DOES CORPORATE SOCIAL RESPONSIBILITY INFLUENCE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA?

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DECLARATION

This research project is my original work and has not been submitted for award of any other degree of the university.

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“Ad maiorem Dei gloriam inque hominum salutem.”
DEDICATION

I dedicate this research project to my Mother, Teresia Leah Mumbi Ngore for the great sacrifice and burden of bringing up and educating six children. Also, I wish to dedicate it to my dear daughter, Kathleen Mumbi and encourage her to excel in her academic journey and surpass all my achievement.
Corporate Social Responsibility (CSR) is the corporate philanthropy efforts of companies to increase their competitive advantage. Corporate philanthropy aligns the social goals of the organisation with economic goals of profitability thereby creating long-term business success. This study examined the relationship between CSR and Financial Performance (FP) of commercial banks in Kenya. The objective of this research was to establish the influence of corporate social responsibility on the financial performance of commercial banks in Kenya for the period of 2007 to 2013. Previous, relevant literature review indicated varied result between CSR and FP relationships; some studies indicated positive effects and others indicated negative effects and while others no existence of such a relationship. The study collected secondary data on CSR and Financial Performance from audited financial reports, bank websites and the Central Bank of Kenya annual supervision reports. In the study, CSR was the independent variable while Financial Performance was the dependent variable. Financial Performance was measured in Return on Asset (ROA) and Return on Equity (ROE) and the CSR and FP relationship was tested using regression model analyzed using statistical package for the social sciences (SPSS). The study concluded that CSR has a fair positive effect and influence the financial performance (ROA and ROE) for all aggregated commercial banks. The Regression analysis on banks based on the market size concluded that CSR influenced the ROE and ROA on all banks.

**Keywords:** Corporate Social Responsibility (CSR), Financial Performance (FP), Return on Asset (ROA), Return on Equity (ROE).
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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>CAMEL</td>
<td>Capital Adequacy, Asset Quality, Management Efficiency, Earnings Performance and Liquidity</td>
</tr>
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<td>CBK</td>
<td>Central Bank of Kenya</td>
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<td>CR</td>
<td>Corporate Responsibility</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>NSE</td>
<td>Nairobi Securities Exchange</td>
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<td>ROA</td>
<td>Return on Assets</td>
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<td>ROE</td>
<td>Return on Equity</td>
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<td>SEA</td>
<td>Social and Environment Accounting</td>
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<td>MFBs</td>
<td>Microfinance Banks</td>
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<td>CRBs</td>
<td>Credit Reference Bureaus</td>
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<td>MRP</td>
<td>Money Remittance Provider</td>
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<td>Kshs.</td>
<td>Kenya Shillings</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

Banks from all over the world are recognising Corporate Social Responsibility (CSR) by endorsing educational, cultural, and environmental programs, as well as health initiatives. Further, they implement sponsorship actions towards vulnerable groups and charitable nonprofit organisations (Polychronidou et al., 2013). Flemini, McDonald and Schumacher (2009) found out that commercial banks appear very profitable in Sub-Saharan Africa (SSA) with average returns on assets of about two percent over the last ten years, significantly higher than bank returns in other parts of the world.

According to Porter and Kramer (2002), organisations can use corporate philanthropy efforts to increase their competitive advantage as corporate philanthropy aligns the social goals of the organization with economic goals of profitability thereby creating long-term business success. CSR is predominantly considered as a western phenomenon due to strong western institutions, standards, and appeal systems which are weak in developing countries (Chapple and Moon, 2005). In Africa, CSR seldom relates to the company’s core business but rather tends to be ‘positive payback’ philanthropy, with public relations, (Klins et al., 2010).

As a result of significant changes in business environment and in order to survive in the dynamic business environment, businesses have been forced to adapt various strategies, among them the integration of CSR into their business models, (Douglas and Emily, 2011). According to Visser (2006), CSR activities and projects in Africa mainly focused on creating a positive corporate image, as well as addressing weak public sector service delivery in the areas of healthcare (particularly HIV/AIDS), education or labour skills development and the prevention of child labour.

The concept of CSR is not a new one but its focal point has changed with the changes in business requirements and varying social needs. The concept of CSR was first mentioned in 1953 in the publication of “Social Responsibilities Businessman” by (Bowen, 1953). However, the concept was popularized by German Beta pharmaceutical
company in the 1990s when it implemented CSR programs. Since then, CSR activities have been adopted by both private and public organisations.

Winston and Ryan (2008) observed that in Kenya, the cultural context is an important factor in defining CSR and the communal culture is captured in the indigenous concept of “Harambee” which embodied and reflected the strong ancient value of mutual assistance, joint effort, social responsibility and community self-reliance. Gilbert (2008) noted that corporate social responsibility is influenced by institutional environment in which companies operate while, Clemes et al., (2010) asserted that one of the reasons why customers switch banks in a competitive banking environment is the reputation created by a bank among its customers. When a banking institution has a good reputation, it creates a positive image among its customers and this can lead to corporate success.

1.1.1 Corporate Social Responsibility

There is no universal definition of CSR and therefore organisations have different definitions based on different perceptions of the term according to local context and countries. Corporate Social Responsibility as a term has often been used interchangeably in studies with such concepts as corporate responsibility, corporate citizenship, social enterprise, sustainability, sustainable development, triple-bottom line, and corporate ethics and, in some cases, corporate governance (Bassen et al., 2006).

The lack of consensus of CSR definition among academicians and practitioners, has resulted into different definition by different researchers in different ways over time. McWilliams and Siegel (2001) describe Corporate Social Responsibility as “doing all those activities which are not forced by law of those countries in which they are running their business and which are not for the primary benefit of the business but for the benefit of the society”. Essentially, the basic normative premise of CSR “is that organisations should act beyond their traditional business boundaries, their purpose no longer restricted to generating profit but extended to include a contribution to the cohesion of society and consideration of the social and ecological environment” (Schoemaker and Jonker ,2006).
Economic Commission (2001) affirmed that corporate social responsibility was about companies having responsibilities and social communities, taking actions beyond their legal obligations, environmental and economic/business aims. The Commission noted that it is wider economic responsibilities covered a range of areas but are frequently summed up as social and environmental; where social means society broadly defined, rather than simply social policy issues. This was summed up as the triple bottom line approach: i.e. economic, social and environment. Therefore a socially responsible corporation is one that runs a profitable business that takes account of all the positive and negative environmental, social and economic effects it has on society.

Ahmed et al., (2012) argued that CSR was generally understood to be the way a company attained a balance or integration of economic, environmental, and social imperatives while at the same time addressing the shareholder and stakeholder expectations, with the understanding that businesses played a key role on job and wealth creation in society. Kotler and Lee (2005) expressed that companies can gain great benefits from participating in CSR and therefore it has become an important part of planning to get and sustain the competitive advantage in the globally competitive companies.

1.1.2 Financial Performance

Helfert (1997) described profitability in two dimensions; from the management perspective and shareholders perception. From management point of view, profitability is the effectiveness in which management has employed both the total assets and net assets as recorded in the balance sheet, which is judged by relating net profit to the assets utilised in generating it.

Profitability is a function of internal factors that are principally influenced by a bank's management decisions and policy objectives such as the level of liquidity, provisioning policy, capital adequacy, expense management and bank size, and the external factors related to industrial structural factors such as ownership, market concentration and stock market development and other macroeconomic factors (Athanasoglou et al., 2006).
Gray (1995) stated that profitability is a factor that gives freedom and flexibility for management to disclose the social responsibility towards shareholders, the higher level of a company's social disclosure drives the greater profitability.

Previous literature and empirical studies have used accounting data to measure financial performance, as opposed to market-based measures (Waddock and Graves, 1997); (Simpson and Kohres 2002). Three most used measurements for financial performance are return on assets (ROA), return on sales (ROS), and return on equity (ROE). Return on assets (ROA) and the return on owner's equity (ROE) are commonly known as profitability ratios.

1.1.3 Determinants of Financial Performance in the Banking Sector

A study by Al-Tamimi (2010) suggested that the determinants of bank performances were to be classified into bank specific (internal) and macroeconomic (external) factors. The internal factors are influenced by individual bank decisions of the Board/Management and characteristics which affect the banks performance. The factors are the Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity (CAMEL). The purpose of CAMELs ratings is to determine a bank’s overall condition and to identify its strengths and weaknesses in financial, operational and managerial aspects.

Capital is the amount of own fund available to support the bank's business and act as a buffer in case of adverse situation. Kamau (2009) observed that the capital structure of banks is highly regulated by the Central Bank and capital is one of the bank specific factors that influence the level of bank profitability. Gavila et al (2009) argued that although capital is expensive in terms of expected return, highly capitalised banks had less need for external funding especially in emerging economies where external borrowing was difficult and faced lower cost of bankruptcy. According to Dang (2011), the adequacy of capital is judged on the basis of capital adequacy ratio (CAR). Capital adequacy ratio shows the internal strength of the bank to withstand losses during crisis. Capital adequacy ratio is directly proportional to the resilience of the bank to crisis situations.
The quality of assets held by a bank determines the bank’s credit risk exposure. The bank assets include among others current asset, credit portfolio, fixed asset, and other expenditures. Kwan and Eisenbeis (1997) observed that Asset Quality is commonly used as a risk indicator for financial institutions, which also determines the reliability of capital ratios. The study indicated that capitalisation affects the operation of financial institution; the more the capital the higher the efficiency. Baral (2005) stated that the quality of assets held by a bank depends on exposure to specific risks, trends in nonperforming loans and the health and profitability of bank borrowers. The quality of loan portfolio determines the profitability of banks and loan portfolio quality has a direct bearing on bank profitability. The highest risk facing a bank is the losses derived from delinquent loans (Dang, 2011).

Management efficiency is one of the key internal factors that determine the bank profitability. It is represented by different financial ratios like total asset growth, loan growth rate and earnings growth rate. Management efficiency is basically the capability of the board of directors and management to identify, measure, and control the risks of an institution’s activities and to ensure the safe, sound, and efficient operation in compliance with applicable laws and regulations (Uniform Financial Institutions Rating System, 1997).

Earning ability reflects the quantity and trend in earning and also the factors that may affect the sustainability of earnings. Inadequate management may result in loan losses and in return require higher loan allowance or pose high level of market risks. Uniform Financial Institutions Rating System (1997) stated that the future performance in earning should be given equal or greater value than past and present performance.

Liquidity determines the level of bank performance; that is the ability of the bank to fulfill its obligations, mainly to its depositors. Rudolf (2009) emphasizes that the liquidity expresses the degree to which a bank is capable of fulfilling its respective obligations. Dang (2011) noted that adequate level of liquidity is positively related with bank profitability. According to the Dang (2011), the most common financial ratios that reflect the liquidity position of a bank are customer deposit to total asset and total loan to customer deposit.
1.1.4 The Relationship Between Corporate Social Responsibility and Financial Performance.

Empirical studies have examined the relationship between corporate social responsibility and financial performance. Studies have produced mixed results with some studies concluding positive effects while others negative and others no existence of such a relationship (McWilliams and Siegel, 2001).

Waddock and Graves (1997) study reported that the improved financial performance lead to increase in the Corporate Social Performance (CSP). The study revealed that the firms that engage in CSP have good financial performance since the ability to invest in socially responsible activities signals good managerial performance that provides the firm with resources that can be used for discretionary expenditures. Roberts and Dowling (2002) asserted there were emerging empirical findings of a strong and positive link between reputations from CSR and financial performance.

Margolis and Walsh (2003) longitudinal studies of 30 years (1972 – 2002) on corporate social performance and corporate financial performance (CFP) relation based on 127 published studies for that period. The results from the studies revealed 70 studies (55%) positive direction, while only 7 studies showed negative direction, 28 studies indicated inconclusive result, while 7 and 24 were positive and negative respectively. A research conducted by Orlitzky (2005) indicated a positive correlation between CSP and CFP and that CSP actually reduced financial risk and organisations of all size may benefit from socially responsible activities.

Keffas and Olulu-Briggs (2011) researched on the relationship between CSR and financial performance of banks in Japan, US and UK. The study utilized 38 financial and economic ratios that covered the major scope of financial performance namely; Asset Quality, Capital, Operations and Liquidity. The findings revealed relationship between CSR and FP to be positive and that banks that incorporate CSR have better asset quality; capital adequacy; and are more efficient in managing their asset portfolios and capital.
From the above few studies discussed, debate over the impact of Corporate Social Responsibility on Financial Performance is far from being concluded due to different research results which vary depending upon the models, data and countries’ topology.

1.1.5 Commercial Banks in Kenya

The banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). According to the Central Bank of Kenya supervisory report 2013, the banking sector comprised of the Central Bank of Kenya, as the regulatory authority, 44 banking institutions (43 commercial banks and 1 mortgage finance company - MFC), seven representative offices of foreign banks, nine Microfinance Banks (MFBs), two credit reference bureaus (CRBs), one Money Remittance Provider (MRP) and 101 forex bureaus as at 31st December 2013. Out of the 44 banking institutions, the 30 locally-owned banks comprise three with public shareholding and 27 privately owned while 14 are foreign owned. The nine MFBs, two CRBs and 101 forex bureaus are privately owned. The foreign owned financial institutions comprise of ten locally incorporated foreign banks and four branches of foreign incorporated banks.

The total net assets in the banking sector stood at Kshs. 2.7 trillion as at 31st December 2013. There were 26 locally owned commercial banks which accounted for 61.4 percent of the assets. A total of 14 commercial banks were foreign-owned and accounted for 34.0 percent of the sector’s net assets.

Several commercial banks are engaged in CSR, for example, Equity Bank through the Equity Group Foundation focuses on eradication of poverty, hunger and the provision of humanitarian aid, education, gender equality and women empowerment, health, environment sustainability and voluntary service to society by the bank’s leadership; KCB through the KCB Foundation engages in CSR activities concerning; environment, enterprise development, education, health and humanitarian intervention. Standard Chartered Bank is involved in distribution of environmental conservation, education, and health activities while Co-operative Bank sponsors needy students to undertake studies at the university.
1.2 Statement of the Problem

The choice of engaging in CSR activities by a firm depends upon the economic perspectives of the firm. There are firms which believe in maximising the shareholders’ value, while other firms believe in maximising profits according to (Friedman, 1962). Albinger and Freeman (2000) stated that CSR is a factor of profitability and which has the ability to motivate, attract and retain the desired workforce and improve financial performance.

Several studies have been carried out on the relationship between CSR and FP resulting in diverse conclusions. Ponnu and Okoth (2009) in a study done on CSR disclosure in Kenya found that Kenyan companies are relatively smaller compared to international standards. Thus companies’ participation in social activities may not be pegged on their financial capability rather, their willingness and desire for strategic positioning within the society for future economic advantages.

A study by Mutuku (2005) established that there was no relationship between CSR and financial performance while, a study by Wanjala (2011) found that banks that are profitably engaged in corporate social responsibility.

A research carried by Ondieki (2011) found out that an increase in CSR score would lead to increase in financial performance and also a unit increase in efficiency would lead to increase in financial performance of commercial and services sector at the Nairobi Securities Exchange.

Whereas several studies have been undertaken on CSR in general and more particular concerning the relationship between corporate social responsibility and a firm’s financial performance, results of these studies appear to be inconclusive. Empirical studies examining the relationship between CSR activities and firms’ financial performance have presented mixed findings. This study therefore seeks to find out if corporate social responsibility influences financial performance of commercial banks in Kenya and whether the relationship between corporate social responsibility and financial performance of commercial banks in Kenya is positive, negative or neutral.
1.3 Research Objective

To establish the influence of corporate social responsibility on the financial performance of commercial banks in Kenya.

1.4 Value of the Study

This study will be of value to different stakeholders including, academicians, scholars, policy makers and commercial banks in Kenya. For the academic world, the study provides comprehensive and deep insight about CSR in banking sectors. The study will increase body of knowledge to scholars and academicians on the relationship of CSR and profitability in Commercial Banks in Kenya. The study suggests areas for further research studies so that future scholars in the field of accounting can undertake new research issues.

Policy makers may in future formulate laws and incentives to encourage banks to engage in CSR for the sustainable development of the country. The results of the study will inform the managers and executives in banks if there is need or not for involvement in CSR activities. Handy (2002) suggested that the best way to get firms to behave in socially responsible ways is to convince their managers that CSR is the right action to pursue.

The results will inform bankers on the need to improve social accounting and reporting in order to attract and sustain customers, improve employee relations and corporate philanthropy. Stakeholders’ interests such as consumers, regulators, employees and other important groups will understand the importance of funding of CSR activities. Disclosures in the financial statements will help create better relationships with key suppliers, customers and community.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter presents the literature review on CSR and FP research that provides background of the study. The literature review focuses on theoretical framework on CSR and empirical studies on the effect of CSR on financial performance. The chapter concludes with theoretical and empirical review and the gap to be filled by the study.

2.2 Theoretical Literature
CSR has been described by different authors in different ways. There is no universal definition of CSR; organisations have framed different definitions and several perceptions of the term according to the local context and practices in their countries. Equally, theoretical work on CSR accounting has produced a number of theories as to what motivate firms to engage, report or disclose information on their CSR activities. Deegan (2009) stated that three common theories articulated in the CSR literature are Legitimacy theory, Stakeholder theory and Institutional theory. Socio-political theories, such as stakeholder theory and legitimacy theory are relied on to posit both positive and negative relations between CSR and financial performance depending upon the strategy adopted by an organization.

2.2.1 Legitimacy Theory
Legitimacy theory is based upon the idea of organisations operating in society with a social contract that exists between organisations and individual members of society. Lindblom (1994) defined legitimacy as a condition or status which exists when an entity’s value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity (actual or potential) exists between the two value systems, there is a threat to the entity’s legitimacy. According to Gray, Kouhy and Lavers (1995), legitimacy theory has an advantage over other theories in that it provides disclosing strategies that organisations may adopt to legitimise their existence that may be empirically tested.
Legitimacy theory has been quoted in most social and environmental accounting literature and is a generalised 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 (Suchman, 1995). Suchman noted three aspects of legitimacy. First, legitimacy is generalised – it “represented an umbrella evaluation that, to some extent, transcends specific adverse acts or occurrences”. Second, legitimacy is a perception or assumption as it “represents a reaction of observers to the organization as they see it”. Third, legitimacy is socially constructed as it “reflects a congruence between the behaviours of the legitimated entity and the shared (or assumedly shared) beliefs of some social group”. Essential to these last two points is the social aspect of legitimacy; it involves social relations and practices.

Dai (2010) signaled that based on the legitimacy theory, an entity is considered legitimate if the activities of the entity fall in line with the social norm of the larger social system’s beliefs and values. Additionally, this theory emphasises that the organisations must appear to consider the rights of society as a whole and not solely that of its investors. Public visibility, quality of management and the availability of economic resources provide the supports to the argument that positive relationship exists between CSR disclosure and the firm’s financial performance.

This theory typically suggests that firms’ use disclosures to manage their image when faced with a legitimacy crisis or when there is a negative change in the public’s perception of the firm. Maigan and Ralson (2002) pointed out that the concept of corporate social responsibility has been gaining importance in the past two decades. Recent studies suggest that corporate social responsibility is an instrument to increase the firms’ legitimacy in the eyes of their stakeholders and to develop positive social responsibility images to banish their reputations.

Dowling and Pfeffer (1975) identify four strategies which a firm might take to improve their image and thus gain legitimacy. First, they may seek legitimacy by informing the public of actual changes in their behaviour; second by changing the perceptions of the public without changing their actual behaviour; third by manipulating perceptions through deflecting attention from an issue of concern to another issue; and fourth, by changing the external expectations of their behaviour.
Gray et al (1996) posit that legitimacy theory is based on the concept of the social contract between society at large and the business organisations, whereby the business organisations are deemed to agree to perform various socially desired actions in return for approval of its objectives, rewards, and ultimate survival.

According to Deegan (2002) the idea of legitimacy can be directly related to the concept of a “social contract”. Organisations need to gain a social approval to operate because they do not have an inherent right to operate in the society. Gray et al. (1996) stated that social contact itself contains both explicit terms, spelled out in the form of legal requirements and implicit terms, which include the non-legislated societal expectations. Mathews (1993) argued that from time to time, the legitimacy of an organization may also face a period of crisis that the concept of organizational legitimacy cannot be constant because the visibility of organisations to society vary considerably and because some organisations are more dependent than others on the support of society. Neu et al., (1998) stated that companies try to manage their legitimacy because it “helps to ensure the continued inflow of capital, labour and customers necessary for viability... It also forestalls regulatory activities by the state that might occur in the absence of legitimacy... and pre-empts product boycotts or other disruptive actions by external parties... By mitigating these potential problems, organizational legitimacy provides managers with a degree of autonomy to decide how and where business will be conducted”.

2.2.2 Stakeholder Theory

According to Jones (1980), Stakeholder theory of CSR is related to the belief that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law or union contact. Freeman (1984) advocated that the stakeholder theory, presented a more positive view of manager’s support of CSR. He asserted that managers must satisfy a variety of constituents (e.g. investors and shareholders, employees, customers, suppliers, government and local community organisations) who can influence firm outcomes.

Donaldson and Preston (1995) reported that most of the stakeholder literature focuses on four issues. First, it focuses on describing who the stakeholders are and what
corporation is. Second, it claims that stakeholders have legitimate interests over corporate activities. Third, it advocates structures, attitudes, and practices that constitute stakeholder management. Last, it discovers the relationship between achievement of numerous corporate performance goals – such as profitability and growth and stakeholder management.

Deegan (2002) argued that Stakeholder theory acknowledged that there are other parties involved, including governmental bodies, political groups, communities and associated corporations. Gray et al., (1995) extended the legitimacy arguments to consider not only society as a whole but particular stakeholder groups.

Driver & Thompson (2002) stated that Stakeholder theory is closely related to the issue of corporate social responsibility to the extent that Stakeholder theorists define appropriate and inappropriate corporate behaviour in terms of how corporations act vis-a`-vis their stakeholders.

According to Kaler (2006), one of the main functions of Stakeholder theory was to enable the argument for an enhancement of distributive justice within the confines of a basically capitalist structure for companies by means of a more extensive serving of non-shareholder interests relative to those of shareholders than would be the case with a shareholder value approach to running companies.

Uddin, Hasan and Tarique (2008) indicated that a company is a group of people getting together so that they may accomplish something collectively that they could not get separately thereby contributing to the society. Since the companies operate within the society, it is the same society that defines the number of stakeholders to which the organization has responsibility and furthermore the responsibility may be broad or narrow depending on the industry in which the firm operates and its perspective. Van Beurden & Gössling (2008) suggested that the central idea of the Stakeholder theory was that the success of an organization depended on the extent to which the organization was capable of managing its relationship with key groups, such as financiers and shareholders, but also customers, employees, and even communities or societies.
Deegan (2006) advanced that Stakeholder theory was divided into two branches: normative branch of stakeholder theory and managerial branch of stakeholder theory. The stakeholders demand different information and firms will respond to their demands in a variety of ways. Akinpelu et al., (2013) suggested that apart from the shareholders, business firms have responsibility to broad spectrum of society and that includes customers, employers, suppliers, community, and government. Bayoud et al., (2012) claimed that CSR disclosures can be considered as the most important factor that can lead to improving a company’s reputation by signaling the creation and enhancement of relation with stakeholders.

Ferreira, Branco and Moreira (2012) affirmed that Stakeholder theory postulates a positive relationship between economic performance and the level of decision by a company to engage in CSR reporting and therefore profitable firms are more likely to disclose more information in order to screen themselves from less profitable firms.

The Stakeholder theory is both a managerial and an ethical theory, which tends to explain the diverse relationship between the organization and its several stakeholders; achieving the profit maximization, stakeholders’ benefits and expectations at the same time. Bird et al., (2007). asserted that CSR activities, which encompass all legitimate stakeholders’ implicit claims as stakeholder theory suggests, can improve firm value by (1) immediate cost saving, (2) enhancement of firm reputation, and (3) dissuasion of future action by regulatory bodies including governments which might impose significant costs on the firm. The research is premised on stakeholder theory on whether the banks can be socially responsible and still give better returns to the shareholders on their investments.

### 2.2.3 Institutional Theory

Institutional theory suggests that the business environment in which a firm operates exerts pressure on the firm. Pressures from these systems elicit different responses as firms seek legitimacy in order to “survive and thrive” in their environment (Scott, 2008). Institutional theory is associated with CSR through (1) bringing in interactions and inter-dependencies among stakeholders into account; and (2) creation of rationalised myths that regulate and standardise firm practices to
execute CSR to some extent, leading to homogenisation of institutional environment adhering to socially responsible behaviour (Matten and Moon, 2008).

Meyer and Rowan (1977) noted that owing to the fact that firms need to establish legitimacy and obtain resources, existing external and internal institutional pressures in the environment where firms operate such as politics, public or cultural pressures forces organisations to adopt a particular structural form and therefore behave in certain ways in order to survive.

Marquis et al., (2007) stated that Institutional theory advocates posit that organisations are substantially influenced by the institutional settings in which they operate, and as such, economic explanations such as financial performance and competition are insufficient to fully account for organisations’ CSR behaviours.

DiMagio et al., (1983) observed that organisations that resemble each other in the same organisational field find its explanation through the process of isomorphism which is based on three concepts of influences; coercive (political influence), mimetic (imitating), and the normative influence (professionalisation of the organization). Husted and Allen (2006) suggested that it is the institutional pressures rather than stakeholders of strategy alignment around CSR that are the most important drivers for an organization to act in a social responsible way.

It can be generally concluded that there exist institutional pressures for firms to embrace CSR. These include external institutional pressures–i.e., forces operating outside firms at the macro- and inter-organisational level within which firms manoeuvre such as government, consumers, and the public; and internal institutional pressures i.e., forces operating inside firms such as employees, management, organizational culture, structure, and leadership (Campbell, 2007).
2.4 Empirical Literature

There has been no consensus of studies on the relationship between financial performance and corporate social responsibility, some studies concluded negative correlation, some positive correlation, while others no correlation at all.

The idea of CSR has been challenged by scholars among them, Friedman (1970) who acknowledged that in a free society, “there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud”. However, Margolis & Walsh, (2002) argued that Friedman did not deny the existence of social problems, but rather in his opinion, if managers wished to pursue some social good, they should do it as individuals and not as executives, meaning that they should not use shareholders’ money for their own objectives.

Waddock and Graves (1997) study hypothesized a positive relationship between CSR and financial performance using Corporate Social Performance as a measure of CSR and Expenditure Return (ER), Return on Assets (ROA) and Return on Equity (ROE) as measures of profitability or the firm’s financial performance.

Cheruiyot (2010) conducted a research to establish the relationship between corporate social responsibility and financial performance of firms listed at the Nairobi stock exchange (NSE). The study was based on a cross sectional study of all the 47 listed companies in the NSE’s main segment as at 31 December 2009 and regression analysis was used to establish the relationship between the CSR index and financial performance measured in terms of the return on assets, return on equity and return on sales. The study concluded that there was a positive significant relationship between CSR and financial performance.

Okwoma (2010) study of financial performance of CSR in commercial banks in Kenya for the period 2007 to 2011. The financial performance was measured using ROA, ROE and Growth in Interest Income (GII). Data was obtained from supervisory reports compiled by central bank of Kenya, whilst CSR was measured using financial
spending on CSR activities. The study used regression model to analyse data, and the conclusion was that CSR had a positive significant effect on ROA, GII and ROE. Further, the study found that CSR contributes significantly to the financial performance of large and medium size commercial banks but did not have any significant effect on the ROA of small commercial banks.

Keffas et al., (2011) examined the financial performance of CSR in banks using financial ratios and frontier efficiency analysis for banks in Japan, United States and United Kingdom. The study found that there was a positive relationship between corporate social responsibility and financial performance. The result was in line with earlier studies that found a positive correlation between CSR and FP (Margolis et al., 2007; Brammer et al., 2006; Wu, 2006).

Amole et al., (2012) conducted a study on the impact of corporate social responsibility on the profitability of Nigerian banks, using ordinary least square (OLS) model of regression in testing the relationship between dependent and independent variables. The model adopted was based on the causal relationship between CSR and firm’s financial performance (FFP) and data on corporate social responsibility expenditure and profit after tax for the period of 2001-2010 was analysed. The results of the regression analysis revealed that for every unit change increment in the CSR expenditure, there will be 95% increase in the profit after tax of the bank. The coefficient of determination (R-Square) value of 0.893 obtained indicated that CSR accounted for 89% of the variation in the profit after tax of the bank. The study found a positive relationship between banks CSR activities and profitability, and the need for banks to demonstrate high level of commitment to corporate social responsibility based on Stakeholder’s theory in order to enhance their profitability in the long run.

Fu et al., (2012) examined the relationship between CSR and corporate financial performance (CFP) for listed companies in China. Their empirical research came to the conclusion that there was a negative relationship between CSR and CFP. The researchers used the social performance as the independent variable in the study and the financial measures as dependent variables. The study concludes that CSR influences the CFP. The researcher noted that some of the limitations in study which may have
caused the negative effect to happen were proxy variables of measure CSR, lack of continuous year’s data and the control variables used.

Cyrus and Ojenye (2013) study sought to establish the relationship between corporate social responsibility practice and financial performance of firms listed in the manufacturing, construction and allied sector of the Nairobi Securities Exchange. The study utilised secondary data from the audited financial reports of the 10 out of the 14 companies in the sector companies for the period from 2007 to 2011. CSR score was obtained using content analysis of reports of the companies on various components of corporate social responsibility as reported in their audited financial reports. Multiple regression model was used to determine the relationship between the two variables and the control variables of manufacturing efficiency and capital intensity were introduced in the regression model. The results indicated the existence of a relationship between the independent variables (corporate social responsibility score, manufacturing efficiency and capital intensity) used in the model and the dependent variable (return on assets) with a correlation coefficient of 0.870. The results of the study also showed that there was an insignificant positive relationship between corporate social responsibility practice and financial performance.

Ofori, Nyuur, Darko (2014) study noted that banks in Ghana viewed corporate social responsibility practices to be a strategic tool; banks are motivated to practise corporate social responsibility by legitimate reasons as much as they are motivated by profitability and sustainability reasons. The study concluded that although there was a positive relationship between corporate social responsibility practices and financial performance, the financial performance of banks in Ghana did not depend significantly on their corporate social responsibility practices.

2.5 Summary of Literature Review

The three theories discussed namely Legitimacy theory, Stakeholder theory and Institutional theory have advanced reasons why organisations engage in CSR and the financial benefits of the CSR activities.
Review of previous research results on relationship of CSR with financial performance has produced different result; some researchers found negative correlation, others positive correlation, while others no correlation at all. Some results have concluded that CSR enhanced profitability while others studies have considered CSR as overhead which reduced dividend payouts. Review of above studies reveals differences on data sources, measures used on both dependent and independent variables and control variables. The research are inconclusive on the relationship between corporate social responsibility and financial performance.

The review of literature found a research gap in Kenya as most of the studies have focused on relationship between Corporate Social Responsibility in different sectors in the NSE but very few studies have been undertaken on commercial banks in Kenya. In addition, the varied studies on correlation between CSR and FP necessitating further research in this area. The purpose of this proposal is to examine the influence of CSR on financial performance of commercial banks in Kenya.
CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction
This chapter concentrations on methods applied in conducting the research. Specifically, the chapter will cover the research design, population of the study, data collection and data analysis technique and model to be applied in the data analysis.

3.2 Research Design
The research was based on correlational design. Correlational research aims to systematically investigate and explain the nature of the relationship between variables in the real world. Correlational research studies go beyond simply describing what exists and are concerned with systematically investigating relationships between two or more variables of interest (Porter & Carter, 2000). The study focused on CSR expenditure and financial performance of commercial banks in Kenya between 2007 and 2013.

3.3 Population
The study population was based on 43 commercial banks licensed by the Central Bank of Kenya. Audited financial statements of all banks for eight years from 2007 to 2013 were examined for CSR expenditure; sustainability-related reports and additional information of corporate social responsibility activities was assessed from websites of the respective banks. Gilbert (2008) asserted that websites disseminate company information and are a form of secondary data and have some distinct advantages over other data sources for research purposes. Secondary data on returns on assets and equity was obtained from the Central Bank of Kenya supervision report for respective years.

3.4 Data Collection
The study used secondary data to achieve the objective of the study. Data on the annual corporate social responsibility expenditure was obtained from the published reports of commercial banks while data on returns on assets and equity was obtained from the Central Bank of Kenya supervision report for eight years from 2007 to 2013.
3.5 Data Analysis

This study examined the influence of CSR on the financial performance of commercial banks in Kenya. Data relating to CSR expenditure and profitability was used to construct ordinary least square (OLS) model of regression to assess the impact as well as test the hypothesis of the study; if there is relationship and the extent of the relationship if any between the independent variable (corporate social responsibility expenditure) and the dependent ROE and ROA.

The study employed econometric method in formulating a regression model which was analysed through the use ordinary least square regression (Kipkemoi 2010). The model used was:

\[ ROA = \beta_0 + \beta_1CSR + U_1 \]
\[ ROE = \beta_0 + \beta_2CSR + U_2 \]

CSR is the independent variable and ROA and ROE are the dependent variables. Where: CSR = Financial expenditure on CSR activities

ROA = Return on Assets
ROE = Return on Equity
U1, U2 = Error terms
\( \beta_0, \beta_1 \) and \( \beta_2 \), are parameters of the estimate

The model used regression, and analysis of variance (ANOVA) which involves calculations that provide information about levels of variability within a regression model and forms a basis for tests of significance. ANOVA will gave statistic for testing the hypothesis that \( \beta_1 \neq 0 \) (there is a significant relationship between the response and predictor variables), against the null hypothesis that \( \beta_1 = 0 \) (there is no significant relationship between the response and predictor variables. Data collected was analysed using Statistical Package for the Social Sciences (SPSS).

3.5.1 Measures for Decision Making

The validity of this analysis is based on the following criteria: T-test is carried out in order to ascertain the significant of the parameters. The student t distribution tests the null hypothesis: \( H_0 = \beta_i = 0 \) against the alternative hypothesis. \( H_1= \beta_i \neq 0 \). Thus, we
derive the result whether the computed t value, t (n-k) degree of freedom at 5% level of significance is greater or less than the critical t value from the table. If the computed t is greater than the critical t, we reject the H0 and accept the alternative hypothesis that beta estimate is significantly different from zero. This reveals the percentage/proportion variable in the dependent variable that is explained by the independent variable(s). Its maximum value is 1 or 100%.

Adjusted R squared (coefficient of determination) informed the variation in the dependent variable due to changes in the independent variable while R (correlation coefficient) indicated the relationship between the study variables.

F-test reveals the significance of the overall regression equation for further prediction. This test, at (k-1) (n-k) degree and N is the number of observation and at 5% level of significance indicates whether or not the expected variable(s) is likely to have occurred by chance or not. The decision rule is that if computed F is greater than critical F, accept the model as significant and reliable for prediction purpose or policy formulation if computed F is less than critical F, and accept the equation as significant and unreliable.

Regression Coefficient shows the value and sign attached to each of the parameters. It will confirm if there is positive relationship between a dependent variable or a negative relationship with the variables.
CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction
This chapter examines data analysis, regression analysis, interpretations and conclusion of the research findings.

4.2 Data Analysis and Findings
4.2.1 Data Analysis on CSR and Financial Performance
The study sought to determine the effect of CSR on financial performance of commercial banks in Kenya. In this study, a total population of 42 commercial banks in operation were considered. However, data on CSR expenditure was obtained from only 20 commercial banks. The CSR information was obtained from websites, bank’s chairman CSR report in the published audit financial statements and newsletters. Data on financial performance (ROA and ROE) was obtained from CBK supervisory reports from 2007 to 2013.

Table 1: Analysis of CSR expenditure all banks stratified according to size of the bank.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>LARGE</th>
<th>MEDIUM</th>
<th>SMALL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>409.65</td>
<td>16.50</td>
<td>0.50</td>
</tr>
<tr>
<td>2008</td>
<td>586.00</td>
<td>73.40</td>
<td>2.15</td>
</tr>
<tr>
<td>2009</td>
<td>493.30</td>
<td>38.90</td>
<td>2.00</td>
</tr>
<tr>
<td>2010</td>
<td>570.13</td>
<td>119.40</td>
<td>2.60</td>
</tr>
<tr>
<td>2011</td>
<td>688.52</td>
<td>156.31</td>
<td>2.42</td>
</tr>
<tr>
<td>2012</td>
<td>808.44</td>
<td>155.29</td>
<td>0.35</td>
</tr>
<tr>
<td>2013</td>
<td>1,305.93</td>
<td>206.77</td>
<td>0.06</td>
</tr>
</tbody>
</table>

Sources: banks’ websites, CSR reports in annual financial reports and sustainable reports by banks.

Table 1 above indicates the year, CSR expenditure in millions (Kenya shillings) stratified according to the size of the banks. The Central Bank of Kenya classified commercial banks according to their market size index; large size banks have Large Peer Group>5% , medium size banks have Medium Peer Group> 1% & < 5% and small
banks have Small Peer Group<1%. Accordingly, the study sample size was composed of 6 large commercial banks, 9 medium size banks and 5 small banks.

Data in table 1, revealed that large commercial banks have over time increased CSR expenditure from Kshs.409 million in 2007 to Kshs.1,305 billion in year 2013, while medium banks increased CSR expenditure from Kshs. 16.5 Million in 2007 to Kshs. 206 million in 2013. The small banks increased CSR expenditure from 0.5 million in 2007 to Kshs. 2.60 million in 2011 and decreased to Kshs. 0.06 million in 2013.

Table 2: Analysis of financial performance of 20 commercial banks.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>AVERAGE ROA %</th>
<th>AVERAGE ROE %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LARGE</td>
<td>MEDIUM</td>
</tr>
<tr>
<td>2007</td>
<td>3.88</td>
<td>2.99</td>
</tr>
<tr>
<td>2008</td>
<td>3.95</td>
<td>2.99</td>
</tr>
<tr>
<td>2009</td>
<td>4.09</td>
<td>3.05</td>
</tr>
<tr>
<td>2010</td>
<td>4.88</td>
<td>3.79</td>
</tr>
<tr>
<td>2011</td>
<td>4.98</td>
<td>3.63</td>
</tr>
<tr>
<td>2012</td>
<td>5.63</td>
<td>3.50</td>
</tr>
<tr>
<td>2013</td>
<td>5.63</td>
<td>3.57</td>
</tr>
</tbody>
</table>


Data in table 2 revealed that in the large banks increased their average ROA from 3.88 % in 2007 to 5.63 % in 2013 while average ROE decreased marginally from 33.45% in 2007 to 33.25% in 2013. Medium banks increased average ROA from 2.99 % in 2007 to 3.57% in 2013 while average ROE increased from 23.80% in 2007 to 26.50% in 2013. Small banks decreased the average ROA from 3.32% in 2007 to 1.50% in 2013 while average ROE decreased to 8.10% in 2013 from 14.97 % in 2007.
Table 3: Cumulative CSR, Average ROA and ROE

<table>
<thead>
<tr>
<th>YEAR</th>
<th>CSR IN MILLIONS (KSHS)</th>
<th>AVERAGE ROA %</th>
<th>AVERAGE ROE %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>426.65</td>
<td>3.34</td>
<td>24.49</td>
</tr>
<tr>
<td>2008</td>
<td>661.55</td>
<td>3.09</td>
<td>22.42</td>
</tr>
<tr>
<td>2009</td>
<td>534.2</td>
<td>3.00</td>
<td>21.42</td>
</tr>
<tr>
<td>2010</td>
<td>692.13</td>
<td>3.93</td>
<td>26.28</td>
</tr>
<tr>
<td>2011</td>
<td>847.26</td>
<td>3.79</td>
<td>27.10</td>
</tr>
<tr>
<td>2012</td>
<td>964.08</td>
<td>3.58</td>
<td>23.73</td>
</tr>
<tr>
<td>2013</td>
<td>1512.76</td>
<td>3.67</td>
<td>23.93</td>
</tr>
</tbody>
</table>

Sources: banks’ websites, CSR reports in annual financial reports and central bank supervision reports (2007-2013).

Table 3 indicates that the CSR for all the banks studied increased from Kshs. 426.65 million to Kshs. 1512.76 billion in 2013, while the average ROA slightly increased from 3.34% in 2007 to 3.67% in 2013 and the highest ROA of 3.98% was recorded in 2010. The average ROE decreased from 24.49% in 2007 to 23.93 in 2013, while the highest ROE of 27.10 was recorded in 2011 due to good investment climate in the country.

4.2.2 Results of Regression Analysis

Table 4: Model Summary of CSR, Average ROA and ROE

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>.461</td>
<td>.213</td>
<td>.055</td>
<td>.34283</td>
<td>.213</td>
<td>1.352</td>
</tr>
<tr>
<td>2</td>
<td>.120</td>
<td>.014</td>
<td>-.183</td>
<td>2.17152</td>
<td>.014</td>
<td>.073</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), CSR

b. Dependent Variable: ROA and ROE

As shown in table 4 above the correlation coefficient of 0.461 and 0.12 indicates a very weak correlation between the dependent and independent variables. The correlation coefficient (R) of 0.461 represents a moderate positive relationship between investment
in CSR and ROE while correlation coefficient (R) of 0.12 represents a weak positive relationship between investment in CSR and ROE. This indicates that 46.1% and 12% of the variation in the ROA and ROE respectively is explained by the changes in CSR investments while only 53.9% and 88% respectively are unexplained. The value of adjusted R squared (coefficient of determination) of 0.55 and -0.183 is indicative that the model is a fair estimate of the relationship CSR and ROA and weak estimate between CSR and ROE respectively.

Table 5: ANOVA of CSR, Average ROA and ROE

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>0.159</td>
<td>1</td>
<td>0.159</td>
<td>1.352</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>0.588</td>
<td>5</td>
<td>0.118</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>0.747</td>
<td>6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Regression</td>
<td>0.342</td>
<td>1</td>
<td>0.342</td>
<td>.073</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>23.577</td>
<td>5</td>
<td>4.715</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>23.920</td>
<td>6</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), CSR
b. Dependent Variable: ROA and ROE

From the ANOVA statistics in table 5 above, \( F_{\beta 1} \) and \( F_{\beta 2} = 0.297 \) and \( 0.798, p < 0.05 \). It can therefore be concluded that CSR has no statistically significant effect on financial performance of commercial banks.
Table 6: Regression Coefficients of CSR, Average ROA and ROE

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardised Coefficients</th>
<th>Standardised Coefficients</th>
<th>95% Confidence Interval for B</th>
<th>Correlations</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>t</td>
<td>Sig.</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3.122</td>
<td>0.339</td>
<td>9.21</td>
<td>0.00</td>
<td>2.25</td>
</tr>
<tr>
<td></td>
<td>CSR</td>
<td>0.0001</td>
<td>0.461</td>
<td>1.16</td>
<td>0.297</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>23.664</td>
<td>2.146</td>
<td>11.02</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>CSR</td>
<td>0.001</td>
<td>0.120</td>
<td>0.27</td>
<td>0.798</td>
</tr>
</tbody>
</table>

a. Dependent variable: ROE & ROA

From table 6 above the predictor standardised coefficients for CSR is $\beta_1=0.461$ and $\beta_2 = 0.120$ resulting to conclusion that CSR has a positive effect on financial performance. The result indicated that for every unit change in CSR expenditure the ROA and ROE will increase by 46.1% and 12.0% respectively and vice versa. The regression equation from the data in the above table 6 can be summarised as

$\text{ROA}= 3.122 + 0.461 \text{CSR} + U$.......................... i

$\text{ROE}= 23.664 + 0.120 \text{CSR} + U$.......................... ii

4.2.3 Regression Analysis of Commercial Banks by Size

Table 7: Regression analysis of commercial banks based on size

<table>
<thead>
<tr>
<th>$\beta_1$ (Predictor coefficient for ROA)</th>
<th>$\beta_2$ (Predictor coefficient for ROE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>Medium</td>
</tr>
<tr>
<td>------</td>
<td>--------</td>
</tr>
<tr>
<td>Constant</td>
<td>3.309</td>
</tr>
<tr>
<td>Coefficients</td>
<td>0.002</td>
</tr>
<tr>
<td>Standard error</td>
<td>0.001</td>
</tr>
<tr>
<td>t-statistic</td>
<td>2.992</td>
</tr>
<tr>
<td>t-critical</td>
<td>0.03</td>
</tr>
<tr>
<td>R-Square</td>
<td>0.642</td>
</tr>
<tr>
<td>F-value</td>
<td>8.954</td>
</tr>
<tr>
<td>F-critical</td>
<td>0.03</td>
</tr>
</tbody>
</table>
From the above table 7, the regression analysis of the predictor coefficients for ROA in large, medium and small banks were 0.002 and 0.004 and 0.287 respectively. This interprets that for every Kshs. 1 million spent on CSR, ROA increases by 0.2%, 0.4% and 28.7% for large, medium and small size banks respectively. The R square(s) were 0.642, 0.646 and 0.149 for ROA in large, medium and small banks respectively, therefore the correlation coefficient for large and medium banks indicates a positive correlation between the dependent and independent variables while for small banks a weak correlation. Thus, it can be summarised that 64.2%, 64.6% and 14.9% of the changes in ROA is attributed to CSR activities leaving 35.2%, 35.4% and 85.1% unexplained in large, medium and small banks respectively.

The F- value were 8.954, 9.125 and 0.875 for large, medium and small banks respectively which were greater than the corresponding F-critical of 0.03, 0.029 and 0.393. The F-critical of 0.03 and 0.029 for large and medium was less than 0.05, which is indicative that there is a significant relationship between the dependent and independent variables used in the study. The F-critical of 0.393 for small banks was more than 0.05 indicating no relationship between the dependant and independent variables.

The predictor coefficients for ROE in large, medium and small banks were 0.003 and 0.02 and 2.368 respectively. This interprets that for every Ksh. 1 million spent on CSR, ROE increases by 0.3%, 2% and 23.68% for large, medium and small size banks respectively. The R square(s) were 0.146, 0.525 and 0.345 in large, medium and small banks respectively, therefore 14.6%, 52.5% and 34.5% of the changes in ROE was attributed to CSR activities leaving 85.4%, 47.6 % and 65.5% unexplained in large, medium and small banks respectively.

The F- value for large, medium and small banks were 0.857, 5.524 and 2.637 respectively were greater than the corresponding F-criticals of 0.397, 0.066 and 0.165 which was indicative that the model was not significant and reliable at 5% level of confidence.

The study further revealed that ROA for large, medium and small banks were 33.09%, 29.29% and 18.08% respectively regardless of spending on CSR activities while ROE
was 29.98 %, 23.18% and 9.57% for large, medium and small banks respectively regardless of spending on CSR activities. The above percentage of indicates that banks achieve ROA and ROE regardless of investment in CSR activities. The above table 7 results can be summarised below:

Large banks : ROA = 3.309 + 0.002 CSR  
ROE = 29.98 + 0.003 CSR  
Medium banks : ROA = 2.929 + 0.004 CSR  
ROE = 23.18 + 0.02 CSR  
Small banks : ROA = 1.808 + 0.287 CSR  
ROE = 9.057 + 2.368 CSR  

The t-statistic for ROA and ROE for big, medium and small banks were greater than t-critical, it can be concluded that CSR has a significant effect on ROA and ROE of all the banks.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter provides a summary, conclusions, recommendations, limitations of the study and suggestions for further research.

5.2 Summary of the Findings
The purpose of the study was to determine the influence of Corporate Social Responsibility on the Financial Performance of commercial banks in Kenya. Waddock and Graves (1997) indicated that the firms that engage in corporate social responsibility have good financial performance since the ability to invest in socially responsible activities signals good managerial performance that provides the firm with resources that can be used for discretionary expenditures.

The study used three common theories articulated in the CSR literature namely Legitimacy theory, Stakeholder theory and Institutional theory to justify the reason why companies engage in the CSR activities. This research was based on correlational design and focused on CSR expenditure and financial performance of commercial banks in Kenya between 2007 and 2013. The dependent variable was financial performance and was measured by Return on Equity and Return to Assets, whilst the CSR expenditure was the independent variable.

The study used regression analysis to establish the relationship between financial performance and CSR practice of commercial banks in Kenya. This study found that CSR has a positive and significant effect on ROA and ROE (financial performance) in big, medium and small banks. The findings of the study was in agreement with findings of Okoth (2012) that CSR improves financial performance of commercial banks and partly with Okwona (2010) on CSR improvement of financial performance of big and medium banks not small banks. The study of deviated from Mutuku (2004) who recorded no relationship between CSR and financial performance.
5.3 Conclusions and Recommendations

5.3.1 Conclusions

The study revealed that large banks invest more in CSR than medium and small size banks. The study noted that large banks financial have better financial performance than medium and small banks and therefore invest heavily in CSR activities. The study also found out that small banks invest least in CSR and their ROA and ROE was minimal compared to large and medium banks.

The study concluded that there is a fair significant relationship between the CSR and financial performance (ROA and ROE) for all aggregated commercial banks. The Regression analysis on banks based on the market size concluded that CSR influenced the ROE and ROA on all banks.

5.3.2 Recommendations

Data obtained from different sources have significant differences in the final evaluation CSR performance of a firm. It is recommended that the regulator, Central bank should give guidelines on how to disclose CSR expenditures and activities in financial statements or impress on the banks to adopt Global Reporting Initiative Framework which would facilitate future researcher to effectively test the causal relationship of CSR and FP.

The benefits of investing in CSR are enormous and from the conclusion of this study that CSR influences ROA and ROE on all banks; this study encourages all banks and more particular small banks to invest in CSR activities in order to improve their ROA and ROE.

The positive relationship between CSR and FP suggests that bank managers can use CSR to improve customer trust, mitigate reputational risks, and create long-term shareholder value. Although CSR is optional in Kenya, bank chief executives and Boards of Directors should be aware of the strategic benefits that bank may attain from engaging in CSR activities.
5.4 Limitations of the Study

The study had four major limitation. First the sample of medium and small banks was relatively low due to the lack of CSR activities on expenditures and therefore it may be difficult to generalise the results to the overall population of the banks. The study used relatively few banks compared to the previous studies undertaken by Waddock and Graves (1997) and Mahoney and Roberts (2007) who used more 300 companies.

Secondly, CSR reports are not standardised and therefore banks do not report their CSR activities using the Global Reporting Initiative Framework which is audited by an independent auditor and therefore inconsistancy in reporting makes comparability difficult. As stated in chapter one of this research, the effectiveness on the CAMEL in the bank determines the financial performance of the respective banks. The research assumed that same CAMEL for all banks and therefore ROA and ROE can be compared among the banks.

Thirdly, the study focused on the banking industry only, which means that the result may be biased and cannot be generalised on other industries.

Lastly the study used only the available secondary data not the primary data. Secondary data used had inherent limitations such incompleteness, exclusion of non-monetary CSR activities.

5.5 Suggestion for Future Studies

Future studies should improve the model by including other financial performance and bank characteristics that affect corporate social responsibility. Also the future studies should incorporate a larger sample size particularly the medium and small banks and longer time span to provide more credible research results on relationship between corporate social responsibility and financial performance. An increased sample size in future studies may allow higher levels of generalisation.

It is further recommended that a study be undertaken to determine if investment in CSR increases the customer trust, mitigation of reputation risks and creates a long term shareholder value.
Future studies should cover many sectors and qualitative and quantitative research using primary data so as to address the biased research results.
REFERENCES


Friedman (1970). “The social responsibility of business is to increase its profits.”


APPENDICES

APPENDIX I

COMMERCIAL BANKS IN KENYA LISTED BASED ON THE MARKET SHARE AS PER CBK SUPERVISION REPORT.

LARGE
1. Equity Bank Ltd
2. Kenya Commercial Bank Ltd
3. Standard Chartered Bank (K) Ltd
4. Barclays Bank of Kenya Ltd
5. Co-operative Bank of Kenya Ltd
6. CFC Stanbic Bank (K) Ltd

MEDIUM
7. I&M Bank Ltd
8. Diamond Trust Bank (K) Ltd
9. NIC Bank Ltd
10. Citibank N.A. Kenya
11. Commercial Bank of Africa Ltd
12. Bank of Baroda (K) Ltd
13. Imperial Bank Ltd
14. Chase Bank Ltd
15. Prime Bank Ltd
17. Family Bank Ltd
18. Bank of India
19. Bank of Africa (K) Ltd
20. Victoria Commercial Bank Ltd
21. African Banking Corporation Ltd

SMALL
23. Habib Bank Ltd
24. Habib Bank A.G. Zurich
25. Gulf African Bank Ltd
26. Guaranty Trust Bank Ltd
27. Guardian Bank Ltd
28. Giro Commercial Bank Ltd
29. Fidelity Commercial Bank Ltd
30. Development Bank of Kenya Ltd
31. Trans - National Bank Ltd
32. First Community Bank Ltd
33. Oriental Commercial Bank Ltd
34. Equatorial Commercial Bank Ltd
35. Paramount Universal Bank Ltd
36. Jamii Bora Bank Ltd
37. Middle East Bank (K) Ltd
38. Credit Bank Ltd
39. Dubai Bank Ltd
40. Charterhouse Bank Ltd
41. Consolidated Bank of Kenya Ltd
42. UBA Kenya Ltd
43. Ecobank Kenya Ltd

** discontinued by Central bank.
## APPENDIX 2

### BANK BY SIZE OF THE MARKET SHARE

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
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</thead>
<tbody>
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<tr>
<td>3</td>
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<tr>
<td>4</td>
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</tr>
<tr>
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<td>6</td>
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</tr>
<tr>
<td></td>
<td><strong>MEDIUM</strong></td>
<td></td>
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<tr>
<td>7</td>
<td>I&amp;M Bank Ltd</td>
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<td>9</td>
<td>NIC Bank Ltd</td>
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<tr>
<td>11</td>
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<td>12</td>
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<td>13</td>
<td>National Bank of Kenya Ltd</td>
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<td>14</td>
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<td>18</td>
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<tr>
<td>19</td>
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</tr>
<tr>
<td>20</td>
<td>Consolidated Bank of Kenya Ltd</td>
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### BANK BY SIZE OF THE MARKET SHARE

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<td>2</td>
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<td>3</td>
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<td>93.00</td>
</tr>
<tr>
<td>-------------------------------------------</td>
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<td>----------</td>
</tr>
<tr>
<td><strong>LARGE</strong></td>
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<tr>
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**BANK BY SIZE OF THE MARKET SHARE**

**LARGE**

1. Equity Bank Ltd
2. Kenya Commercial Bank Ltd
3. Standard Chartered Bank (K) Ltd
4. Barclays Bank of Kenya Ltd
5. Co-operative Bank of Kenya Ltd
6. CFC Stanbic Bank (K) Ltd

**MEDIUM**

7. I&M Bank Ltd
8. Diamond Trust Bank (K) Ltd
9. NIC Bank Ltd
10. Commercial Bank of Africa Ltd
<table>
<thead>
<tr>
<th>No.</th>
<th>Bank Name</th>
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<th>ROE</th>
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<td>National Bank of Kenya Ltd</td>
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<td>African Banking Corporation Ltd</td>
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**SMALL**

<table>
<thead>
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<th>ROA</th>
<th>ROE</th>
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<td>1.61</td>
<td>17.18</td>
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</table>

**BANK BY SIZE OF THE MARKET SHARE 2013**

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<th>ROA</th>
<th>ROE</th>
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<td>172.00</td>
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<td>3</td>
<td>Standard Chartered Bank (K) Ltd</td>
<td>142.40</td>
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<td>4</td>
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<td>165.92</td>
<td>5.80</td>
</tr>
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<td>5</td>
<td>Co-operative Bank of Kenya Ltd</td>
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<td>4.70</td>
</tr>
<tr>
<td>6</td>
<td>CFC Stanbic Bank (K) Ltd</td>
<td>136.00</td>
<td>4.10</td>
</tr>
</tbody>
</table>

**MEDIUM**

| 7     | I&M Bank Ltd                            | 93.15| 5.50 | 29.50|
| 8     | Diamond Trust Bank (K) Ltd             | 0.00| 4.90 | 30.00|
| 9     | NIC Bank Ltd                            | 0.00| 4.60 | 29.60|
| 10    | Commercial Bank of Africa Ltd          | 10.40| 3.60 | 32.50|
| 11    | Prime Bank Ltd                         | 9.52| 3.80 | 32.50|
| 12    | Chase Bank Ltd                         | 64.00| 2.90 | 30.10|
| 13    | National Bank of Kenya Ltd             | 29.70| 1.90 | 15.00|
| 14    | Bank of Africa (K) Ltd                 | 0.00| 2.00 | 15.70|
| 15    | African Banking Corporation Ltd        | 0.00| 2.90 | 23.60|

**SMALL**

| 16    | Fidelity Commercial Bank Ltd           | 0.00| 2.50 | 22.40|
| 17    | Trans - National Bank Ltd              | 0.00| 2.30 | 12.00|
| 18    | Credit Bank Ltd                        | 0.00| 1.00 | 5.90 |
| 19    | Oriental Commercial Bank Ltd           | 0.06| 2.50 | 11.70|
| 20    | Consolidated Bank of Kenya Ltd         | 0.00| -0.80| -11.50|