# EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON PROFITABILITY OF COMMERCIAL BANKS IN KENYA

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# DECLARATION

This management research project is my original work and has not been presented for an award in any other University or higher institution of learning.

Signature……………………. Date………………………….

**Elizabeth Nyambura Ng'ang'a** **D61/78454/2015**

This management research project has been submitted for examination with my approval as the University Supervisor

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# DEDICATION

I dedicate this project to my mother, Judy, my brother Boniface and sisters Joyce and Faith for always encouraging,inspiring and supporting me throughout my studies.

# ABSTRACT

The changing business and societal environment promotes the adoption of business and company processes that place importance on the social and economic growth of the communities within the operational area of the businesses. The current study sought to find out the effect of corporate social responsibility on performance of commercial banks in Kenya. The research adopted a descriptive survey design which was essential in achieving the objectives of the study. The study's population comprised of Kenyan commercial banks for the period 2013 -2017. Given the small size of the population, a census approach was adopted. The study relied entirely on secondary data. The statistical package for social sciences (SPSS) version 22 was used to analyze the data. The study demonstrates that all commercial banks in Kenya stand to benefit from being socially responsible. It is to the advantage of commercial banks in Kenya to consider creating a department for CSR. The number of environmental CSR activities and the number of health CSR activities were found to have a high significance on financial performance of commercial banks while liquidity was found to have a very weak significance on performance of commercial banks.

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## LIST OF ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| **CFP** | Corporate Financial Performance |
| **CSR** | Corporate Social Responsibility |
| **NSE** | Nairobi Stock Exchange |
| **SPSS** | Statistical Package for Social Sciences |

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the Study

Corporate social responsibility is the moral and social accountability structure tailored towards ensuring that the adopted processes and constructs of a business remain aligned to the needs of the society within which the business operates (Kottler, 2005). According to Chappell and Moon (2005), corporate social responsibility is the development of an adherence to ethical stipulations by a company geared towards promoting economic growth and development of the community through its employees and the incorporation of initiatives tailored towards advancing community growth.

The changing business and societal environment promotes the adoption of business and company processes that place emphasis on the social and economic importance placed on the growth of the communities within the operational area of the businesses. Engagement of businesses in community processes and activities remain critical in ensuring that the business develops an informed understanding of the social and economic standing of the society, which remains critical in facilitating the adoption of precautions tailored towards enhancing continued business growth and development. Involvement with the community promotes the simulation of viable initiatives that may be employed tailored towards promotion ontinued community growth and development (Branzei and Vertinsky, 2002).

Carroll's corporate social responsibility pyramid, the stakeholder theory and instrumental theory underline this study. The Caroll's pyramid of corporate social responsibility identifies the scope of CSR that may be adopted by a company and the capacity of adoption essential in promoting the well-being of the society and continued business involvement. The stakeholder theory maintains that the company remains tasked with the duty of adopting activities and operations that meet the presented stakeholder interests (Orlitzky, 2003). The traditional stakeholder theory examines deeply the adoption of measures tailored towards promoting firm profitability and growth. Finally, the instrumental theory is relevant to the study as it identifies an organization as a driver for wealth creation, which is identified as the primary purpose of the organization.

The main objective of commercial banks remains meeting the needs of stakeholders presented within the business environment. The adoption of a process tailored towards promoting the development of banks remains critical to stakeholders as the process seeks to facilitate the profit-making characteristic of the business. However, the adoption of processes tailored towards meeting the needs of the community remain essential in ensuring that the business facilitates the socio-economic growth and development (Windsor, 2006).

In the past decade, banking companies have sought to continually engage in CSR activities. The analysis of the activities remains instrumental as it promotes the identification of the motives together with the development of policies geared towards promoting the level of company accountability through the adoption of CSR reporting. It is on these argument that the study intends to identify the effect of corporate social responsibility on the profitability of commercial banks in Kenya

### 1.1.1 Corporate Social Responsibility

Corporate Social Responsibility (CSR) promotes the incorporation of processes within the organization tailored towards promoting the quality of work that remains critical in ensuring economic growth from the household level to the community level. Social responsibility involves the adoption of an organizational process by business entities tailored towards remaining socially responsible to stakeholders through the adoption of measures that promote economic growth through profits while ensuring that the community within which the company operates remains sustainable. CSR facilitates the creation of a system tailored towards promoting business growth while ensuring community development and sustainability (Ferrell et al., 2011).

The development of an understanding of CSR remains instrumental in promoting the level of corporate engagement in community activities geared towards facilitating continued community growth and development. In some cases, companies adopt CSR activities as a public relations event geared towards promoting the development of the company's image in the market among customers. In the past decade, banking companies have sought to continually engage in CSR activities. The analysis of the activities remains instrumental as it promotes the identification of the motives together with the development of policies geared towards promoting the level of company accountability through the adoption of CSR reporting.

Corporate social responsibility facilitates the adoption of company measures that adhere to the existent ethical concerns and adopting business activities that operate ethically that facilitates the level of business response to emerging issues in the community. Additionally, CSR promotes the adoption of a company process tailored towards facilitating the development of a balance between shareholder and community interests through the adoption of company processes that seek to promote continued business growth and development (Branzei and Vertinsky, 2002).

### 1.1.2 Profitability

According to Aburime (2009) the importance of bank profitability could be appraised at the economies' macro and micro levels. Profit is essential at the macro level and is a requirement for competitive banking as banks source funds in the cheapest way through its utilization. It is not just an outcome, but also a requirement for successful banking in duration of increasing rivalry among the financial markets. Therefore, every bank management seeks to maximize profit, as a prerequisite for executing business.

At the macro level, a profitable and sound banking sector has a higher capacity to withstand negative implication and increase the financial system's stability. Bank profits accrue a vital source of equity when re-invested into the entity. This should result to safe banks, and therefore high profits might result to financial stability (Flamini et al, 2009). However, the highest profits do not necessarily imply good profits. According to Garcia-Herrero et al (2007), too high profitability is a sign of market power, most commonly among the large banks.

Return on Equity (ROE) and Return on Assets (ROA) are significant indicators of any bank's performance. ROA determines the effectiveness of the bank's management in using assets to generate income, as well as compare the profitability of banks. The higherthe ROA, the better the firm's performance and vice versa. On the other hand, ROE is the ratio between the overall equity capital and net income after tax and is used to measure the returns on shareholders'equity. Levine (2008) argues that the best way to measurea bank's performance is by using ROA. This is because it cannot be interrupted by the higher equity multiplier. However, ROA is lower for financial brokers since many banks make use of financial leverages to competitively increase their ROE.

Different studies Uzhegova (2010), Elyor (2009) have utilized CAMEL to explore the factors that influence the profitability of the bank and success. CAMEL stands for Capital adequacy, Management efficiency, Asset quality, Liquidity and Earnings performance. This study shall employ ROA as a measure of performance because it integrates all the components of business performance in a consolidated manner, looking at both the assets required to manage an entity and the performance of the income statement. The long-term nature of ROA is the best measure of a company's health and depicts the manner in which different attributes are presented. Conceptualizing the trajectory confers a foundation for taking long-term perspectives that enables firms to shape winning strategies.

### 1.1.3 Corporate Social Responsibility and Profitability

It is important to understand CSR since it impacts the firm's financial profitability (Kanwal, Khanam, Nasreen, & Hameed, 2013). Managers believe that CSR has the potential of improving the firm's profits. They believe that CSR can promote respect for the firm in a market place. This is likely to enhance the firm's sales, attract more qualified personnel to the firm and subsequently improve financial profitability of their companies (Robins, 2015).

The spending of firms on CSR activities helps in the sustainability of the firm in the long run as well as enhancement of the firm's performance in financial perspective. A study that explored the relationship between CSR and banks' performance in financial perspective of 318 firms that restructured between 1997 and 2003 in China showed that after restructuring firms experienced significant decreases in profitability within the immediate three-year period (Zu, 2009). The study placed emphasis on the integration of an understanding of CSR, which is considered imperative in developing informed knowledge on the need and importance of adopting CSR and overall impact on promoting the level of business growth and development.

### 1.1.4 Commercial Banks in Kenya

Currently there are 42 commercial banks and 7 representative offices of foreign banks in Kenya. Among the 42 commercial banks, 13 have foreign ownership, while 31 banks have local ownership. Among the 13 banks with foreign ownership, 9 of them were incorporated locally. Only 4 were incorporated in foreign countries. Local banks are mostly owned by private investors, with 3 out of the 31 banks having public ownership.

Commercial firms have embraced CSR as a concept of strategic importance (Okoth, 2012). For a long time, CSR had been considered to be a public relations undertaking with no positive impact on profitability. However, commercial banks have changed this concept. Initially, CSR was under the marketing department. Today, most of the commercial banks have created a distinct department for CSR. The department, just like finance and marketing departments, is ranked highly during corporate planning. Companies devote sufficient funds for CSR activities and they create policies with the public at heart.(Ongore, & Kusa, 2013)

Recently, the commercial bank sector has generally recorded increased profit, and growth.According to Central Bank Of Kenya (CBK) Commercial Banks' Credit Officer Survey April-June 2018,the aggregate balance sheet increased by 4.66 percent from Ksh.4.08 trillion in March 2018 to Ksh.4.27 trillion in June 2018. This increase was attributed to increased placements and investment in government securities during the period. Gross loans increased by 2.49 percent from Ksh.2, 432.16 billion in March 2018 to Ksh.2,492.69 billion in June 2018. The increase in gross loans was mainly due to an increased demand for loans. Total deposits increased by 6.69 percent from Ksh.2.99 trillion in March 2018 to Ksh.3.19 trillion in June 2018. This was attributed to an increase in foreign currency deposits. The total capital to total risk-weighted assets ratio decreased from 18.73 percent in March 2018 to 17.97 percent in June 2018.Top lenders such as

Equity, Kenya Commercial Bank, and Barclays Bank achieved double digit growth in profitability. Currently, growth is expected to be maintained as the economy remains supportive. Many companies are relying heavily on banking technologies, such as mobile banking. This, coupled with government interventions, could cause major swings in profits for different firms.

## 1.2 Research Problem

The changing business and societal environment promotes the adoption of business and company processes that place importance on the social and economic growth of the communities within the operational area of the businesses. Engagement of businesses in community processes and activities remain critical in ensuring that the business develops an informed understanding of the social and economic standing of the society, which remains critical in facilitating the adoption of measures tailored towards promoting continued business growth and development. Initially, CSR was under the marketing department. Today, most of the commercial banks have created a distinct department for CSR. The department, just like finance and marketing departments, is ranked highly during corporate planning. Companies devote sufficient funds for CSR activities and they create policies with the public at heart.(Ongore, & Kusa, 2013)

Involvement with the community promotes the identification of the most viable initiatives that may be designed towards promoting continued community growth and development (Branzei and Vertinsky, 2002).

Commercial firms have embraced CSR as a concept of strategic importance (Okoth, 2012). The corporate world is concerned with CSR as most research depict a CSR impact on profitability of firms. Some studies show that there exists a positive CSR-profitability relationship; others indicate a negative relationship while others show no CSR profitability relationship. Caroll (1979) implies a contradiction to the positive CSR-profitability hypothesis by stating that the profitability of the firm reduces due to the pressure of the community to move towards social responsibility.

After studying several commercial banks, Kinyua (2013) found out that investors invest more in companies which are socially responsible. Gichana (2004) after conducting a survey on social responsibility found out that most listed companies provided employees with medical and housing benefits. Global studies have presented arguments and evidence showing positive, negative or neutral relations between CSR and profitability. Using CSR as a collection of independent variables, global studies seek to identify if it has an effect on profitability. If the study identifies a linkage, then it seeks to establish the nature of the relationship. According to Kotler (2008) 53% of the global empirical studies indicate a positive CSRprofitability relationship. Orlitzky et al. (2015) supports the views of Kotler's study in his research which shows a strong and positive relationship between environmental awareness and profitability. However, Arya (2009) conducted a research which factored in social pressure as an independent variable. The study showed that the inclusion of social pressure resulted in negative profits for many international firms. As most of the global studies indicate a positive CSR-profitability relationship, international businesses stand to benefit from the contribution made by international research.

The research have depicted that there exists a close association between CSR and the long run profitability of the firm. However, these studies do not accurately show how a firm's financial performance would improve per number of CSR activities. Therefore, the studies have failed to depict the effects that CSR activities has on a firm's financial performance; hence there exists a knowledge gap. The current study seeks to find out the effect of corporate social responsibility on performance of Kenyan commercial banks.

## 1.3 Research Objective

To establish the impact of CSR activities on profitability of Kenyan commercial banks.

## 1.4 Value of the Study

This research will benefit policy makers, practitioners and academicians. Policy makers will obtain information that will be instrumental in ensuring that companies adopt measures tailored towards the needs of the community. These policies may be tailored towards CSR activities such as employing the local population, development of infrastructure, schools and hospitals.

The findings of this study will also benefit practitioners, who are mainly banking institutions on the understanding of benefits that CSR provides. The findings will also influence the way they will interact with the community in a manner that ensures that the adopted processes remain sustainable and promote the economic growth of the community.

The study will also benefit researchers in acquisition of knowledge in the area of CSR and profitability in the banking sector. Similarly, a the study of CSR in the banking industry provides a preview of the activities already in place by the banksand gaps will be able to be identified so as to facilitate need for further studies

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

This chapter provides the theoretical framework that shall guide the study, a review of previous studies relating to corporate social responsibility initiatives adopted in companies. The section will look into the construct of corporate social responsibility through a review of studies conducted by other scholars in the field.

## 2.2 Theoretical Framework

A theory refers to a presented set of assumptions, propositions and accepted facts that seek to provide an in-depth explanation concerning the cause an effect relationship identified within the presented variables.

### 2.2.1 The Stakeholder Theory

The theory maintains that the company remains tasked with the duty of adopting activities and operations that meet the presented stakeholder interests (Orlitzky, 2003). The theory maintains that the creation of value tailored towards meeting the stipulated stakeholder needs develops the basis of the adopted operational processes in organizations (Kang et al., 2010). The theory maintains that the adoption of processes tailored towards meeting stakeholder interests develop the basis of the operational processes in the organization. The existence of a wide range of stakeholders presents a challenge for businesses that seek to provide value to all stakeholders (Jo &Harjoto, 2012).

The traditional stakeholder theory lays more emphasis on the adoption of measures designed towards encouraging  firm profitability and growth. However, the changing nature of the stakeholders necessitates the adoption of measures tailored towards meeting all stakeholder needs (Iannou&Serafeim, 2010). The consumers are the main stakeholders as they engage in the purchase of the company goods and services presented in the market. Engagement in CSR has been identified in the modern context as a critical component of the stakeholder theory. Benabou and Tirole(2012) argue that CSR initiatives are tailored towards meeting the existent needs presented in the society. However, the primary theory argues on the basis of shareholders whereby the profit making component is considered the main goal of the company.

The theory has faced numerous criticism from scholars as it has been considered as prioritizing technique over theory, which maintains that the system delimits the conduction of an effective analysis concerning the impact of the environmental aspects on business operations and policies (Schultz and Wehmeier, 2010). The stakeholder theory identifies the public and community as key stakeholders in the company which posits that the banking companies remain inclined to engage in CSR initiatives tailored towards meeting the society needs. The adoption of CSR provides the companies with an avenue to cater to the community, which identifies part of the stakeholders for the company.

### 2.2.2 Instrumental Theory

The theory identifies an organization as a driver for wealth creation, which is identified as the primary purpose of the organization. The theory maintains that the economic function presented to a company develops the basis and key factor concerning the importance of the company to the society (Moore & Spencer, 2006). The theory argues that the corporate remains tasked with the duty of generating wealth. Therefore, any initiatives adopted need to be tailored towards promoting wealth creation.

The theory argues that any social activity adopted should be in line with the wealth creation objective extended to the company (Husni, 2011). The theory considers CSR as a mean to an end as it promotes overall wealth creation for the company in the long-run. The theory maintains that the integration of CSR provides the organization with an opportunity for increased visibility in the market, which remains essential in promoting the level of business growth and development experienced.

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## 2.3 Determinants of Profitability

Husni. (2011) argues that bank profitability is controlled by factors that are within the control of Kenyan commercial banks. These factors greatly affect the banks' revenue and the costs. Profits have been classified by other studies into two categories namely the non-financial variables and financial statement variables. The determinants can be discussed as follows.

Banks greatly rely on funds earned through public deposits to finance the loans being advanced to the customers. A general believe exists that deposits are the most affordable resources of the banks and therefore the level of deposits positively influence the profitability of the bank if the bank's demand is very high.

Vong et al. (2009),Rasiah and Devinaga (2010) consolidated capital ratio as a variable in their research of bank profitability determinants and performance since capital serves as a source of funds together with borrowings and deposits. They assert that capital structure constitutes shareholders' funds, retained profit and reserves influence commercial banks' profitability due to its impact on risk and leverage. They opined that the assets of commercial banks could be financed by either debt or capital.

Rasiah Devinaga (2010) argues that regulators require commercial banks to maintain a certain level of assets as liquid. This is to ensure that enough liquidity is held by commercial banks which enable it to tackle bank runs. He also opines that a highly liquid quo is assumed by the bank if it has accumulated adequate cash in liquid assets as well as exhibiting the capacity to raise funds faster from other sources in order to timely meet its payment obligations.

## 2.4 Empirical Review

Hirigoyen and Rehm (2014) explored the association between different components of CSR (human rights in work place, human resource, respect for environment, societal commitment, government and market behavior) and financial performance (return on assets, market to book ratio, return on equity) of 329 quoted firms in U.S. Asia pacific region and Europe and between the time frame 2009-10. Using linear regression analysis, the researchers' concluded that CSR does not have any impact on financial performance; further, it is negatively associated to each other.

A study conducted by Mwai (2013) explored the impact of corporate social responsibility on the financial performance of NGOs in Kenya. The study sought to determine whether CSR influenced the financial performance of an organization. The study adopted descriptive research an inferential analysis that sought to explore the presence of a association between CSR and the financial performance of a company. The study utilized data collected between 2008 and 2012 with the target population comprising of 6 NGOs in operation in Kenya. The analysis utilized descriptive statistics through the analysis of the collected secondary data. The study employed multiple regression that that facilitated the establishment of an existent relationship between variables. The study identified the existence of a positive correlation between CSR, corporate size and cash conversion cycle. The study identified a negative correlation between corporate social responsibility and leverage.

Onyenje (2012) conducted a research study that sought to establish the existence of association between CSR and financial performance among manufacturing firms quoted on the NSE. The research incorporated a study of 10 companies in the sector with secondary data from financial reports published between 2007 and 2011. The study utilized a multiple regression model that sought to establish the existence of a association between the two variables. The study included manufacturing capital intensity and efficiency as variables in the regression model. The study findings concluded that there was an existent association between the independent variables and the dependent variables. The results identified the existence of a positive association between CSR and financial performance.

Obusubiri (2006) sought to establish the existence of a relationship between CSR and portfolio performance in Kenya. The study identified the existence of a positive association between CSR and financial performance, which was attributed to the positive image experienced by a company through the engagement of CSR by investors and the community. The study determined that engagement in CSR was profitable to companies as it influences an increase in the number of investors and promoted the level of brand visibility experienced in the market. The factors are critical as they influence the revenue and cost components of the banks. The factors are identified as either non-financial variables and being financial statement variables. The level of bank profitability is also influenced by factors external to the banks. The factors identify components that are beyond the control of the banks and include competition, firm size, market share, interest rate and inflation.

Cheruiyot (2010) did a research to explain the relation between CSR and financial performance of firms quoted at the NSE. A 5 year study with CSR index based on different level of implementation and dimensions was carried out in order to address multidimensional CSR indicators. This was a cross sectional study of all the 47 firms quoted at the NSE's major segnment as at 31st December 2009. He used regression analysis to explore the association between CSR index and financial performance measured in terms of return on assets, return on equity and return on sales. He found that there was a statistically significant relationship between CSR and financial performance. Shen and Chang (2009) utilized CAMEL to explore the factors that influence the profitability of the bank and success. CAMEL stands for Capital adequacy, Management efficiency, Asset quality, Liquidity and Earnings performance. This study employed ROA as a measure of performance because it integrates all the components of business performance in a consolidated manner, looking at both the assets required to manage an entity and the performance of the income statement. The long-term nature of ROA is the best measure of a company's health and depicts the manner in which different attributes are presented. Conceptualizing the trajectory confers a foundation for taking long-term perspectives that enables firms to shape winning strategies.

Choi (2008) explored the empirical association between corporate social responsibility and financial performance in Korea using a sample of 1222 firm between the time frame 2002 and 2008.He measured financial performance by both equal weighted corporate social responsibility index and the weighted CSR of the stakeholders. The financial performance was measured by (ROA) and (ROE). He employed cross-sectional regression model using four factors model by analyzing whether investors can obtain abnormal returns by employing socially responsible screens. The study found a positive and strong relationship between CFP and stakeholders weighted (CSR) index but not with the Equal weighted (CSR) index.

## 2.5 Conceptual Framework

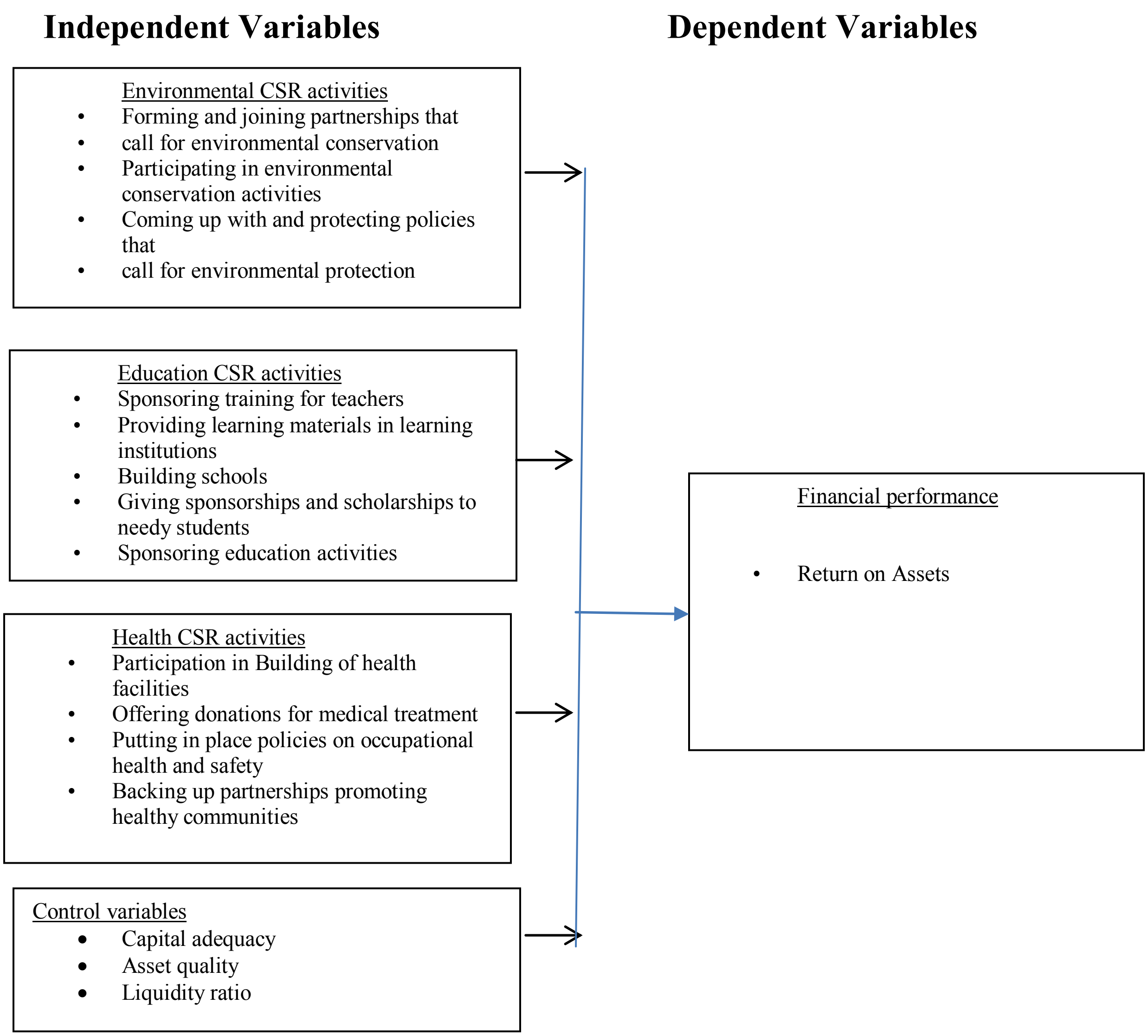


Figure 2.1: Conceptual Framework

## 2.6 Summary of Literature Review

Corporate social responsibility has developed into a critical construct in the society as it promotes continued engagement of corporates in community initiatives. The process has been considered essential in ensuring that the business caters to all the needs of the company stakeholders. The exploration of the existent theories concerning CSR identified the need and importance of adopting CSR activities among companies. The studies explored identified the existence of a correlation between CSR and company financial performance. However, more studies in the field need to be conducted to promote the viability of the developed hypothesis. The literature review identified CSR as an opportunity for companies to adopt measures geared towards promoting the sustainability of the environment while promoting the level of economic growth experienced by the companies. Therefore, the adoption of CSR activities in companies may contribute to the level of profitability experienced. This study seeks to determine the effects of corporate social responsibility on profitability of commercial banks listed on the Nairobi stock exchange.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

The section explores the techniques adopted by the research . The methodology section informs on the adopted form of data collection and analysis processes in the study.

## 3.2 Research Design

Orodho (2003) argues that a research design outlines the structure of the study to be undertaken. The research adopted a descriptive survey design which was essential in identifying the aim of the study and informed on the measures adopted to meet the developed objectives of the research. The research design was beneficial to the study as facilitated the collection of large amounts of data thus facilitating the success of the data collection process engaged in the study.

## 3.3 Target Population

Population refers to people or items with similar features that a researcher wishes to study and thus draw statistical conclusions. The identification of a population is essential as it facilitates the provision of results for a research. In respect of the current study, the population for the study comprised of Kenyan commercial banks listed on the Nairobi Stock Exchange for the period 2013 -2017. Given the small size of the population, a census approach was adopted

## 3.4 Data Collection Instrument and Procedures

The study dependent entirely on secondary data. The data was obtained from the financial statements of the listed commercial banks which are available in their respective websites. The financial performance data was gathered from the financial statements of the commercial banks' annual financial statements of years 2013-2017.

## 3.5 Data Analysis

The data analysis process involves the summarizing of data in a manner that is applicable to the study. The collected data facilitated the identification of possible patterns, which informed on the developed research objectives. Collected data was analyzed using statistical package for social sciences (SPSS).It captured descriptive statistics and inferential statistics. Descriptive statistics comprise of the measures of distribution, measures of central tendencies, and measures of variation.

Inferential statistics constituted correlation and multiple regression analyses. The regression model employed for the study was as depicted below

Regression model:

$$\gamma = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon$$

Where:

$\gamma$ =Financial performance measured using ROA

$\beta_0$ =Constant

$X_1$ =Number of environmental CSR activities

$X_2$ =Number of education CSR activities.

$X_3$ =Number of health CSR activities.

$X_4$=Liquidity

$X_5$=Asset quality

$X_6$=Capital adequacy

$\varepsilon$ =Error Term

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_{6=}$ Regression coefficients of independent variables.

| **Variables** | **Proxy** | **Operational Definition** | **Measurement** |
|---|---|---|---|
| Financial performance | $y$ | Process of measuring the results of a firm's policies and operations in monetary terms. | ROA = Net income/ Total Assets |
| Environmental CSR | $X_1$ | Environmental activities undertaken by firms to ensure positive impact on society | Number of environmental protection,conservation activities |
| Education CSR | $X_2$ | Education activities undertaken by firms to ensure a positive impact on society | Number of sponsored training activities offered, learning materials provided to learning institutions, number of scholarships given to needy students, number of schools built etc |
| Health CSR | $X_3$ | Health activities undertaken by firms to | Number of partnerships supporting promotion of |

| | | | |
|---|---|---|---|
| | | ensure a positive impact on society | healthy communities,number of donations given for medical treatment,number of health facilities built,number of policies formed in support of occupational health and safety. |
| Liquidity | $X_4$ | Firm's ability to meet financial obligations | As disclosed by the financial statements of the Bank |
| Asset quality | $X_5$ | Measure of likelihood of default of a loan combined with its marketability | Non-performing loan portfolio divided by the Total Loan portfolio |
| Capital adequacy | $X_6$ | Bank's financial ability to tolerate abnormal and operational losses as well as ability to effectively absorb risk and solvency. | As disclosed by the financial statements of the Bank |

# CHAPTER FOUR:DATA ANALYSIS, RESULTS AND DISCUSSION

## 4.1 Introduction

This section presents the findings of the study through descriptive statistics, correlation analysis and regression analysis.

## 4.2 Descriptive Statistics

The study targeted 42 commercial banks in Kenya and obtained data from the target Commercial Banks hence a response rate of 100%. The study also undertook a summary of the descriptive statistics.Table 4.1 shows obtained results**.**

**Table 4.1: Descriptive Statistics**

**Descriptive Statistics**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Number of environmental CSR activities | 200 | 1.00 | 5.00 | 4.2750 | .86784 |
| Number of education CSR activities. | 200 | 1.00 | 5.00 | 3.9300 | 1.08211 |
| Number of health CSR activities | 200 | .00 | 5.00 | 4.2700 | .93889 |
| Capital adequacy | 200 | 1.00 | 5.00 | 4.4050 | .98785 |
| Asset quality | 200 | 1.00 | 5.00 | 4.1850 | 1.03738 |
| Liquidity | 200 | 1.00 | 5.00 | 3.9300 | 1.08211 |
| Valid N (listwise) | 200 | | | | |

**Source : (Research Findings,2018)**

The table shows that the capital adequacy had a mean of 4.4050, both the number of environment CSR activities and number of health CSR activities had a mean of 4.2750 and 4.2700 each, asset quality had a mean of 4.1850 while both liquidity and Number of education CSR activities had a mean of 3.9300each.This indicates that commercial banks in Kenya mostly engage in Environmental and Health CSR activities.

## 4.3 Correlation Analysis

The study employed correlation analysis to examine the existence of correlation between the study variables. Table 4.2 shows the obtained results

**Table 4.2:Correlation Matrix**

| | **ROA** | Number of environmental CSR activities | Number of education CSR activities. | Number of health CSR activities. | Capital adequacy | Asset Quality . | Liquidity . |
|---|---|---|---|---|---|---|---|
| ROA | 1 | | | | | | |
| Number of environmental CSR activities | 0.625 | 1 | | | | | |
| Number of education CSR activities | 0.753 | 0.568 | 1 | | | | |
| Number of health CRS activity | 0.590 | 0.492 | 0.738 | 1 | | | |
| Capital adequacy | 0.669 | 0.634 | 0.712 | 0.701 | 1 | | |
| Asset Quality. | 0.625 | 1.0000 | 0.568 | 0.492 | 0.634 | 1 | |
| Liquidity. | 0.651 | 0.481 | 0.630 | 0.686 | 0.629 | 0.481 | 1 |

**Source: Research Findings**

Table 4.2 depicts the findings of the correlation analysis which indicate a strong correlation between ROA and the controlvariables Liquidity,Capital adequacy and Asset qualityas well as the independent variables;Number of environmental CSR activities,Number of health CSR activities and Number of education CSR activities.This finding indicates existence of a positive correlation between corporate social responsibility and banks' performance in financial perspective.

## 4.4 Regression Analysis

Regression analysis was undertaken to establish the existing relationship between CSR and banks' performance in financial perspective. The output of the regression model produced the model summary, analysis of variance (ANOVA) and the regression coefficients.

**Table 4.3: Model Summary**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .755[a] | .570 | .557 | .54827 |

a. Predictors: (Constant), Liquidity, Capital adequacy, Number of environmental CSR activities, Asset quality , Number of education CSR activities., Number of health CSR activities

**Source : (Research Findings,2018)**

The research results revealed that there was a positive relationship (R= .755) between the variables. The study revealed that the corporate social responsibility of the firms can be depcited by the independent variables. From this study it is evident that the variables produce statistically significant values (high values, $p < 0.1$.) hence when the variables are combined, they can be relied on to explain corporate social responsibility of the commercial banks in Kenya.

**Table 4.4: Analysis of Variance (ANOVA)**

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 77.000 | 6 | 12.833 | 42.692 | .000[b] |
| | Residual | 58.016 | 28 | .301 | | |
| | Total | 135.016 | 41 | | | |

a. Dependent Variable: Y

b. Predictors: (Constant), Liquidity, Capital adequacy, Number of environmental CSR activities, Asset quality , Number of education CSR activities., Number of health CSR activities

**Source : ( Research Findings,2018)**

Analysis of Variance was utilized to test the significance of the regression model as infers to significance in the differences in means of the independent and dependent variables. The ANOVA test produced an f-value of 42.692 which was significant at 0.00. Significance level ($p = 0.00$).

**Table 4.5: Regression Coefficients**

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.073 | .211 | | 5.088 | .000 |
| | Number of environmental CSR activities | .305 | .074 | .321 | 4.107 | .000 |
| | Number of education CSR activities. | -.020 | .062 | -.028 | -.322 | .748 |
| | Number of health CSR activities | .017 | .079 | .019 | .217 | .828 |
| | Capital adequacy | .332 | .063 | .399 | 5.308 | .000 |
| | Asset quality | .099 | .063 | .124 | 1.571 | .118 |
| | Liquidity | .013 | .073 | .017 | .182 | .856 |

a. Dependent Variable: Y

**Source: (Researcher,2018)**

The model was used to establish the relationship between corporate social responsibility and financial performance.

$Y = 1.073 + .305X_1 -.020X_2 + .017X_3 +.013X_4 + .099X_5 + .332X_6$

Positive effect was reported for number of health CSR activities. However, a negative effect was reported for Number of education CSR activities (β= -.020). Asset quality affected the financial performance positively (β=.099). Capital adequacy affected financial performance positively (β=.332). Number of environmental CSR activities affected financial performance positively (β=.305). Liquidity affected financial performance positively (β=.013)

## 4.5Interpretation of Findings

The study finding established a positive correlation between CSR activities and banks' performance in financial perspective. This indicates that CSR is positively correlated with banks' performance in financial perspective.Therefore, an increase in each of the independent variables leads to an increase in profitability. Similarly, a decrease in the independent variables leads to a decrease of the dependent variable, ROA

In similarity is a study by Bolton (2013) who studied the correlation between CSR and a bank's financial performance and established that there is a positive relation between CSR and both operating performance and firm value.

The competitive advantage theory also states that the higher the investment in CSR, the higher the ROA and in the long-term, the more competitive a firm can become. Therefore the study findings support the theory as it indicates a strong and positive relationship between CSR and profitability.

The positive CSR-profitability relationship also agrees with Carmen-Pillar, Rosa, and Lisa (2011) who demonstrated similar findings in the long-term. The same applies to Arya (2009) who demonstrated a sharp increase in profit for 80% South African companies which engaged in CSR. The study, however, deviates from Kotler (2012) findings which indicate that investing in CSR due to social pressure leads to reduction of profits. There is enough evidence to show that commercial banks in Kenya are more profitable by responding to stakeholder demands. Most firms invest in similar CSR programs which are scholarships, healthcare, environment, recreation and sports. This is a clear indication that they respond to the most demanded areas of responsibility but still increase profitability. The findings also agree with results for Obado (2007) which indicated a longer period for companies that spent funds on donations, a less common CSR practice for commercial banks in Kenya. Alawiye-Adams and Afolabi (2014) showed a high percentage of closure of firms that were not socially responsible.

# CHAPTER FIVE:SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

## 5.1 Introduction

Chapter five presents the summary of findings of this research, conclusions, recommendations, limitations of the study and suggestion of areas which may require further consideration as far as future research is concerned.

## 5.2 Summary of Findings

The study aimed at investigating effects of CSR activities on banks' financial performance. This study focused on education CSR activities, health CSR activities, environment CSR activities, liquidity, capital adequacy and asset quality as independent variables of the study. Financial performance was the dependent variable and was measured using ROA. The stakeholder theory and the instrumental theory were used to explain the relation between CSR and banks' performance in financial perspective. The study targeted 42 commercial banks in Kenya, obtained secondary data from the targeted commercial banks hence a response rate of 100%, and used correlation and regression analysis to analyze collected data.

The descriptive analysis results found that commercial banks in Kenya mostly engage in Environmental and Health CSR activities.

Correlation results established that ROA had a positive correlation with education

CSR activities, health CSR activities, environment CSR activities, liquidity, asset quality and capital adequacy hence a positive correlation between CSR activities and banks' performance in financial perspective.

The regression analysis revealed that the financial performance of Kenyan commercial banks be explained by the independent variables, wherebythe variables produce statistically significant values (high values, $p < 0.1$.) hence it demonstrated that when the variables are combined, they can be relied on to explain the financial performance of the commercial banks in Kenya.

The ANOVA test produced an f-value of 42.692 which was significant at 0.00 significance level ($p = 0.00$),hence the indication of a significant relation between CSR and banks' financial performance.

## 5.3 Conclusions

The main objective of the study was to determine the effects of corporate social responsibility on profitability of commercial banks.The study demonstrates that all commercial banks in Kenya stand to benefit from being socially responsible.

The study further revealed that commercial banks in Kenya mostly engage in Environmental and Health CSR activities.

This leads to the conclusion that undertaking Environmental and Health CSR activities increases banks' performance in financial perspective.

Large commercial banks have more resources and can impact the lives of more people. They can easily attract investors and sponsors for being socially responsible. Similarly, they can attract more depositors who are loyal hence guarantee availability of more funds to invest in wider CSR practices and projects. This study therefore justifies the idea that commercial banks in Kenya should spend more funds on CSR.

## 5.4 Recommendations

The study agrees with Friedman (1970) who held that companies participate in CSR with the goal that they can augment their benefits. An expansion in benefit results in expanded investors riches. Consequently, organizations look to boost investors' riches through CSR consumptions. The investigation prescribes to commercial banks in Kenya to put more in CSR to accomplish long haul development in investor riches. Smaller companies that cannot raise enough funds to participate in CSR should partner with other institutions in the manufacturing and service fields so as to increase their outreach.

The study recommends that commercial banks understand stakeholder views on the types of CSR they can undertake. Stakeholders have a national outlook and their inclusion in CSR planning will help address the needs of all citizens at a national level. The organizations will benefit from keeping away from expenses of contention among partners and the firm.

In conclusion, the study advises proficient bodies to perceive the effect CSR has in business benefits and structure a system for announcing CSR costs. Future analysts and investors will be the greatest recipients. Future analysts will gather pertinent information inside a shorter period by checking organizations' budgetary proclamation figures for CSR. As at now, CSR data must be found by perusing various distinctive reports to acquire a gauge of consumptions.

## 5.5 Limitations of the Study

The focus of this study was on education CSR activities, health CSR activities, environment CSR activities, liquidity, asset quality and capital adequacy. Therefore, the findings may not be applicable to other forms of corporate social responsibility like legal requirements and adherence to social values, which the study did not consider.

The study findings also are based on the banking industry hence the findings may not be applicable to other institutions like microfinance banks and other economic sectors in Kenya. In addition, the study was carried out in Kenya hence, the findings are limited within the Kenyan context.

## 5.6 Suggestions for Further Research

The considered CSR activities only explain a small proportion of commercial banks financial performance. The study thus suggests an examination of the effects of other forms of CRS on banks' performance in financial perspective. The study also used secondary data upon which some banks had zero CSR forms. The study recommends a similar study using primary data collected through questionnaires or interviews to obtain an in depth finding on effect of CSR on banks' performance in financial perspective.

Further study should incorporate more stakeholders as this research only included the main dimensions of CSR. Commercial banks are large institutions which affect the lives of many people.Other stakeholders that should be included are employees and the government. The research should be able to find a link between these additional stakeholders to CSR so as to make the current model more effective at predicting profitability of firms based on their level of investment.

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