

# Impact of Corporate Citizenship Activities on the Financial Performance of the Nepalese Life Insurance Companies

Jitendra Prasad Upadhyay, Pitri Raj Adhikari



**Abstract:** Corporate Citizen Activities (CCA) is essential for any organization to attract and retain customers, and to beat the competition. CCA are the indirect and intangible assets of organizations and their response is a key indicator to achieve organizational goals. This paper attempts to examine the impact of corporate citizenship activities on the financial performance of Nepalese insurance companies. Descriptive and causal-comparative research designs are used to estimate the relationship of financial performance, the ROA and the NI (dependent variables) with independent variables (economic responsibilities, legal responsibilities, ethical responsibilities, and discretionary responsibilities). Data are collected from 325 respondents of 19 life insurance companies through structured questionnaires where the questionnaire was distributed to 500 respondents (the response rate is 65 per cent). Descriptive statistics, correlation, and multiple regression models are used to analyse the data. It is found that legal responsibility and discretionary responsibility are the major factors in determining the financial performance of insurance companies in Nepal. CCA helps to bust up the return in terms of profit.

**Key Words:** Financial performance, economic responsibilities, legal responsibilities, ethical responsibilities, discretionary responsibilities **Paper Type:** Research paper

## I. INTRODUCTION

Financial performance of the insurance industry, like other industry, has been one of the researchable issues for researchers and practitioners for the last few decades. Prior research has linked financial performance with different predictors. Among them, corporate citizen activities (CCA) that is essential for insurance companies to continuously attract and retain customers, and to beat the competition is one of the important predictors. CCA are the indirect and intangible assets of organizations and their response is a key indicator to achieve goals. Financial performance of an organization is measured by the return on assets, and net income and it reveals through the profit in corporate citizenship activity an organization views themselves as a part of the public. According to Carroll (1979), CCA refers to business practices involving initiatives that benefit society where an organization bears economic, legal, ethical, and discretionary responsibilities.

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The possibility that firms can develop a competitive edge over rivals by investing in social responsibility (Ofori *et al.* 2014; Samy *et al.* 2010; Lantos, 2001).

However, Dewi (2014) argued that there is no completion to invest in social activities but if an organization invests in the social welfare activities it will help to build a strong social relationship with society.

Nowadays, corporate citizenship has been growing because it helps to bust up the return in terms of profit. Similarly, for the successful corporate citizenship activities, it should be able to create some value to the meaningfulness of the corporate activities. There is a positive relationship of CCA with financial performance (Tulcanaza-Prieto *et al.* 2020; Iwamoto & Suzuki, 2019; Al-Malkawi & Javaid, 2018; Kim *et al.* 2015; Malik & Nadeem 2014; Hull & Rothenberg, 2008; Galbreath, 2006) and Galdeano *et al.* (2019) revealed that CSR has a significant impact on the financial performance of a firm. Similarly, Hou *et al.* (2019) found that CCR has a significant positive impact on the financial performance of the creative industry. Likewise, Rajbahak (2015) found a positive and significant impact of CSR policies in the form of economical CSR, legal CSR, ethical CSR, discretionary CSR and environmental CSR on the firms' performance. However, Friedman *et al.* (1970) revealed that the CSR activities reduce profitability and efficiency, increase unhealthy competition on costs, and place responsibility on business. Similarly, Dahlsrud (2008), revealed a positive relationship between CCA and ownership by institutions and foreign investors but the negative association of top-level managerial ownership with firm's CCA. Bidari and Djajadikerta (2020) revealed that the size and profitability of a firm are found significant and positive predictors of environmental, social, economic, and overall CSR disclosers. Chapagain (2020) stated that firm size tends to affect the level of CSR practices. Shabbir and Wisdom (2020) found significant and a positive relationship between internal environmental investments and the firm's financial performance, however, a positive but insignificant relationship between firm's financial performance and external environment investment. Ullah *et al.* (2019) revealed that the size of the firm, leverage and type of firms were significantly related to the higher extent of CSR disclosures. Cheng *et al.* (2014) found a positive relationship between corporate social responsibility and a flexible financing structure, and that CSR performance is important in reducing capital constraints.



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Furthermore, Gregory *et al.* (2014) examined the impact of corporate social responsibility on the risk and effects of risk on the cost of capital, cash flows and the value of returns, and found that the present value of cash flow and returns increase because of reducing the cost of capital. In contrast, Mukhibad *et al.* (2020) observed that CSR disclosure did not have a positive effect on return on assets, return on equity, and other variables.

Likewise, Wagle (2020) observed that CSA on return on assets had a significant impact, whereas, CSA on return on equity and net income were insignificant impact. Therefore, in this backdrop, the research on the impact of CCA on financial performance is of greater importance. Moreover, research has been done concerning the issue in western context; however, some research has been done in the context of Nepal. Hence, this paper attempts to examine the linkage between CCA and the financial performance of life insurance companies in the Nepalese context.

## II. OBJECTIVES OF THE STUDY

The main objective of this study is to examine the linkage between CCA and the financial performance of life insurance companies in the Nepalese context.

The following specific objectives of the study are:

- To analyze the impact of economic responsibility on ROA and NI
- To analyze the impact of legal responsibility on ROA and NI
- To analyze the impact of ethical responsibility on ROA and net NI
- To analyze the impact of discretionary responsibility on ROA and NI

## III. RESEARCH HYPOTHESES

This paper has set the following alternatives hypotheses:

H<sub>1</sub>: There is a positive relationship between economical responsibility and ROA but negative with net income.

H<sub>2</sub>: There is a positive relationship between legal responsibility and ROA but negative with net income.

H<sub>3</sub>: There is a positive relationship between ethical responsibility and ROA but negative with net income.

H<sub>4</sub>: There is a positive relationship between discretionary responsibility and ROA but negative with net income.

## Limitations of the Study

The following limitations of the study are.

- This research has examine the linkage between CCA and the financial performance of life insurance companies in the Nepalese context only.
- This research has examine the economic, legal, ethical and discretionary responsibility only.
- Only selected statistical tools & techniques have been used as demanded by the objectives of the study, e.g. averages, correlation and regression for the purpose of the research.
- Only 325 respondents from 19 life insurance companies have been selected for the studies.
- Only Return on equity (ROA) and net income (NI) have been analyzed for the financial performance

## IV. METHODOLOGY

Descriptive research design has used for fact-finding and identifies information about the impact of CCA on financial performance and also has used the causal-comparative research design to establish the cause and effect relationship of economic responsibilities, legal responsibilities, ethical responsibilities and discretionary responsibilities on financial performance. The research framework has presented in Figure 1.

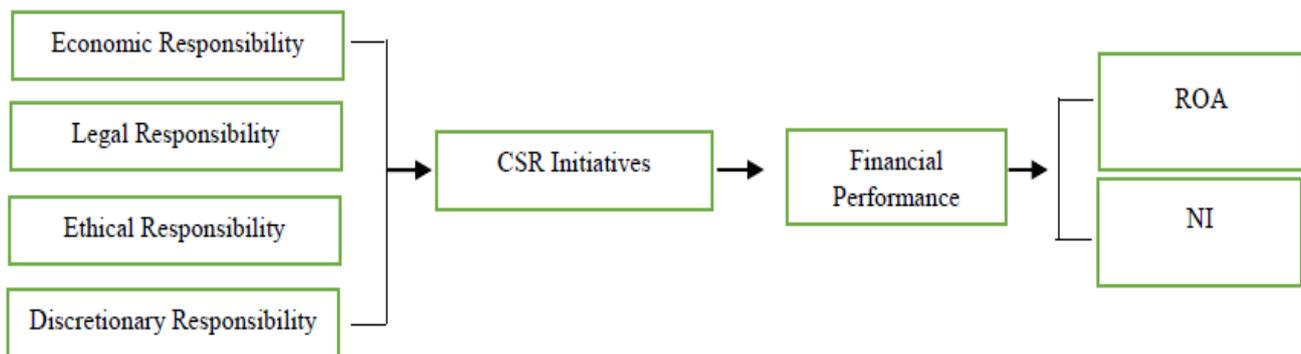


Figure 1: Corporate financial performance model

A structured and self-administered questionnaire was distributed to 500 respondents of Kathmandu Valley of the 19 life insurance companies of Nepal but only 325 usable questionnaires are collected (the response rate is 65 per cent). The questionnaire is divided into two sections, where the first section is related to the basic information of the respondents and the next section is concerned with five-point Likert type questions about the quality variables that affect financial performance which scale ranges from 1 (Strongly agree) to 5 (Strongly disagree). Multiple regression models are used in this paper that is presented as:

$$ROA = \alpha + \beta_1 ECR + \beta_2 LR + \beta_3 ETR + \beta_4 DR \dots \dots \dots (i)$$

$$NI = \alpha + \beta_1 ECR + \beta_2 LR + \beta_3 ETR + \beta_4 DR \dots \dots \dots (ii)$$

Where; ROA= Return on asset, NI = Net income, ECR = Economic responsibility, LR= Legal responsibility, ETR= Ethical responsibility, DR= Discretionary responsibility,  $\alpha$  = constant

V. RESULTS

Descriptive statistics

The mean value of economical responsibility ranges from 1.62 to 2.01 and a weighted average is 1.79 that shows the economical responsibility adopted by insurance companies has been executed properly and focused on enhancing their financial position considering CCA simultaneously.

Similarly, the mean value of legal responsibility ranges from a minimum value of 1.65 to the maximum value of 2.18 and a weighted average value is 1.82 that reveals formulation of legal responsibility by insurance companies has been executed appropriately and focused on enhancing their financial position considering CCA simultaneously.

Likewise, the mean value of ethical responsibility ranges from a minimum value of 1.80 to maximum value of 2.01 and a weighted average value is 1.91 which indicates the formulation of ethical responsibility insurance companies has been executed properly and focused on enhancing their financial position considering CCA simultaneously. Additionally, the mean value of discretionary responsibility ranges from a minimum value of 2.02 to the maximum value of 2.35 and a weighted average value is 2.19 that states discretionary responsibility by insurance companies has been executed properly and are more focused on enhancing their financial position considering CCA simultaneously.

Correlation analysis

Table 1 Pearson's correlation matrix

The table presents the Pearson's correlation coefficients between dependent and independent variables. Return on asset (ROA) and Net Income (NI) are the dependent variables and economical responsibility (ECR), legal responsibility (LR), ethical responsibility (ETR) and discretionary responsibility (DR) are the independent variables.

Variables	Mean	SD	ROA	NI	ECR	LR	ETR	DR
ROA	3.12	0.612	1					
NI	25.53	18.325	0.189	1				
ECR	1.79	0.3716	0.041	-0.178	1			
LR	1.82	0.4115	0.152	-.221*	.274*	1		
ETR	1.91	0.4335	0.042	-0.031	.426**	.421**	1	
DR	2.19	0.6113	0.019	-0.219	.282*	.277*	.421**	1

\*Significant at 5 per cent level (2-tailed)

\*\*Significant at 1 per cent level (2-tailed)

It is found that economical responsibility, legal responsibility, ethical responsibility and discretionary responsibility are positively correlated with return on assets that indicate increased in these all components leads to

increase return on assets of Nepalese insurance companies. However, all these four variables are negatively correlated with net income that shows increased in these variables leads to a decrease in net income.

Regression analysis

Table 2 Regression of impact of ECR, LR, ETR and DR on ROA

The results are based on 325 observations by using a linear regression model. The model is  $ROA = \alpha + \beta_1 ECR + \beta_2 LR + \beta_3 ETR + \beta_4 DR$  where, dependent variable is return on asset (ROA) and independent variables are economical responsibility (ECR), legal responsibility (LR), ethical responsibility (ETR), and discretionary responsibility (DR).

Model	Intercept	ECR	LR	ETR	DR	Adj. R <sup>2</sup>	SEE	F-value
1	4.69	1.93				0.003	7.715	0.721
	-1.11	-0.87						
2	4.24		2.39			0.006	7.713	1.49
	-1.16		-1.18					
3	3.92			2.21		0.005	7.634	1.41
	-1.02			-1.21				
4	-3.12				5.22	0.17	6.897	16.43
	(-1.03)				(4.07)*			
6	-2.14	-0.99			5.64	0.18	6.876	8.92
	-0.5	(-.48)			(4.11)*			
7	-1.73	-0.79	-10.65		5.56	0.16	6.911	5.81
	(-.42)	(-.331)	(-1.93)		(4.12)*			
8	-2.21	-0.81	0.72	-0.79	5.67	0.27	6.876	4.41
	(-.47)	(-.39)	-0.38	(-.37)	(3.87)*			

Table 2 reveals that discretionary responsibility has the greatest impact on return on assets (ROA) among all the factors presented in this study. It has 17 per cent responsible for the change in ROA. Similarly, economic responsibility (ECR) has the lowest impact on ROA, where, ECR has explained ROA by 0.3 per cent only. Studying by paring

two variables (ECR & DR) together, then the combination of these variables jointly explain ROA by 18 per cent.



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Altogether, the effect on ROA is 27 per cent explained by the joint effect of all four factors and remaining is due to other factors. All independent variables have a positive relationship with ROA. A unit increase in each of all four independent variables increases the ROA and vice versa. Hence, financial performance as measured by ROA is affected by several factors where all factors have not equal contribution.

The result shows that the beta coefficient for ECR is positive that indicates higher the economical responsibility

Table 3 Regression results of the impact of ECR, LR, ETR and DR in NI

The results are based on 325 observations by using a linear regression model. The model is  $NI = \alpha + \beta_1 ECR + \beta_2 LR + \beta_3 ETR + \beta_4 DR$  where, dependent variable is net income (NI) and independent variables are economical responsibility (ECR), legal responsibility (LR), ethical responsibility (ETR), and discretionary responsibility (DR).

Model	Intercept	ECR	LR	ETR	DR	Adj.R <sup>2</sup>	SEE	F-value
1	48.62 (4.29)*	-9.72 (-1.61)				0.022	20.211	2.703
2	45.79 (5.21)*		-11.23 (-2.02)**			0.079	20.201	4.07
3	35.63 (3.21)*			-1.48 (-0.302)		0.019	20.498	0.088
4	47.42 (5.44)*				-8.11 (-1.98)	0.036	20.072	3.78
5	49.53 (5.17)*		-10.51 (-2.03)**	-5.23 (-1.52)		0.041	20.203	4.04
6	54.53 (5.13)*		-8.32 (-1.49)		-6.02 (-1.43)	0.051	20.018	3.11
7	53.79 (4.32)*		-11.52 (-1.91)	7.17 (-1.21)	-7.34 (-1.76)	0.061	19.887	2.57
8	61.35 (4.39)*	-8.58 (-1.31)	-10.02 (-1.68)	9.73 (-1.62)	-7.04 (-1.71)	0.11	19.921	2.38

Table 3 indicates that legal responsibility (LR) has the greatest impact on net income (NI) among all the factors presented in this study. It has 7.9 per cent responsible for the change in NI. Similarly, ethical responsibility (ETR) has the lowest impact on NI, where, ETR has explained NI by 1.9 per cent only. Studying by paring two variables (LR & DR) together, then the combination of these variables jointly explain NI by 5.10 per cent. Altogether, the effect on NI is 11 per cent explained by the joint effect of all four factors and remaining is due to other factors. All independent variables have a negative relationship with NI. A unit increase in each of all four independent variables decreases the NI and vice versa. Hence, financial performance as measured by NI is affected by several factors where all factors have not equal contribution.

The results show that the beta coefficient for ECR is negative that reveals higher the economical responsibility lower would be the net income. There is negative and significant beta for LR which indicates higher the legal obligation, lower would be the net income and it is similar to the findings of Babalola (2012). Similarly, the beta is negative for ETR and DR that means an increase in ethical activities and social welfare programs will lead to decrease in net income and this result is consistent to the findings of Dahlsrud (2008).

higher would be the ROA. Likewise, the positive and significant beta coefficient for LR reveals higher the legal obligation, higher would be the ROA and this result is similar to the study of Kim *et al.* (2015). Additionally, the positive beta coefficient for ETR and DR indicates an increase in ethical activities and social welfare programs will lead increase to ROA and it is consistent to the findings of Makni *et al.* (2009).

## VI. CONCLUSION

Corporate Citizen Activities is essential for any organizations to attract and retain customers and to beat the competition. CCA refers to business practices involving initiatives that benefit society where an organization bears economic, legal, ethical, and discretionary responsibilities. The main objective of this study is to examine the linkage between CCA and the financial performance of life insurance companies in the Nepalese context and it is found that there is a positive relationship between CCA with financial performance of life insurance companies. Financial performance is used in assessment of company's performance specially with profitability i.e. return on assets & net income. It is observed that discretionary responsibility has the greatest impact on return on assets (ROA) among all the factors presented in this study and economic responsibility (ECR) has the lowest impact on ROA. All independent variables have a positive relationship with ROA. Financial performance as measured by ROA is affected by several factors where all factors have not equal contribution.

Similarly, legal responsibility (LR) has the greatest impact on net income (NI) and ethical responsibility (ETR) has the lowest impact on NI. All independent variables have a negative relationship with NI. The effect on ROA is 27 per cent explained by the joint effect of all four factors and remaining is due to other factors, which indicates future research should be carried out by considering other variables.

### Implication

The following are the recommendations to the different stakeholders of insurance companies

- i. CSR strategies must be formulated such that they are integrated and embedded in the business core strategies.
- ii. The future researcher should extend the other countries inside and outside the Nepal.
- iii. Large no. of samples of respondents should be taken so that the findings would be more authentic and reliable.
- iv. They are advised to include other stakeholders like employers and entrepreneurs' too.
- v. More sophisticated statistical & mathematical models can be used to analyze and interpret data further.

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