EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON THE PROFITABILITY
OF COMMERCIAL BANKS IN KENYA

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DECLARATION

I, the undersigned, declare that this project is my original work and that it has not been presented in any other university or institution for academic credit.

Signature .... Date ....

This research project has been submitted for examination with our approval as university supervisor.

Signature .... Date ....

Supervisor

Dr. J.Aduda

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DEDICATION

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ABSTRACT

Every business takes birth, survives and grows with the consent and co-operation of the society. It is the society which provides inputs to the business and accepts its output. Naturally the business owes everything to the society. It has a broad spectrum of obligations towards the society. Therefore in order to be a good citizen every business has to accept and fulfil its proportionate responsibilities towards the society. The business being the creator of wealth has to help to alleviate the problem of poverty and unemployment. It should develop more economic opportunities and also help the government in bringing down economic disparities. The business has to play an important role in bringing greater stability of economic activity. CSR denotes organizations' willingness to take responsibility and be accountable for the effects of their activities and decisions. It is concerned with how companies manage the business processes to produce an overall positive impact on society. The objective of the study was to determine the effect of corporate social responsibility on the profitability of commercial banks in Kenya. Secondary Data was collected from Central Bank and banks financial reports and multiple regression analysis used in the data analysis. From the finding on the Adjusted R squared is coefficient of determination , the stduy found that there was greater variation on profitability of commercial banks due to changes in corporate donation to education , poverty alleviation , charity work , size of the bank , banks deposits and liquidity of the bank , this shows changes in profitability of commercial banks could be accounted to changes in corporate donation to education, poverty alleviation, charity work, size of the bank, banks deposits and liquidity of the bank. From the finding on the correlation coefficient, the study found that there was strong positive relationship corporate social responsibility to education, poverty alleviation, charity work, size of the bank, banks deposits and liquidity of the bank and profitability of commercial banks. The research also

revealed that contribution to community education lead to the organization's profitability. The research revealed that financial contribution to the corporate social responsibility contributed to the organization's profitability.

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LIST OF ABBREVIATIONS

CFP   Corporate Financial Performance

CRR   Cash Reserve Ratio

CSR   Corporate Social Responsibility

EMS   Environmental Management Systems

KEPSS   Kenya Electronic Payments and Settlement System

MT 102   Multiple third parties Message Type

MT 103   Single Third Party Message Type

MT 202   Inter-bank transfers

NPLs   non-performing loans

CHAPTER ONE:

INTRODUCTION

1.1 Background to the Study

As a field of study in management, Corporate Social Responsibility (CSR) probably emerged in the 1950s in the United States. Business practices in the 1900s that could be termed socially responsible took different forms: philanthropic donations to charity, service to the community, enhancing employee welfare and promoting religious conduct (Banerjee. 2009). Before the twenty-first century, there was a common perception within and outside the business world that the company's sole social responsibility was to make as much profit as possible, while community building and public services are the sole responsibility of the government (Visser. Matten and Pohl. 2010).

Therefore, maximization of profit meant the maximization of the taxes paid by the company to the government. This, in turn, could be spent on welfare, improving the society's wellbeing. With this traditional understanding, involving the company in CSR would be seen as detrimental to both the company and society in general. None of the parties considered CSR in any way related to their respective business or social activities (Visser et al. 2010). Early proponents were CEOs and business leaders from the big oil and energy companies, telecommunication corporations and automobile manufactures of the 1920s (Banerjee. 2009).

The ideology of CSR in the 1950s was primarily based on an assumption of the obligation of business to society. This obligation arose because some scholars and practitioners saw business as an instrument of society and managers as public trustees whose main job was to

balance often competing demands of employees, customers, suppliers, communities and shareholders. The philosophy driving CSR discourses from the 1950s onwards was an attempt to cultivate civic virtue in corporations. In the 1980s, the focus of CSR shifted from CSR as obligation ("doing good to do good") to CSR as strategy ("doing good to do well") (Banerjee. 2009).

1.1.1 Corporate Social Responsibility

CSR has gained an increasingly high profile in recent years. CSR can be defined as the ways in which a business seeks to align its values and behaviors with those of its various stake holders. The stake holders of a business includes the employees, customers, suppliers, government, interest groups such as environmental groups and wider societal interests on whom operations of the business may have an impact. There is a growing awareness that companies cannot operate in isolation from the wider society in which they are located, and that they need to consider the interests of groups other than shareholders if their longer term sustainability is to be maintained (Mallin. 2009).

CSR is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources. Kotler and Lee (2011a). describe community well-being to include human conditions as well as environmental issues (Kotler & Lee. 2011a). A key element of this definition is the word discretion. It does not refer to business activities that are mandated by law or that is moral or ethical in nature and perhaps therefore expected; rather, it refers to a voluntary commitment a business makes in choosing and implementing these practices and making these contributions. They further explain that such a commitment must be demonstrated in order for a company to be described as socially

responsible This will be fulfilled through the adoption of new business practices and/or contributions, either monetary or nonmonetary (Kotler & Lee. 2011).

CSR is a consistent pattern at the very least, of private firms doing more than they are willing to do under applicable laws and regulations guiding and governing the environment, worker safety and health and investments in the communities which they operate (Hay, Stavins, & Vietor. 2005). In the last decade directional signal signs point to increased corporate giving, increased corporate reporting on social responsibility initiatives, the establishment of a corporate social norm to do good, and an apparent transition from giving as an obligation to giving as a strategy (Kotler & Lee. 2011).

The role of business is rapidly changing. In today's emerging global society, businesses have embraced CSR as a value reflective of their new role in contributing to societal goals, but also a strategy for improving the bottom line. Increasingly, business seeks to maintain corporate identity while at the same time upholding social and environmental standards and confronting the concerns of social exclusion and community development (Development, 2001. p. 3). A corporation adopts and conducts discretionary business practices and investments that support social causes to improve community well-being and protect the environment (Kotler & Lee. 2011). In the business community it is perhaps the view of many that Corporate Social Responsibility (CSR) is the primary focus and that sustainability belongs on the next level down. This may seem a little trite but it highlights one of the potential conflicts that sit at the core of business strategy more importantly it demonstrates the potential diversity of opinion (Hawkins. 2006. p. 1).

There continues to be confusion among business, media, civil society and academics about what is meant by terms such as 'corporate social responsibility'. While the term CSR is widely used, it is often understood by journalists and others to refer only to a business's involvement in the community such as employee volunteering and corporate philanthropy, whereas we understand that what is important is not what companies do with a small percentage of their profits, but how they make all their profits; how business does its business; how it behaves to employees, customers and suppliers; the impacts it has on the environment and society, as well as on the communities in which it operates. CSR is a business approach that creates long-term value to society at large, as well as to shareholders, by embracing the opportunities and managing the risks associated with economic, environmental and social developments; and builds this into corporate purpose and strategy with transparency and accountability to stakeholders (Theaker. 2008).

1.1.2 Profitability of Commercial Banks

Financial performance refers to the measure of how well a firm can use assets from its primary mode of business and generate revenue (Haber & Reichel. 2005). Different perspectives of how to evaluate a firm's financial performance have different theoretical implications (Hillman and Keim. 2001). and each is subject to particular biases (Mc Guire, Schneeweis, & Hill. 1986). In that manner, certain researchers have used market measures (Alexander and Buchholz, 1978; Vance 1975), while others have put forth the accounting measures (Waddock and Graves, 1997; Cochran and Wood, 1984). while some adopt both of these (McGuire, Sundgreen, Schmeewei. 1988).

Focus of our analysis in this study wason accounting measures specifically Corporate Size specifically on Return on Assets (ROA). The shortcoming of this approach is in sense that it only captures historical data and aspects of a company (McGuire, Sundgren and Schneeweis. 1988). Such information is however subject to general managerial discretion of fund allocation and thus reflects internal decision making capabilities and managerial performance, rather than external market responses to organizational action (Cochrane, 1984).

1.1.3 Effect of Corporate Social Responsibility on the Profitability

The effect of CSR and CFP has raised argument among scholars (Dodd, 1932; Jarrel and Peltzman, 1985; Hoffer et al., 1988; Preston and O'banno, 1997; Waddock and Graves. 1997; Griffins and Mahon. 1997; McWilliams and Siegel. 2000; Simpsons and Kohers. 2002). As previous literature has stated, the CSP and CFP effect of the relationship may be negative, neutral or positive. The viewpoint for positive correlation between CSP and CFP suggest that as a company's explicit costs are opposite of the hidden costs of stakeholders, therefore, this viewpoint is proposed from the perspective of avoiding cost to major stakeholders and considering their satisfaction (Cornell and Shapiro. 1987). In addition, this theory further infers that commitment to CSR would result to increased costs to competitiveness and decrease the hidden cost of stakeholders who are necessary for the survival of the company. Bowman and Haire. (1975). pointed out that some stakeholders' regard CSR as a symbolic management skill, namely, CSR is a symbol of reputation, and the company reputation was improved by actions to support the community, resulting in positive influence on sales.

Therefore, when a company increases its costs by improving CSP in order to increase competitive advantage, such CSR activities can enhance company reputation, thus, in the long run CFP can be improved, by sacrificing the short term CFP; The viewpoint for negative effect between CSR and CFP suggests that the fulfilment of CSR will bring competitive disadvantages to the company (Aupperle et al. 1985). as the consequence costs may request other methods or need to bear other costs. When carrying out CSR activities, increased costs will result in little gain if measured in economic interests. When neglecting some stakeholder, such as employed or the employees or environment, result in a lower CSP for the enterprise, the CFP may be improved. Hence, Waddock and Graves (1997) indicated that this theory was based on the assumption of negative effect of CSR and CFP.

1.1.4 Commercial Bank in Kenya

The Kenyan banking sector is of comprised 43 commercial banks, 1 mortgage finance Company, 9 deposit taking microfinance institutions, 7 representative offices of foreign banks, 105 foreign exchange bureaus and 2 credit reference bureaus as at October 31, 2013. The banking sector balance sheet expanded by 13.2 percent from Kshs 2,316.1Billion in October 2012 to Kshs 2,622.6 billion in October 2013. The key components of the balance sheet on the asset side were loans and advances, government securities and placements, which accounted for 56.9 percent, 22.1 percent and 5.1 percent of total assets, respectively.

The banking sector gross loans and advances grew from Kshs 1,340.7 billion in October 2012 to Kshs 1,549.9 billion in October 2013, which translated to a growth of 15.6 percent. The growth was attributed to increase in lending to households, trade, manufacturing and real

estate sectors. Loans and advances net of provisions stood at Kshs 1,491.8 billion in October 2013, up from Kshs 1,290.4 billion registered in a similar period in 2012. Deposits from customers which form the main source of funding for the banking sector, accounted for 72.7 percent of total funding liabilities. The deposit base increased by 10.3 percent from Kshs 1,728.7 billion in October 2012 to Kshs 1,906.3 billion in October 2013 largely supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.

The banking sector recorded improved capital levels in October 2013 with total shareholders' funds growing by 20.9 percent from Kshs 342.3 billion in October 2012 to Kshs 413.7 billion in October 2013. Consequently, the ratios of core and total capital to total risk-weighted assets increased from 17.8 percent and 20.6 percent in October 2012 to 19.4 percent and 22.9 percent, respectively. The stock of gross non-performing loans (NPLs) increased by 32.2 percent from Kshs 62.5 billion in October 2012 to Kshs 82.7 billion in October 2013 attributed mainly to high interest rates and the reduced economic activities during the period towards and after the March 2013 general elections. Similarly, the ratio of gross NPLs to gross loans increased from 4.7 percent in October 2012 to 5.3 percent in October 2013.

1.2 Research Problem

Previous studies have been conducted on the effects of other aspects of CSR on the financial performance of firms and have yielded different results. The literature has presented arguments and evidence in three directions, a positive, a negative or a neutral relation between various other CSR activities and corporate financial performance. Under the stakeholder theory framework, argument is given that attention to the interests of the various

stakeholders of the corporation may improve a firm's image and reputation, and that a firm's concerns about such interests are able to affect its productivity positively, financial performance and value creation (Guan & Noronha. 2013).

Griffin and Mahon. (1997). and Margolis and Walsh. (2001, 2003). show the controversial results about CSR -CFP relation which testifies for the need of further research. Margolis and Walsh. (2001). has examined a group of studies, which utilised 27 distinct data sources. While considering CSR as an independent variable, a series of works try to verify whether CSR has the capacity to positively affect financial performance. Among the works revised by Margolis and Walsh. (2001). 53 per cent of those searching a positive effect of the CSR on CFP had confirmed that relationship (Guan & Noronha. 2013).

Recent investigation undertaken by Baron et al. (2009). demonstrates that these questions remain un answered. These authors examine the connection between CSR and CFP combining the variable' Social Pressure'' as a moderating factor of this relation. The inclusion of this factor to the study leads to a neutral relation between CSR and CFP(Aras, Aybars, & Kutlu. 2010). Another study was conducted by Orlitzky et al. (2003). who found a strong correlation between corporate financial performance and corporate social/environmental performance (Hay et al. 2005). Some argue that CSR activities increase costs without sufficient offsetting benefits, hurt performance and compete with value-maximizing activities. Examples of these additional costs include making charitable donations, developing plans for community improvement, and establishing procedures to reduce pollution (Sun. 2012).

A survey on eight UK supermarkets on CEO's perspectives on CSR activities and financial performance reported a significant negative relationship of the two variables. Nelling and Webb. (2009). use the KLD index as the measure of CSR and return on assets (ROA) to measure financial performance. They find no evidence that CSR is related to a firm's financial performance (Sun. 2012).

Many other CSR -financial performance studies document a positive relationship between CSR and financial performance. Early work by Cochran and Wood. (1984). find a positive link between CSR and financial performance. Cochran and Wood. (1984). point out that more comprehensive measure of CSR are needed to further research in this area. McGuire et al. (1988). document a positive association between CSR and accounting-based and market-based financial performance measures (Sun. 2012). From the reviewed studies, the conclusion is that CSR as a whole does not give a conclusive directional relationship with financial performance of a business organization. The study therefore intends to study an aspect of corporate social responsibility) and profitability and as an aspect of financial performance in the banking industry.

1.3 Objective of the Study

To determine the effect of corporate social responsibility on the profitability of commercial banks in Kenya.

1.4 Value of the Study

This research will increase the understanding of the relationship between corporate social responsibility and the financial profitability of firms. The results should be of interest to managers who contemplate engaging in corporate social responsibility activities, investors and financial analysts who assess firm performance and policy makers who design and implement guidelines on corporate social responsibility. The findings of this report will be used to improve information available to relevant actors regarding the current situation concerning corporate social responsibility practices in the Banking industry and how this is related to the sectors profitability. This report will also seek to produce recommendations for other firms willing to incorporate corporate social responsibility practices in their various business operations.

The finding of the study will be of great importance to policy maker in the banking industry as they will be enlightened on the effect of corporate social responsibility on the profitability of commercial banks in Kenya. The study will also be of great importance to future scholars and academicians as it will provide literature for future research as well as provide basis for future research.

CHAPTER TWO:

LITERATURE REVIEW

2.1 Introduction

This chapter contains a review of literature regarding CSR practices in firms. In this chapter the researcher will bring out what others have written about corporate social responsibility as a corporate social responsibility activity.

2.2 Theoretical Framework

A theory can be described as a set of assumptions, propositions, or accepted facts that attempt to provide a plausible or rational explanation of cause and effect relationship among a group of observed phenomenon (Krishnaswami & Satyaprasad. (2010)).

2.2.1 Instrumental Theory

This theory assumed that the corporation is an instrument for wealth creation and that this is its sole social responsibility. Only the economic aspect of the interactions between business and society is considered. So any supposed social activity is accepted if, and only if, it is consistent with wealth creation. This group of theories could be called instrumental theories because they understand CSR as a mere means to the end of profits (Lanis & Richardson. (2012)).

2.2.2 The Institutional Theory

Rather than seeing CSR purely as a realm of voluntary action, institutional theory suggests seeking to place CSR explicitly within a wider field of economic governance characterized by different modes, including the market, state regulation and beyond. While CSR measures are often aimed at or utilize markets as a tool, institutional theories of the economy also see

markets themselves as being socially embedded within a wider field of social networks, business associations and political rules. In particular, many of the most interesting developments in CSR today play themselves out in a social space of private, but collective forms of self-regulation (Kotler & Lee. 2011). Given that CSR includes the aspect of society already in its very label; one would have thought that institutional theory would have been a core conceptual lens in understanding the social responsibilities of business all along. After all in its very definition, institutional CSR appears to be right at the center of what CSR is all about (Hawkins. 2006).

2.2.3 The Shareholder Primacy Theory

Traditional shareholder primacy theory contends that a corporation is primarily responsible to its shareholders to maximize wealth, consequently social factors should not interfere in a corporations business operations. In the modern business setting however, a company's core objective of profit maximization must be underpinned by a proactive approach to CSR in order to manage and mitigate a broader array of risk factors. Managing risk via community engagement and the implementation of socially responsible strategies is increasingly linked to business success and stakeholder confidence. Intangibles such as trust, ethics, corporate culture, employee satisfaction, environmental behavior and community responsibility are increasingly relevant to consumers, business partners, governments, special interest groups, existing and potential employees and investors, (Corporate Social Responsibility. (2001)).

In the last two hundred years markets have unleashed a tremendous amount of innovation and progress in the west. The industrial revolution, the rise of consumerism, and the dawn of the global marketplace have each in their own way made life better for millions of people

(Kotler & Lee. 2011). Alongside the great strides forward are a set of deeply troubling issues. Capitalism, understood in the sense of "how markets work" has also notoriously increased the divide between the rich and poor, both within and across nations. We have become blind to some of the consequences of our actions that are harmful to others, such as environmental degradation, dominance of less privileged groups, and the inequitable distribution of opportunities (Visser et al. 2010).

The fruits from these deeply troubling issues are beginning to germinate. Global warming, global financial crises, and global terrorism threaten to destabilize our world. It is more imperative than ever to study carefully and understand the power of markets and capitalism, and begin the construction of a new narrative about how capitalism can be a force for good in the world (Visser et al. 2010).

Stake holder theory can be seen as articulating a different and morally rich way of thinking about disciplines of business. Stakeholder theories have been developed to address three important and interrelated questions about business: how value is created, the nature of the relationship between ethics and capitalism, and how managers can best think about their day-to-day practices. The pursuit of these questions raises many more. The vocabulary for stakeholders is not only good for addressing these three purposes, but for creating new opportunities for practical and theoretical development as well (Visser et al. 2010).

2.3 Determinant of Profitability of Commercial Banks

According to Husni. (2011.) the internal determinants of banks profitability are normally consisting of factors that are within the control of commercial banks. They are the factors which affect the revenue and the cost of the banks. Some studies classified them into two categories namely the financial statement variables and non-financial variables. External factors are said to be the factors that are beyond the control of the management of commercial banks. The external determinants of commercial banks profitability are indirect factors, which are uncontrollable, but have an enormous impact on bank's profitability. According to Karkrah and Ameyaw. (2010). macroeconomic variables has been a major components of the external profit determinants in most studies. The most external factors that have been presented in most studies include competition/market share/firm size, inflation, GDP growth, and interest rate; (Haron. Sudin. 2004).

2.3.1 Deposits

Banks are said to be heavily dependent on the funds mainly provided by the public as deposits to finance the loans being offered to the customers. There is a general notion that deposits are the cheapest sources of funds for banks and so to this extent deposits have positive impact on banks profitability if the demand for bank loans is very high. That is, the more deposits commercial bank is able accumulate the greater is its capacity to offer more loans and make profits; Devinaga Rasiah. (2010). However, one should be aware that if banks loans are not high in demand, having more deposits could decrease earnings and may result in low profit for the banks. This is because deposits like Fixed, Time or Term deposits attract high interest from the banks to the depositors, Devinaga Rasiah. (2010). Investigation

done by Husni. (2011). on the determinants commercial banks performance in Jordan disclosed that there is significant positive relationship between ROA and Total liability to total Assets. To capture deposits in the model Vong et al. (2009). presented the effect of deposits (DETA) on profitability as deposits to total assets ratio.

2.3.2 Capital Ratio

Devinaga Rasiah. (2010). and Vong et al. (2009). included capital ratio (EQTA or CTRA) as a variable in their study of determinants of banks profitability and performance because capital also serve as a source of funds along with deposits and borrowings. They argue that capital structure which includes shareholders' funds, reserves and retained profit affect the profitability of commercial banks because of its effect on leverage and risk. They documented that, commercial banks assets could be also financed by either capital or debt.

Sufian. et al. (2008). argued that banks in developing countries needs a strong capital structure, because it provides them strength to withstand financial crises and offers depositors a better safety net in times of bankruptcy and distress macroeconomic conditions. And according to Molyneux. (1992). banks with high level of equity can reduce their cost of capital and that could impact positively on profitability. Empirical evidence presented by Karkrah and Ameyaw. (2010). on profitability determinants of commercial banks in Ghana revealed that the equity ratio which is the measure of the capital strength of the banks posted a positive relation with the banks ROA.

2.3.3 Liquidity ratio

According to Devinaga Rasiah. (2010). commercial banks are required by regulators to hold a certain level of liquidity assets. And the reason behind this regulation is to make sure that the commercial banks always possess enough liquidity in order to be able to deal with bank runs. He further argue that a bank assume the status of highly liquid only if it has been able to accumulate enough cash and have in possession other liquid assets as well as having the ability to raise funds quickly from other sources to be able to meet its payment obligation and other financial commitments on time.

However, Devinaga Rasiah. (2010). asserted that the lower returns on liquid assets and excessive fund which has not been invested may also negatively affect the profitability of banks. And because of this, liquidity management serves as an important determinant of commercial bank profitability. It may not be prudent for commercial banks to hold huge amount of an idle funds because it deprive the banks of income and profitability. This is because the more the banks turn funds into loans or invest them the more its accumulate income and profit. This has been confirmed by the study of Eichengreen & Gibson. (2001). which documented that the fewer the amount of funds tied up in liquid investment and the liquid assets the higher the profitability. In order to capture liquidity ratio in profitability model Devinaga Rasiah. (2010). used loan to deposit ratio (LIQ) as a proxy for liquidity. He did this with the view that data on loans to deposits of commercial banks are normally disclosed in their annual reports and also because the loans to deposit ratio can be calculated.

2.3.4 Bank Size

Both Vong et al. (2009). and Devinaga. (2010). included market share in their studies. According to Devinaga. (2010). market share could be included in the profitability model as an external determinant because if commercial banks could be able to expand their market share then they may be able to increase their income as well hence profit. This is because the ability to increase market share requires selling more so in the case of banking if commercial banks are able to for example offer more loans to more customers then they stand a greater chance of increasing interest income as well as profits.

Karkrah and Ameyaw. (2010). argues that the market share or size of banks is normally used to capture potential economies or diseconomies of scale in the banking sector. Secondly, the size of banks as a variable control for cost differences and product and risk diversification. They argue that the first factor (economies or diseconomies of scale) is expected to lead to a positive relationship between bank size and profitability if there are significant economies of scale and their argument was based on the empirical evidence of Akhavein, Berger & Humphrey (1997) Bourke (1989), Molyneux & Thornton (1992. This argument also seems to be supported by the investigation of Andreas & Gabrielle (2011) on determinants of bank profitability before and during the financial crisis in Switzerland.

2.4 Empirical Review

Mwai (2013) did a study on the impact of the corporate social responsibility on the corporate financial performance in the corporate and NGO partnerships in Kenya. The Study attempted to address the question whether Corporate Social Responsibility can be linked to corporate financial performance of Corporate that engage in partnership with NGO. Using descriptive

research design and inferential analysis, the study tested the sign of the relationship between Corporate Social Responsibility and Corporate financial performance in NGO-Corporate. The study used data covering a five year period from 2008 to 2012. The target population consisted of all the NGO and Corporate partnerships in Kenya. Stratified random sampling was then used to select a sample of 6 Corporate engaged in partnership with the NGO. Analysis was based on descriptive statistics using secondary data that was obtained. The study also used multiple regression analysis to establish the relationship between the two variables. Control variables of leverage and Cash Conversion Cycle were introduced in the multiple regression models. The study found out a significant positive correlation between Corporate Social Responsibility and Corporate Financial Performance of Corporate engaging in partnership with NGO. The correlation result of the study model found a positive correlation between Corporate Social Responsibility and with both Corporate Size (log of assets) and Cash Conversion Cycle. Additionally, the correlation result found a negative relationship between Corporate Social Responsibility and Leverage.

Oyenje. (2012). carried out a research to establish the relationship between CSR practices and financial performance of Firms in the Manufacturing, Construction and Allied Sector of the Nairobi Securities Exchange. Although the study was meant to be a census survey, non-availability of complete data of the companies resulted to only 10 out of the 14 companies in the sector being studied. Secondary data was obtained from the audited financial reports of the companies for the period from 2007 to 2011. A multiple regression model was established to determine the relationship between the two variables. Control variables of manufacturing efficiency and capital intensity were also introduced in the regression model. Her conclusion was that there existed a relationship between the independent variables (CSR

score, manufacturing efficiency and capital intensity) used in the model and dependent variable (return on assets) with a correlation coefficient of 0.870. The results of the study also showed that there was insignificant positive relationship between CSR practice and financial performance. Financial performance and manufacturing efficiency was found to have a significant linear inverse relationship.

Cheruiyot. (2010). aimed to explain the relationship between corporate social responsibility and financial performance of firms listed at the Nairobi stock exchange. 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 listed companies in the NSE's main segment as at 31st December 2009. Using regression analysis he sought to establish the relationship 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. A knowledge gap of using multidimensional CSR indicators to carry out a mulit-period study therefore exist which studies the impact of CSR on financial performance. A 5 year study with CSR index based on different level of implementation and dimensions was carried out in order to address the limitations.

Obusubiri. (2006). aimed at explain the relationship between CSR and portfolio performance in Kenya. He also found a positive relationship between CSR and portfolio performance. He attributed this relationship to the good corporate image that comes with CSR making investors prefer such companies implying that good CSR behaviour has a reputational benefit for the practicing firm.

Pava and Krausz. (1996). aimed to explain the relationship between CSR and traditional financial performance, through examining long-term financial performance. They used the literature review in the first section to show that the paradox of social cost could be explained by five explanations and used The CEP ratings, based on an assessment of 12 specific CSR components as a measurement of (CSR), and then put the criteria for measurement of the financial performance depend on market base, accounting base, measure of Risk, other firm specific characteristic They took 53 company listed in Council on Economic Priorities (CEP) socially response and compared the financial performance of this group with another group as a control sample, which is similar in both size and industry, and they found a little evidence to suggest a positive association between CSR and traditional financial performance.

Preston and O'Bannon. (1997). analyzed the relationship between indicators of Social Responsibilities and Financial Performance, through examining data from 67 large U.S Corporation for 1982-1992, by using a typology and analysis; they used four trends in discussing this relation 1) social impact hypothesis 2) Trade-off hypothesis 3) available Fund and 4) Finally managerial opportunism hypothesis, and they found a strong positive correlation either by positive synergies or by available funding.

Orlitzky. (2001). in this study the researcher investigated the relationship between CSP and CFP regarding to level of the corporate size and the researcher for this purpose integrated three variables of meta-analysis first: CSP and CFP , second: Total Cost of CSR activities and CSP, third: Total Cost of CSR activities and CFP. The individual-link and fit analysis suggest that organizational size has no significant path to CSP or CFP, and the only path that cannot be dropped in these three variables model, is from CSP to CFP.

Mackey (2007). in this paper, the researchers built a theory on a sample observation that equity holders may sometimes have interest besides simply maximizing their wealth when they make their investment decisions. They developed a model adapting a market definition of firm's performance by focusing on how socially responsible corporate activities affect firms market value. This model was used to describe the impact of the present value of firm's cash flow will have on the firm's market value at the beginning or at the end of socially responsible activities. The model suggests that there was a positive correlation between firm's choices about investing in socially responsible activities and firm's value. The paper provides an explanation of when the investment in these kinds of socially responsible activities will occur.

Shen and Chang. (2009). The purpose of their study was to investigate the financial performance with regarding to CSR and NON-CSR, they used a sample of Taiwan's data from 2005-2006, and used matching theory and propensity score matching methodology to emphasize the effect of adapting CSR on financial performance and distinguish between two a broach, first: the social impact hypothesis and the second: the shift of focus hypothesis. They found a positive relation with the CFP regarding to CSP companies.

Surroca. (2010). examined the relationship between CSP and CFP with regarding to intangible recourses, they advanced the understanding of the relationship between CSR and CFP in three ways: theoretically, empirically, and methodologically. The main proposition of this paper is that intangibles mediate the relationship between CRP and CFP which operates in both directions, they used an international database provided by sustainalytic responsible investment services, and their sample was 599 firms from 28 nations. The result of this study

shows positive associations between firm's intangibles and both measures of performance CSP and CFP.

Castro (2010). in this paper, it dealt with the specific issue of the strategic decisions through studying the relationship between CSR and CFP. They used a panel based on the 658 firms included in KLD database and covered 15 years (1991-2005), and used standard OLS regression analysis. The result suggest that KLD doesn't impact performance, the positive impact found is due mainly to the fact that firms that adopted high standards of KLD self selected themselves, that positive effect dilutes when Endogeneity is properly taken into account.

Choi. (2008). studied the empirical relation between CSP and CFP in Korea, they used a sample of 1222 firm during the years 2002-2008, and they measure CSP by both equal weighted CSR index and stakeholders weighted CSR. The CFP was measured by (ROA), (ROE) and (Topin'Q). They used cross-sectional regression model using four factors model by analyzing whether investors can obtain abnormal returns by employing socially responsible screens. They founded a positive and significant relationship between CFP and stakeholders weighted (CSR) index but not the Equal weighted (CSR) index

2.5 Summary of Literature

CSR is an important issue which concerns about the ethics, society, natural environment, employees and also working environment as a whole. The question of how CSR affects financial performance of the firms is still being researched. Although there is evidence showing positive relationship between CSR and financial performance, it still has some limitation of conclusion and mixed results. Margolis and Walsh (2002) stated in review of 95 empirical studies conducted between 1972 to 2001 that when treated as an independent variable, corporate social performance is found to have a positive relationship to financial performance in 42 studies (53%), no relationship in 19 studies (24%), a negative relationship in 4 studies (5%), and a mixed relationship in 15 studies (19%).

CSR emerge as a way for organization assume its responsibilities and contribute to a sustainable development, it also raise the question about how can CSR positively affect economic performance in a way that can generate resources to continually invest in social and environmental demands. According to Waddock and Graves suggest that high levels of financial performance can provide the resource necessary to invest in CSR practices (Waddock and Graves 2011). Also Ullmann argued that in periods of low economic return, companies have other priorities than investment in CSR which may suggest that a satisfactory financial performance can have a positive influence in future commitment with social responsibility practices (Balabanis, Phillips, Lyall, 1998). This study seek to determine the effect of corporate social responsibility on the profitability of commercial banks in Kenya

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section presents the methods in data collection and analysis and forms the blue print for conducting the research. It covered the research methodology, research design, population of study, data collection and processing methods and data analysis.

3.2 Research Design

This was a descriptive survey of the commercial banks licensed in Kenya. According to Mugenda and Mugenda (2006), a descriptive research is a process of collecting data in order to answer questions concerning the status of the subjects in the study. The choice of the survey will be due to the need for accuracy and statistically reliable data. This method was chosen owing to the fact that all the head offices of all the commercial banks are located in Nairobi hence it would be convenient to undertake a census of all the 43 commercial banks.

3.3 Population

The population of study consisted of all the licensed commercial banks in Kenya. According to CBK (2013) there are 43 licensed commercial banks in Kenya (Appendix 1). Census survey methodology of all the licensed commercial banks was used in order to increase accuracy and reliability of data collected in this research.

3.4 Data Collection

Secondary data will be obtained from documents that include financial reports of commercial banks operating in Kenya and annual CBK supervision reports it included data on the effect of corporate social responsibility on the profitability of commercial banks in Kenya. This data will be collected through a data collection form. Data was obtained for the last five years from 2009 to 2013.

3.5 Data Analysis

The data to be collected is largely quantitative and hence a quantitative analysis technique was used in data analysis. The descriptive and inferential statistics was used in analysis of relationships, differences, trends and comparisons. Key to the research was establishing the linkage between corporate social responsibility and profitability of commercial banks in Kenya. Data was presented using tables in order to elaborate and to determine the effect of corporate social responsibility on the profitability of commercial banks in Kenya

3.5.1 Analytical Model

The following regression analysis was used to determine the effect of corporate social responsibility on the profitability of commercial banks in Kenya. The relationship equation will be as shown below-

$$ROA_{it} = \alpha + \beta_1 ED_{it} + \beta_2 PA_{it} + \beta_3 CW_{it} + \beta_4 SIZE_{it} + \beta_5\ DETA\ _{it} + \beta_6 LIQ\ \pi_{it}$$

Where

ROA is the Return on Assets of the Bank's total assets; it was measured by the ratio of EBIT to Total assets, which will be used to measure banks profitability.

ED is the a measure of banks' corporate donation to charity work that support education; it was measured by ratio of total amount spent on education to total assets of the banks

PA is the a measure of banks' corporate donation to support poverty alleviation; it was measured by ratio of total amount spent on poverty alleviation to total assets of the banks

CW is the a measure of banks' corporate donation to support charity work; it was measured by ratio of total amount spent on charity work to total assets of the banks

SIZE is the size of the bank which represents the total assets of the bank; it was measured using the Natural logarithm of total assets

DETA is the bank's deposits, which was measured by the ratio of Deposits to total assets for bank j in year t

LIQ is the liquidity of the bank; it was measured using the ratio of total Loans to total deposit for bank j in year t

π= Error term

3.5.2 Test of Significance

Analsyis of Variance (ANOVA) was used to test the significance of the model, The significance of the regression model was determined at 95% confidence interval and 5% level of significance. Adjusted R squared was used to determine the variation in the dependent variable due to changes in the independent variables.

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CHAPTER FOUR:

DATA ANALYSIS, PRESENTATION AND FINDINGS

4.1 Introduction

This chapter presents the data findings to determine the effect of corporate social responsibility on the profitability of commercial banks in Kenya. This data were collected from the Central Bank of Kenya and banks financial reports. Multiple linear regressions were used to determine the effect of corporate social responsibility on the profitability of commercial banks in Kenya. The study covered a period of 5 years from years 2009 to 2013.

4.2 Analysis and Interpretation

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 20) to code, enter and compute the measurements of the multiple regressions

4.2.1 Regression For 2009

Table 4.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.898[a]	.806	.789	.893

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table the value of adjusted R squared was 0.789 an indication that there was variation

of 78.9 percent on profitability of commercial banks due to changes in corporate donation to education , poverty alleviation , charity work , size of the bank , banks deposits and liquidity of the bank at 95 percent confidence interval . This shows that 78.9 percent changes in profitability of commercial banks could be accounted to changes in corporate donation to education, poverty alleviation, charity work, size of the bank, banks deposits and liquidity of the bank. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.898.

Table 4.2: Coefficients

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig
		B	Std. Error	Beta		
1	(Constant)	1.350	1.635		.825	.419
	Education	.509	.311	.402	2.637	.017
	Poverty Alleviation	.426	.184	.431	2.318	.031
	Charity Work	.179	.219	.199	3.815	.024
	Size	.120	.219	.138	2.546	.001
	Bank's Deposits	.119	.011	.199	2.815	.004
	Liquidity Of The Bank	.110	.219	.108	3.546	.015

From the data in the above table the established regression equation was

$$Y = 1.350 + 0.509\ X_1 + 0.426\ X_2 + 0.179\ X_3 + 0.120\ X_4 + 0.119\ X_5 - 0.110\ X_6$$

From the above regression equation it was revealed that holding corporate donation to education , poverty alleviation , charity work , size of the bank , banks deposits and liquidity of the bank to a constant to a constant zero , profitability of commercial banks would be at 1.350, a unit increase in corporate donation to education would lead to increase in the profitability of commercial banks by a factors of 0.509, unit increase in contribution to poverty alleviation would lead to increase in profitability of commercial banks by factors of 0.426, a unit increase in charity work would lead to increase in profitability of commercial banks by a factor of 0.179 , a unit increase in size of the bank would lead to increase in profitability of commercial banks by a factors of 0.120, further unit increase bank deposit would lead to increase in profitability of commercial bank by a unit of 0.119 a unit increase in liquidity of the bank would lead to increase in profitability of the bank by a unit of 0.110. All the variables were significant ($p<0.05$).

4.2.2 Regression analysis for 2010

Table 4.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.886[a]	.785	.752	.632

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table the value of adjusted R squared was 0.752 an indication that there was variation of 75.2 percent on profitability of commercial banks due to changes in corporate donation to education , poverty alleviation , charity work , size of the bank , banks deposits and liquidity

of the bank at 95 percent confidence interval . This shows that 75.2 percent changes in profitability of commercial banks could be accounted to changes in corporate donation to education, poverty alleviation, charity work, size of the bank, banks deposits and liquidity of the bank. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.886.

Table 4.4: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	Constant	1.327	.534		6.227	.000
	Education	.118	.077	.164	1.519	.133
	Poverty Alleviation	.198	.099	.237	2.011	.048
	Charity Work	.271	.130	.278	2.083	.040
	Size	.035	.124	.036	.285	.776
	Bank's Deposits	.208	.093	.268	2.231	.028
	Liquidity Of The Bank	.112	.087	.158	1.294	.199

From the data in the above table the established regression equation was

$Y = 1.327 + 0.118 X_1 + 0.198 X_2 + 0.271 X_3 + 0.035 X_4 + 0.208 X_5 + 0.112 X_6$

From the above regression equation it was revealed that holding corporate donation to education , poverty alleviation , charity work , size of the bank , banks deposits and liquidity of the bank to a constant to a constant zero , profitability of commercial banks would be at

1.327, a unit increase in corporate donation to education would lead to increase in the profitability of commercial banks by a factors of 0.118, unit increase in contribution to poverty alleviation would lead to increase in profitability of commercial banks by factors of 0.198, a unit increase in charity work would lead to increase in profitability of commercial banks by a factor of 0.271 , a unit increase in size of the bank would lead to increase in profitability of commercial banks   by a factors of 0.035, further unit increase bank deposit would lead to increase in profitability of commercial bank by a unit of 0.208 and a unit increase in liquidity of the bank would lead to increase in profitability of the bank by a unit of 0.112. All the variables were significant ($p<0.05$).

4.2.3 Regression Analsyis For 2011

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.832[a]	.692	.653	.583

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table the value of adjusted R squared was 0.653 an indication that there was variation of 65.3 percent on profitability of commercial banks due to changes in corporate donation to education , poverty alleviation , charity work , size of the bank , banks deposits and liquidity of the bank at 95 percent confidence interval . This shows that 65.3 percent changes in profitability of commercial banks could be accounted to changes in corporate donation to education, poverty alleviation, charity work, size of the bank, banks deposits and liquidity of the bank. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.832.

Table 4.6: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	Constant	2.809	.519		5.414	.000
	Education	.012	.049	.026	.256	.799
	Poverty Alleviation	.016	.099	.024	.166	.868
	Charity Work	.102	.078	.164	1.301	.197
	Size	.088	.104	.104	.844	.401
	Bank's Deposits	.058	.100	.075	.573	.568
	Liquidity Of The Bank	.162	.092	.188	1.757	.083

From the data in the above table the established regression equation was

$$Y = 2.809 + 0.012\ X_1 + 0.016\ X_2 + 0.102 X_3 + 0.088\ X_4 + 0.058\ X_5 + 0.162\ X_6$$

From the above regression equation it was revealed that holding corporate donation to education , poverty alleviation , charity work , size of the bank , banks deposits and liquidity of the bank to a constant to a constant zero , profitability of commercial banks would be at 2.809, a unit increase in corporate donation to education would lead to increase in the profitability of commercial banks by a factors of 0.012, unit increase in contribution to poverty alleviation would lead to increase in profitability of commercial banks by factors of 0.116, a unit increase in charity work would lead to increase in profitability of commercial banks by a factor of 0.102 , a unit increase in size of the bank would lead to increase in profitability of commercial banks by a factors of 0.088, further unit increase bank deposit would lead to increase in profitability of commercial bank by a unit of 0.058 and a unit increase in liquidity of the bank would lead to increase in profitability of the bank by a unit of 0.162. All the variables were significant (p<0.05).

4.2.4 Regression analsyis for 2012

Table 4.7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.757[a]	.573	.526	.805

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table the value of adjusted R squared was 0.526 an indication that there was variation of 52.6 percent on profitability of commercial banks due to changes in corporate donation to education , poverty alleviation , charity work , size of the bank , banks deposits and liquidity of the bank at 95 percent confidence interval . This shows that 52.6 percent changes in profitability of commercial banks could be accounted to changes in corporate donation to education, poverty alleviation, charity work, size of the bank, banks deposits and liquidity of the bank. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.757.

Table 4.8: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	Constant	2.385	.408		3.944	.348
	Education	.209	.089	.222	2.347	.021
	Poverty Alleviation	.069	.095	.080	.732	.466
	Charity Work	.134	.097	.135	1.375	.173
	Size	.270	.091	.269	2.951	.004
	Bank's Deposits	.022	.092	.019	.236	.814
	Liquidity Of The Bank	.210	.118	.182	1.769	.081

From the data in the above table the established regression equation was

$$Y = 2.385 + 0.209X_1 + 0.069 X_2 + 0.134X_3 + 0.270 X_4 + 0.022 X_5 + 0.210X_6$$

From the above regression equation it was revealed that holding corporate donation to education , poverty alleviation , charity work , size of the bank , banks deposits and liquidity of the bank to a constant to a constant zero , profitability of commercial banks would be at 2.385, a unit increase in corporate donation to education would lead to increase in the profitability of commercial banks by a factors of 0.209, unit increase in contribution to poverty alleviation would lead to increase in profitability of commercial banks by factors of 0.069, a unit increase in charity work would lead to increase in profitability of commercial banks by a factor of 0.134 , a unit increase in size of the bank would lead to increase in profitability of commercial banks by a factors of 0.270, further unit increase bank deposit would lead to increase in profitability of commercial bank by a unit of 0.022 and a unit increase in liquidity of the bank would lead to increase in profitability of the bank by a unit of 0.210. All the variables were significant ($p < 0.05$).

4.2.5 Regression analsyis for year 2013

Table 4.9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.925[a]	.855	.815	.535

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table the value of adjusted R squared was 0.815 an indication that there was variation of 81.5 percent on profitability of commercial banks due to changes in corporate donation to education , poverty alleviation , charity work , size of the bank , banks deposits and liquidity of the bank at 95 percent confidence interval . This shows that 81.5 percent changes in profitability of commercial banks could be accounted to changes in corporate donation to education, poverty alleviation, charity work, size of the bank, banks deposits and liquidity of the bank. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.925.

Table 4.10: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	Constant	1.614	.394		4.098	.000
	Education	.263	.067	.385	3.911	.000
	Poverty Alleviation	.111	.056	.207	1.991	.050
	Charity Work	.233	.079	.317	2.940	.004
	Size	.010	.058	.016	.169	.866
	Bank's Deposits	.011	.071	.016	.154	.878
	Liquidity Of The Bank	.069	.088	.084	.780	.438

From the data in the above table the established regression equation was

$$Y = 1.614 + 0.263 X_1 + 0.111 X_2 + 0.233 X_3 + 0.010 X_4 + 0.011 X_5 + 0.069 X_6$$

From the above regression equation it was revealed that holding corporate donation to education , poverty alleviation , charity work , size of the bank , banks deposits and liquidity of the bank to a constant to a constant zero , profitability of commercial banks would be at 1.614, a unit increase in corporate donation to education would lead to increase in the profitability of commercial banks by a factors of 0.263, unit increase in contribution to poverty alleviation would lead to increase in profitability of commercial banks by factors of 0.111, a unit increase in charity work would lead to increase in profitability of commercial banks by a factor of 0.233 , a unit increase in size of the bank would lead to increase in profitability of commercial banks by a factors of 0.010, further unit increase bank deposit would lead to increase in profitability of commercial bank by a unit of 0.011 and a unit increase in liquidity of the bank would lead to increase in profitability of the bank by a unit of 0.069. All the variables were significant ($p<0.05$).

4.3 Summary and Interpretation of Findings

From the finding on the Adjusted R squared is coefficient of determination , the stduy found that there was variation of 78.9 percent on profitability of commercial banks due to changes in corporate donation to education , poverty alleviation , charity work , size of the bank , banks deposits and liquidity of the bank , this shows that 78.9 percent changes in profitability of commercial banks could be accounted to changes in corporate donation to education, poverty alleviation, charity work, size of the bank, banks deposits and liquidity of the bank. From the finding on the correlation coefficient , the study found that there was strong positive relationship corporate donation to education, poverty alleviation, charity work, size of the bank , banks deposits and liquidity of the bank and profitability of commercial banks. From the ANOVA statistics the study found that model was statistically significant at 3%, the study found that corporate donation to education, poverty alleviation, charity work, size of the bank, banks deposits and liquidity of the bank signicantly influence profitability of commercial banks. The established regression equation was $Y = 1.350 + 0.509 X_1 + 0.426 X_2 + 0.179 X_3 + 0.120 X_4 + 0.119 X_5 - 0.110 X_6$

From the above regression equation it was revealed that holding corporate donation to education , poverty alleviation , charity work , size of the bank , banks deposits and liquidity of the bank to a constant to a constant zero , profitability of commercial banks   would be at 1.350. The study found that a unit increase in corporate donation, contribution to poverty alleviation, charity work, size of the bank, bank deposit and liquidity of the bank would lead to increase in profitability of the bank. Therefore, maximization of profit meant the maximization of the taxes paid by the company to the government. None of the parties

considered CSR in any way related to their respective business or social activities (Visser *et al*., 2010). CSR has gained an increasingly high profile in recent years. There is a growing awareness that companies cannot operate in isolation from the wider society in which they are located, and that they need to consider the interests of groups other than shareholders if their longer term sustainability is to be maintained (Mallin. 2009).

CSR is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources. Kotler and Lee (2011a) describe community well-being to include human conditions as well as environmental issues (Kotler & Lee, 2011). CSR is a consistent pattern at the very least, of private firms doing more than they are willing to do under applicable laws and regulations guiding and governing the environment, worker safety and health and investments in the communities which they operate (Hay. Stavins AND Vietor. 2005).

The role of business is rapidly changing. Increasingly, business seeks to maintain corporate identity while at the same time upholding social and environmental standards and confronting the concerns of social exclusion and community development (Development, 2001). In the business community it is perhaps the view of many that Corporate Social Responsibility (CSR) is the primary focus and that sustainability belongs on the next level down. This may seem a little trite but it highlights one of the potential conflicts that sit at the core of business strategy more importantly it demonstrates the potential diversity of opinion (Hawkins, 2006).

The concept of Corporate Social Responsibility has been defined in various ways by many practitioners and scholars like. Bowen (1953) holds that social responsibility refers to obligations to pursue those policies to make decisions or to follow those lines of actions that are desirable in terms of objectives and values of society. Cannon (1994) looks at Corporate Social Responsibility as being a result of the internal regulation of the business in compliance with the obligations placed on the firm by legislation, ownership and control. Carroll (1996) identifies four components that need to be present in order for business to claim it is socially responsible: These are economic, legal, ethical and philanthropic responsibilities. Gustavson (2008) considers the management of ecological and social challenges and the widespread adoption of the language of sustainability by the corporate sector to be the genesis of Corporate Social Responsibility.

Nordberg (2008) contends that corporate governance is an ethical debate where directors decide on the allocation of resources to competing demands. Panayiotou (2009) views corporate social responsibility in three ways: The economic view is concerned with profitability, wages and benefits, resource usage, job offerings and outsourcing. The environmental view is on processes, products and services related to the environment while the social view focuses on health and safety issues, employee relations, ethics, human rights and working conditions.

CHAPTER FIVE:

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The objective of the study was to determine the effect of corporate social responsibility on the profitability of commercial banks in Kenya. Secondary Data was collected from Central Bank and banks financial reports and multiple regression analysis used in the data analysis. From the finding on the Adjusted R squared is coefficient of determination , the stduy found that there was greater variation on profitability of commercial banks due to changes in corporate donation to education , poverty alleviation , charity work , size of the bank , banks deposits and liquidity of the bank , this shows changes in profitability of commercial banks could be accounted to changes in corporate donation to education, poverty alleviation, charity work, size of the bank, banks deposits and liquidity of the bank. From the finding on the correlation coefficient , the study found that there was strong positive relationship corporate donation to education, poverty alleviation, charity work, size of the bank , banks deposits and liquidity of the bank and profitability of commercial banks. From the above regression equation, the study found that a unit increase in corporate donation, contribution to poverty alleviation, charity work and size of the bank, bank deposit and liquidity of the bank would lead to increase in profitability of the bank. The study established that corporate donation to charity work has contributed towards the bank's profitability. The study revealed that organizations contribution to poverty alleviation leads to profitability. The research also revealed that contribution to community education lead to the organization's profitability.

5.2 Conclusion

From the findings the study established that corporate donation to charity work has contributed towards the bank's profitability thus the study concludes that corporate donation to charity work had a positive influence on the profitability of Commercial Banks in Kenya.

The study revealed that organizations contribution to poverty alleviation leads to profitability thus the study concludes that contribution to poverty alleviation has a positive influence on the profitability of Commercial Banks in Kenya.

The research also revealed that contribution to community education lead to the organization's profitability thus the study concludes that supporting education had a positive impact on the profitability of Commercial Banks in Kenya.

The research revealed that financial contribution to the corporate social responsibility contributed to the organization's profitability thus the research concludes that financial contribution to corporate social responsibility had a positive impact on the profitability of Commercial Banks in Kenya.

 The study also found that through Corporate Social responsibility there is enhance reputation management. The study established that reputation management influence corporate financial performance in the organization, The study found that reputation management enables a company to charge a premium for products and services, enables the benefits of positive relationships to deliver business advantage, helps companies to build customers trust thereby increasing sales, a good reputation demonstrably increases corporate worth and provides sustained competitive advantage.

5.3 Policy Recommendations

From the findings and conclusion the study recommends that the organization can influence its corporate financial performance by engaging in various Corporate Social responsibility activities as this will help it build it reputation and also gain competitive advantage and thus higher productivity.

There is need for the organization to provide their employees with training as this will enhance their creativity and thus increase in the innovativeness in the organization thus enhancing financial performance in the organization.

From the findings and conclusion the study recommends that the organization can influence its corporate financial performance by engaging in various Corporate Social responsibility activities as this will help it build it reputation and also gain competitive advantage and thus higher productivity.

There is need for the organization to provide their employees with training as this will enhance their creativity and thus increase in the innovatiness in the organisation thus enhancing financial performance in the organization.

Employee of any organization are highly involved in Corporate Social Responsibility activities , there is need for commercial in kenya to enhance their employees skills   as employees ideas and creativity and their involvement help in enhancing the success of corporate social responsibility activities .

5.4 Limitation of the study

This study was limited to the precision of data obtained from central bank of Kenya and banks financial reports, secondary data was extracted on the effect of corporate social responsibility on the profitability of commercial banks in Kenya.

The study was limited to the effect of corporate social responsibility on the profitability of commercial banks in Kenya in attaining its objective the study was limited to 5 years period starting form year 2009 to year 2013.

The study was based on a five year study period from the year 2009 to 2013, a longer duration of time would have captured longer duration more data and probably given more reliable results in the study. This may have probably given a longer time focus hence given a broader dimension to the problem.

The study was limited to 43 Commercial Banks in Kenya in order to determine the effect of corporate social responsibility on the profitability of commercial banks in Kenya.

5.5 Areas For Further research

The study recommends an in-depth study to be carried out on the challenges faced by organization as they implement Corporate Social Responsibility in the country.

The study recommends that a study should be conducted to establish the real value in monetary terms how much Corporate Social Responsibility contribute to profitability of Commercial Banks in Kenya.

Corporate Social Responsibility is used by the organization to enhance their reputation in the market. The study recommends that a study should be done on the role of corporate social responsibility in enhancing corporate reputation.

The study recommends that a study should be conducted on the impact of legislation on adoption of corporate social responsibility by Companies in Kenya.

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APPENDICES

Appendix I: Introductory letter

From: **DENNIS KIMANI MUCHAI**

To: Respondent

Dear, Respondent

RE: Questionnaire

I am a student at University of Nairobi pursuing Masters of Science in Finance. I am carrying out a study on **EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON THE PROFITABILITY OF COMMERCIAL BANKS IN KENYA**

You are kindly requested you to assist in the collection of secondary data, from your organization so as to enable me accomplish the study. Please, note that all the information given shall be treated purely and used for academic purposes and shall be treated as confidential. Thank you for taking your time to complete the questionnaire and for your time and cooperation.

Yours sincerely

DENNIS KIMANI MUCHAI

Student UoN Kenya

Appendix II : Data Collection sheet

Name of the Bank							
YEAR	ROA	Banks corporate donation on education	Banks corporate donation on poverty alleviation	Banks corporate donation on charity work	Assets of the banks	Total Bank deposits	Total loans
2009							
2010							
2011							
2012							
2013							

Appendix III: List of Licensed Commercial Banks in Kenya

1. African Banking Corporation
2. Bank of Africa Kenya limited
3. Bank of Baroda (K) Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. CFC Stanbic Bank Limited
7. Charterhouse Bank Limited-Under Statutory Management
8. Chase Bank (K) Limited
9. Citibank N.A Kenya
10. Commercial Bank of Africa Limited
11. Consolidated Bank of Kenya Limited
12. Co-operative Bank of Kenya Limited
13. Credit Bank Limited
14. Development Bank of Kenya Limited
15. Diamond Trust Bank (K) Limited
16. Dubai Bank Kenya Limited
17. Ecobank Kenya Limited
18. Equatorial Commercial Bank Limited
19. Equity Bank Limited
20. Family Bank Limited
21. Fidelity Commercial Bank Limited
22. Fina Bank Limited
23. First Community Bank Limited
24. Giro Commercial Bank Limited
25. Guardian Bank Limited
26. Gulf Africa Bank Limited
27. Habib Bank A. G Zurich
28. Habib Bank Limited
29. Imperial Bank Limited
30. I & M Bank Limited
31. Jamii Bora Bank Limited
32. Kenya Commercial Bank Limited
33. K-Rep Bank Limited
34. Middle East Bank (K) Limited
35. National Bank of Kenya Limited
36. NIC Bank Limited
37. Oriental Commercial Bank Limited
38. Paramount Universal Bank Limited
39. Prime Bank Limited
40. Standard Chartered Bank Kenya Limited
41. Trans-national Bank Limited
42. UBA Kenya Bank Limited
43. Victoria Commercial Bank Limited

Source: CBK 2014