (99% of confidence level) as well as the significant asymptotic value (p-value) of 0.000 (*see Table 5.4*). The findings are consistent with works—in both developed countries (Branco & Rodrigues, 2006; Gamerschlag et al., 2011; Hackston & Milne, 1996; Tsoutsoura, 2004) and developing countries (Hossain & Reaz, 2007; Menassa, 2010; Visser, 2008). Thus, it can be concluded that more profitable banks disclose more CSR information than less profitable banks in their annual reports.

The  $R^2$  and adjusted  $R^2$  for environmental disclosure are considerably higher than those for economic and social categories, which is probably due to the mandatory investment in renewable energy as well as the awareness on CSR with the help of modern technology and communication. In general, larger and older banks with higher profits have disclosed greater CSR disclosure information in their annual reports. This thesis provides greater insights on the factors influencing the extent of economic, social and environmental disclosures within the developing country context, particularly in the banking sector. The findings are relatively strong and consistent with prior studies as the dependent variables are measured on GRI G4 guideline with Unweighted Index method.

## **6.4 Implications of this thesis**

### **6.4.1 Implication to theory**

This thesis examines Corporate Social Responsibility (CSR) disclosures in a developing country where CSR is in an infant stage of development. This study examines the current status of CSR disclosure in annual reports of Nepalese banks and the factors that influence the level of disclosure in Nepalese banks. Four different models were developed to test the hypotheses proposed in the study. The hypotheses were developed based on the institutional and legitimacy theories. Quantitative data analysis tools were used to investigate the relationship between the predicted variables and criterion variables. This thesis finds that bank size, bank age and bank profitability have moderate significant influences on the extent of CSR disclosures in the Nepalese banks. 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 as Australia, USA, Japan and the European countries. Thus, this study contributes to the literature of CSR disclosure in financial institutions from a developing country perspective.

Furthermore, this study benchmarked the CSR disclosure activities of the Nepalese banks against GRI G4 guidelines, a renowned framework in reporting CSR disclosure. This

provides some insights on reporting CSR disclosure from developing a country that can be easily understandable globally by making a uniform disclosure practice.

#### **6.4.2 Implications for central bank, banking institutions and policy makers**

This study is considered to be the first CSR disclosure research in the Nepalese banking sector, which examines the current CSR status and the factors influencing the extent of CSR disclosures. The Central bank, *Nepal Rastra Bank*, is in charge of monitoring and implementing different rules and regulations towards all the banking institutions in Nepal. Therefore, the central bank can encourage all the banking institutions to disclose voluntarily on different aspects of CSR. In reference to this study, the central bank may provide incentives for banks to report in their annual reports. 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. Any outdated laws should be updated accordingly to get the utter benefit of CSR disclosure. This study can be a milestone for the Nepalese banks to understand the current status of CSR disclosure and factors that affect their disclosure activities. Based on the result, they can plan and implement their future CSR disclosure activities that suit their banking interest and other stakeholders. In general, the findings of this thesis provide some insights for regulators (*Nepal Rastra Bank*), policy makers and bankers in Nepal.

#### **6.4.3 Implications to future researcher**

The findings of this thesis can be a benchmark for a future researcher in reporting of CSR disclosure in developing countries. Most of the CSR studies are from developed countries and non-service sector, In reference to that, this study provides the new avenues for a future researcher in banking sectors and in developing country context. Although the CSR disclosure is in the infant stage of development, further research can be performed in a more scientific way to get more robust results based on this study. This study finds moderate correlation coefficients of the study on all the independent variables to the extent of CSR disclosures, and hence further studies on other influential factors may find better relationships between the predictive and criterion variables in the Nepalese

banking sector. Such studies can be done further to get a better picture of CSR disclosure in the banking sector in Nepal as well as in the other developing economies.

### **6.5 Limitation of this thesis**

Although this thesis has several strengths, as with any research, it is subject to a number of limitations. Firstly, there is an issue of generalization. The sample in this research is limited to Commercial Banks (“A” class) and Development Banks (“B” class) of Nepal. The results may not be valid to other class of banks such as cooperative banks and finance companies. Furthermore, state-owned banks and some development banks were excluded from the study due to unavailability of annual reports. Thus, the findings from this thesis cannot be generalized to the overall Nepalese banking sector. In addition, the results are solely based on content analysis and regression analysis and may have a limitation of subjectivity.

Secondly, the data is collected from the annual reports for the mid-year 2014 only. Therefore, the observation is for a single period only, which may introduce bias into the findings. For instance, a certain bank may have disclosed better CSR information in the previous year but for some reason, such as low-profit margin due to new investment, leads to low CSR disclosure in the current year annual report. Furthermore, CSR disclosure is not restricted to annual reports, as some banks disclose the information in other media. Thus, the information collected from annual reports may not have captured the entire CSR information.

Thirdly, the independent variables—size and profitability are measured only by market capitalization and net profit after tax respectively. Bank size can be measured in many ways such as a number of employees, total assets, and the number of branches whereas ROA and ROE can measure bank performance. Such factors were not investigated in the study, which may provide different findings. Further research may try other factors to measure bank size and performance.

Fourthly, this thesis only examines the quantitative disclosures from the annual reports of the sample banks. This means the thesis is only assessing on what categories are disclosed by sample banks based on GRI G4 guidelines.

Fifthly, GRI G4 is primarily a sustainability reporting guideline. However, this study assessed the CSR disclosure quantity of annual reports of Nepalese bank. Hence, it may not provide the accurate results on CSR disclosed by Nepalese banks.

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.

## **6.6 Future research**

This study is considered to be the first research that analyses factors affecting CSR disclosure in the Nepalese banks. The CSR is still at the infant stage of development in Nepal. Thus, there is no any benchmarking to compare with other results in such area. As mentioned limitation section, other factors can be used to measure bank size and profitability as well as other new variables such as—industry type, leverage, and a number of board of directors—can be added as potential factors that affect the level of CSR disclosures in the Nepalese banks. Those factors may produce different results than this study.

Similarly, this study is based on a single year observation, hence, in future, a longitudinal study, which includes all banking sectors as well as other areas such as hydropower, production and supply sectors would enhance the generalizability of the findings. Sources of CSR information other than annual reports could be analysed and included as additional variables. In addition to longitudinal study, qualitative study can be done on CSR disclosure made by Nepalese banks by using different qualitative research techniques.

The importance of CSR is a global issue. Hence, the practice of CSR disclosures and the factors affecting them could be examined in other countries with different cultures. The common factors, as well as country specific factors, may be included in such studies.

Overall, the findings of this thesis provide some initial evidence on the extent of CSR in Nepalese banks and the factors affecting CSR disclosures in the Nepalese banks. Although the findings do not support the entire hypotheses, the application of different theoretical frameworks with different factors affecting CSR disclosure reflects the



efficacy of CSR disclosures in the Nepalese banking sector. With a rapid growth of information and technology in Nepal, it is believed that the Nepalese banks will further disclose wide ranges of CSR information on their websites and annual reports.

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## Appendices

### Appendix A

#### List of Sample Banks

Commercial Banks ("A" class)	Development Banks ("B" class)
1. Agricultural Development Bank Ltd.	28. Ace Development Bank Ltd.
2. Rastriya Banijya Bank Ltd.	29. Alpine Development Bank Ltd.
3. Bank of Kathmandu Ltd.	30. Apex Development Bank Ltd.
4. Century Bank Ltd.	31. Araniko Development Bank Ltd.
5. Citizens Bank International Ltd.	32. Bhargav Banks Bank Ltd.
6. Civil Bank Ltd.	33. Bhrikuti Bikas Bank Ltd.
7. Everest Bank Ltd.	34. Birat Laxmi Banks Bank Ltd.
8. Global IME Bank Ltd.	35. Bishwa Bikas Bank Ltd.
9. Grand Bank Ltd.	36. City Development Bank Ltd.
10. Himalayan Bank Ltd.	37. Civic Development Bank Ltd.
11. Janata Bank Ltd.	38. Clean Energy Development Bank Ltd.
12. Kumari Bank Ltd.	39. Corporate Development Bank Ltd.
13. Laxmi Bank Ltd.	40. Cosmos Development Bank Ltd.
14. Lumbini Bank Ltd.	41. Country Development Bank Ltd.
15. Machhapuchhre Bank Ltd.	42. Ekata Bikas Bank Ltd.
16. Nabil Bank Ltd.	
17. NCC Bank Ltd.	
18. Nepal Bangladesh Bank Ltd.	
19. Nepal Investment Bank Ltd.	
20. NIC Asia Bank Ltd.	
21. NMB Bank Ltd.	
22. Prime Bank Ltd.	
23. Sanima Bank Ltd.	

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|----------------------------------|--|
| 24. Nepal SBI Bank Ltd.          | 43. Excel Development Bank Ltd.          |
| 25. Siddartha Bank Ltd.          | 44. Gandaki Bikas Bank Ltd.              |
| 26. Standard Chartered Bank Ltd. | 45. Gurkha Bikas Bank Ltd.               |
| 27. Sunrise Bank Ltd.            | 46. H & B Development Bank Ltd.          |
|                                  | 47. Hamro Bikas Bank Ltd.                |
|                                  | 48. Infrastructure Development Bank Ltd. |
|                                  | 49. Innovative Development Bank Ltd.     |
|                                  | 50. International Development Bank Ltd.  |
|                                  | 51. Jhimruk Bikas Bank Ltd.              |
|                                  | 52. Jyoti Bikas Bank Ltd.                |
|                                  | 53. Kabeli Bikas Bank Ltd.               |
|                                  | 54. Kailash Bikas Bank Ltd.              |
|                                  | 55. Kamana Bikas Bank Ltd.               |
|                                  | 56. Kanchan Development Bank Ltd.        |
|                                  | 57. Mahakali Bikas Bank Ltd.             |
|                                  | 58. Malika Bikas Bank Ltd.               |
|                                  | 59. Manaslu Bikas Bank Ltd.              |
|                                  | 60. Metro Development Bank Ltd.          |
|                                  | 61. Miteri Development Ltd.              |
|                                  | 62. Mount Makalu Development Bank Ltd.   |
|                                  | 63. Muktinath Bikas Bank Ltd.            |
|                                  | 64. NIDC Development Bank                |

- Ltd.
65. Paschimanchal  
Development Bank Ltd.
66. Pathivara Bikas Bank Ltd.
67. Professional Diyalo Bikas  
Bank Ltd.
68. Purnima Bikas Bank Ltd.
69. Reliable Development Ltd.
70. Sahayogi Bikas Bank Ltd.
71. Sewa Bikas Bank Ltd.
72. Shangri-La Development  
Bank Ltd.
73. Shine Resunga  
Development Bank Ltd.
74. Siddartha Development  
Bank Ltd
75. Sindhu Bikas Bank Ltd.
76. Subhechhya Bikas Bank Ltd.
77. Supreme Development  
Bank Ltd.
78. Tourism Development Bank  
Ltd.
79. Triveni Bikas Bank Ltd.
80. Vibor Bikas Bank Ltd.
81. Western Development Bank  
Ltd.
82. Yeti Development Bank Ltd