CORPORATE SOCIAL RESPONSIBILITY AND PERFORMANCE OF COMMERCIAL BANKS LISTED AT THE NAIROBI SECURITIES EXCHANGE IN KENYA

RAMINYA BEN ONYANGO

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DECLARATION

I declare that this Research Project is my own work and has not been submitted for a degree award in any other university.

BEN ONYANGO RAMINYA **Date**

D61/71057/2009

This Research Project is submitted with my approval as the university Supervisor

DR. VINCENT MACHUKI **Date**

Department of Business Administration

School of Business,

University of Nairobi

DEDICATION

I would like to dedicate this project to my beloved Wife; Virginia, children; Robert, Nikita, Calvin and James, for their love, patience and encouragement during this long journey, as well as to my beloved Sisters Jessica, Jacqueline and the late Patricia; and my late Parents Mr. and Mrs. Norbert Raminya for establishing the foundation of my education.

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TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS

CSR: Corporate Social Responsibility

EPS: Earnings per Share

GDP: Gross Domestic Product

IFC: International Finance Corporation

KLD: Kinder, Lydenberg and Domini Index

MBA: Master of Business Administration

NIC: National Industrial Corporation

NSE: Nairobi Securities Exchange

PwC: PricewaterhouseCoopers

ROE: Return on Equity

SPSS: Statistical Package of Social Sciences

TRI: Toxic Release Inventory

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

Organizations today are experiencing increased pressure from their surrounding environments to act as good social citizens while still being profitable. Acting socially and ethically responsible has become an expectation rather than a differentiation strategy to obtain organizational legitimacy. The Study is about CSR and performance of Commercial Banks listed at the Nairobi Securities Exchange in Kenya and was informed by the instrumental theories of CSR that focus on the use of CSR as a platform for companies to achieve their business goals. To enable the relationships between performance variables and CSR to be analyzed, the study relied on responses to a structured questionnaire by the management of the listed Banks and secondary data collected for a period of five years (2009 to 2013) from the financial statements database maintained by Nairobi Securities Exchange for the purpose of effective periodical analysis. The Key findings supported the hypotheses that the practice of CSR based on instrumental theories has a positive effect on the performance of the listed banks. This was shown by a positive and statistical significance correlation, supporting the view that CSR initiatives can be associated with bottom-line benefits to organizations. The study concluded that there is a positive effect of CSR on the performance of Commercial Banks listed at the Nairobi Securities Exchange in line with the CSR principles in the instrumental theories focusing on competitiveness. This study's findings inform the recommendations that CSR should be part of a companies' strategic planning process and operations. The study recommends that measurement of CSR is important since it informs whether the CSR is efficient and effective for a bank's objectives and for creating sustainable development. The measurement and results of the effect of CSR can be used by listed banks in positioning themselves to be more competitive. Further research is recommended that a similar study be conducted in other sectors where such studies have not been done.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In the present turbulent environment of globalization, more severe competition and developing economic crises, the idea of corporate social responsibility (CSR) becomes more important hence the growing interest in, and demand for CSR (Dawkins, 2004). In recent years an exponential increase of initiatives around the concept of CSR as a direct response to the introduction of new legislations and the increased awareness of the public on societal and environmental issues has been witnessed (Peterson, 2004). Friedman (1962) claims that CSR is a waste of the stockholders' money. However, several relatively new articles and reports argue that CSR increases financial performance in the long run. This assessment is based on the fact that CSR has shifted from being a philanthropic activity to a more serious business activity and more companies are aligning their corporate social investment activities with their main business processes. As such, these activities are now being integrated as part of a firm's corporate culture, core values and strategic planning process. These claims have raised queries about ways in which CSR is related to a company's performance.

Theories have been brought to bear on the subject of CSR. Friedman (1970) expressed that mere existence of CSR was a signal of an agency problem within the firm. An agency theory perspective implies that CSR is a misuse of corporate resources that would be better spent on valued-added internal projects or returned to shareholders. It also suggests that CSR is an executive perk, in the sense that managers use CSR to advance their careers or other personal agendas. Freeman (1984), building on Chester (1938)'s inducement contribution framework, presented a more positive view of managers' support of CSR. Freeman's stakeholder theory asserts that managers must satisfy a variety of constituents; for example workers, customers, suppliers, local community organizations who can influence firm outcomes. According to this view, it is not sufficient for managers to focus exclusively on the needs of stockholders, or the owners of the corporation. Donaldson and Preston (1995) on the other hand stressed the moral and ethical dimensions of CSR, as well as the business case for engaging in such activity. More specifically, Jennings and Zandbergen (1995) analyzed the role of institutions in shaping the consensus within a firm regarding the establishment of an 'ecologically sustainable' organization. Finally, Walman et al. (2004) applies strategic leadership theory to CSR. These authors conjecture that certain aspects of transformational leadership will be positively correlated with the propensity of firms to engage in CSR and that these leaders will employ CSR activities strategically.

The need for companies to redefine themselves as economic and social entities is embodied in the concept of CSR whereby companies are increasingly being called upon to be good corporate citizens in the communities in which they conduct their business operations (Kotler and Lee, 2005). This has led businesses to assume more responsibilities for society (Panwar *et al.,* 2006). Moreover, it has led to wanting to find out how CSR can influence customer perceptions on a product or service offering, and how these influenced perceptions affect company's financial performance. With rising trend of numerous corporate organizations taking up CSR activities as part of the organizations' goals/values, there is need to find out how CSR relates to corporate financial performance among commercial banks listed at the Nairobi Securities Exchange in Kenya.

1.1.1 The Concept of Corporate Social Responsibility

McWilliams and Siegel (2001) describe CSR as actions that appear to further some social good, beyond the interest of the firm and that which is required by law. A point worth noticing is that CSR is more than just following the law, McWilliams & Siegel (2001). Alternatively, according to Freeman (1997:227), the definition of what would exemplify CSR is the following: An action by a firm, which the firm chooses to take, that substantially affects an identifiable social stakeholder's welfare. A socially responsible corporation should take a step forward and adopt policies and business practices that go beyond the minimum legal requirements and contribute to the welfare of its key stakeholders. CSR is viewed then, as a comprehensive set of policies, practices, and programs that are integrated into business operations, supply chains, and decision-making processes throughout the company, including issues related to business ethics, community investment, environmental concerns, governance, human rights, the marketplace as well as the workplace.

Moir (2001) affirms CSR is a concept in which companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. CSR is a commitment by business towards ethical behaviour, not only about how companies manage the business processes to produce an overall positive impact on the society (Baker, 2008). According to Carroll (1979), it covers all the four kinds of responsibilities namely economic, legal, ethical and discretionary which companies have to make a strategic decision. The development of the involvement of companies and the emergence of sustainability thinking in business together can be seen as a pro-active driving force (Edvardsson and Enquist, 2009). Little (2006) argues that CSR initiatives can lead to innovation through the use of social, environmental or sustainability drivers to create new ways of working, new products, services, processes and new market space, which has led many companies to redefine their business models. Due to the society's interest in companies' responsible behaviour, the concept of CSR has become widely spread around the world. Business ethics has now become an important strategic management issue to integrate in the organizational structure of the firm (Odhiambo, 2006).Companies are paying attention to their core values and the development of a sense of CSR, which can be used in marketing strategies and in customer-retention management (Nduku, 2008).

1.1.2 Organisation Performance

Performance is a practice that involves evaluating the financial and operational performance of a company and putting processes in place to improve the strategic decisions made by managers and leaders in the organization. It is usually undertaken in order to help the company achieve a certain goal or goals. How performance is practiced varies by company, but usually includes the introduction of tools that allow management to set strategic goals, analyse overall company performance, manage performance, and monitor reporting accuracy. The quality of decisions made by organizational leaders can have a significant impact on outcomes for operations. For this reason, the use of performance can be helpful in facilitating better decision making. The practice can often improve the execution of strategy used by the organization and provide a foundation for measuring and monitoring the quantitative results of strategic decision making, Grant (2005).

Performance can take many forms depending on what the stakeholders are interested in. Different stakeholders require different performance indicators to enable them make informed decisions. It includes multiple activities that help in establishing the goals of the organization, and monitor the progress towards the target. It is used to make adjustments to accomplish goals more efficiently and effectively. Performance can be achieved by using some of these approaches, which, if used with a strong focus, comprehensively, on achieving the results of the organization, could increase the performance of the organization (Grant, 2005). There are various measures of performance including financial and non-financial measures. Financial statement analysis seeks to evaluate management performance in several areas including profitability, efficiency and risk (Reily and Brown, 1997).

1.1.3 Commercial Banks in Kenya

Commercial banks are institutions which are primarily concerned with receiving of deposits and giving of loans and offers related services. While commercial banks offer services to individuals, they are primarily concerned with receiving deposits and lending to businesses. The Banking industry in Kenya is governed by the Companies Act (CAP 491), the Banking Act No 9 of 1989, the Central Bank of Kenya Act of 2001 and the various prudential guidelines issued by the Central Bank of Kenya. The banking sector was liberalized in 1995 and exchange controls lifted. The Central Bank of Kenya, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

Commercial banks engage in the mobilization of deposits from the public and execute the traditional role of financial intermediation. Banks and other financial intermediaries engage in linking net savers and borrowers by utilizing the mobilized customer deposits to advance loans to borrowers and thus earning interest income, Okello (2006). Banks therefore make a significant contribution to the country's GDP growth accounting for approx. 40% of the GDP. While this has been the case, the financial sector has not set and integrated CSR initiatives to guide them in their business operations, supply chains, and decision-making processes throughout the company. This has not gone unnoticed in their performance, the reason these study is justified.

1.1.4 Commercial Banks in Kenya Listed at the NSE

Banks are faced with critical challenges of finding new and better ways to increase their revenues, attaining of strong balance sheet growth and enhancing efficiencies. Commercial Banks therefore are adopting CSR practices whose objective is to encourage a positive impact through their activities on the environment and stakeholders. This study is seeking to assess the influence of these CSR practices on the Performance of Commercial Banks listed at the Nairobi Securities Exchange.

Banks in Kenya are competing for market share with existing players, responding to the influence of non-banking players such as microfinance institutions and mobile banking products, the 2011 Risk Survey by PriceWaterhouseCoopers reveals. “With the introduction of fully-fledged Sharia banks, there is more competition for customers who seek services compliant with Islamic Sharia law. Interest rates on government securities have declined in recent years and banks have lent more to customers so as to earn higher returns, increasing competition among banks” (PwC Risk Survey, 2011:17). With this as the case, the likelihood for commercial banks will be to embrace corporate social responsibility practices so as to enhance their performance.

Commercial banks are thus faced with critical challenges of finding new and better ways to increase their revenues, attain strong balance sheet growth and enhance efficiencies by adopting corporate social responsibility practices whose objective is to encourage a positive impact through its activities on the environment and stakeholders. This study is seeking to assess the influence of these CSR practices on the Performance of Commercial Banks listed at the NSE in Kenya and to establish the relationship between corporate social responsibility and corporate bank performance. According to Friedman (1970), 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”. Each company differs in how it implements CSR, with the differences depending on such factors as the specific company’s size, the particular industry involved, the firm’s business culture, stakeholder demands, and how historically progressive the company is in engaging CSR. For successful implementation, it is crucial that the CSR principles are part of the corporations values and strategic planning, and that both management and employees are committed to them. Furthermore, it is important that the CSR strategy is aligned with the company's specific corporate objectives and core competencies thus leading to organizational performance.

1.2 Research Problem

Aupperle et al (1985) states that socially responsible firms have a competitive disadvantage because they incur costs that fall directly upon the bottom line and thus affecting their financial performance. Financial statement analysis seeks to evaluate management performance in several areas including profitability, efficiency and risk (Reily and Brown, 1997). Organizations should therefore carry out CSR in such a way that they are in a position to enhance profitability and efficiency while minimizing their risks.

Empirical studies on corporate social responsibility have varied context. Herridge (2003) studied the potential benefit of corporate responsibility in the construction industry. Nduku (2008) conducted a research on the practice of CSR among foreign multinational corporations. Panwar et al (2006) conducted a research on corporate performance on organizational attractiveness to prospective employees. Scholtens (2008) conducted a research on the interaction between CSR and financial performance in the United States. The aforesaid empirical studies have not considered a research in the commercial banks listed at the Nairobi Securities Exchange in Kenya. Most of the empirical studies; Juslin and Hansen (2003), Mwiti (2006), Odhiambo (2006), Griffin and Mahon (1997) conducted research on varied context apart from commercial banks listed at the Nairobi Securities Exchange in Kenya.

Mwiti (2009) and Odhiambo (2006) had CSR as independent variable while their dependent variables were competitive advantage and stakeholders' management respectively. Porter and Kramer (2006) had competitive advantage as an independent variable and CSR as the dependent variable. The conceptual gap therefore is the combination of CSR as an independent variable and corporate performance as the dependent variable. Juslin and Hansen (2003) studied Corporate Social Responsibility: A theory of firm perspective; Mwiti (2009) did a survey on the relationship between CSR and competitive advantage; Odhiambo (2006) conducted a research on CSR as a strategic tool for stakeholder management in large scale enterprises in Kenya; Griffin and Mahon (1997) conducted a research on Corporate Social Performance and Corporate Financial Performance for 25 years. Whereas Hansen (2003); Mwiti (2009) and Odhiambo (2006) conducted cross sectional studies, Griffin and Mahon (1997) conducted a longitudinal study.

The empirical studies on Corporate Social Responsibility and Financial performance is inconclusive. This prompted the need to conduct this research to investigate the relationship between CSR and financial performance to address the identified gaps: what is the relationship between CSR and financial performance of commercial banks listed at the Nairobi Securities Exchange in Kenya.

1.3 Objectives of the Study

The objective of the study was to determine the relationship between corporate social responsibility and financial performance focusing on Commercial Banks Listed at Nairobi Securities Exchange. Since CSR is integrated into the business practices, it is by definition no easy to measure its effects separately, and therefore an empirical method was used to identify the relationship between the banks' socially responsible conduct and their financial performance.

Therefore the objectives of the study were;

i. To determine the existence of a relationship between CSR and financial performance in commercial banks listed at the Nairobi Securities Exchange in Kenya

ii. To determine the effect of the relationship between CSR and financial performance in commercial banks listed at the Nairobi Securities Exchange in Kenya.

1.4 Value of the Study

The findings of this study will help improve theory building on issues of corporate social responsibility conduct and financial performance, how they relate and will provide additional information into the already existing body of literature regarding CSR. The findings of this study will enrich existing knowledge for both researchers and academicians seeking to carry out further investigations and also provide a basis for further research.

The study findings will be important for policy development. The regulators and the policy makers may use the finding as reference for policy guidelines on management and control of such organizations. They will be able to use the findings of the study to formulate viable policy documents that effectively address challenges faced by banks in regard to CSR conduct, and may relate to regulating those aspects that threaten to adversely impact on the operations and development of such organizations. This study is important to the present theory because it does furnish those who are interested in this study area with relevant information. This study will help consultants to increase their training product portfolio, in offering strategic help to corporate organizations in the country; especially in CSR programmes to enhance penetration and image.

The finding of this study is important to the management of Commercial Banks Listed in Nairobi Securities Exchange by outlining the various essential processes that facilitate corporate social responsibility conduct. The findings are also diagnostic in pointing out the strengths and weaknesses of the organizations with respect to the fundamental processes that support strategy so that the organizations can formulate strategic actions to improve the areas of weaknesses and sustain the areas of strengths. Other banking institutions will be able to understand the concept of corporate social responsibility and integrate it in their decision making processes to improve on the profits. The findings of this study will help financial institutions to be able to make relevant decisions based on the concept of CSR.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The purpose of this chapter is to highlight the work that other scholars and researchers have done concerning corporate social responsibility and financial performance. In this chapter, the role of business in the society is looked at in detail. This chapter presents a review of literature pertinent to the study as presented by various researchers, scholars, analysts and authors. Past studies and theories on the study topic are important as they guide the researcher on other studies done on the same.

2.2 Theoretical Underpinning of the Study

The relationship between the corporate sector and society has become more complex, or at least the complexities are becoming more recognized. According to Edvardsson and Enquist (2009), business activity is increasingly concerned with creating social infrastructure for solving social problems because companies are also expressions of human aspiration, both individually and collectively. As a result, many large companies around the world are beginning to recognize that legitimacy in society is an active responsibility and not a passive one, and that commercial success will increasingly favour the community based, stakeholder-inclusive companies in the twenty first century (Little, 2006).

Kotler and Lee (2005) argues that businesses have a role to be socially responsible in society for two main reasons: firstly, a business system in general and the corporation in particular are creations of society and are enfranchised to function by society; secondly, although the business system and its constituent institutions are primarily oriented towards economic goals, the pursuit of economic goals inevitably generates a variety of social effects. For these reasons, it is inevitable and proper that society should call for businesses to be more socially accountable and evaluate their performance more broadly. Porter and Kramer (2006) maintains further that the long-run interests of business in a reasonably open, flexible, and pluralist society are better served when business organizations are perceived to adopt an activist posture towards society's problems and discontents than when they are perceived to behave negatively or with indifference. Various theories have been proposed to cover the relationship of CSR and the organization.

2.2.1 Stakeholder Theory

It is quite challenging to delineate areas of literature in the field of business in the society, for they often intertwine. Therefore, CSR literature is partly built on the stakeholder literature, and vice-versa. Carroll (1991) argued that, there is a natural fit between the idea of CSR and an organisation's stakeholders. The concept of stakeholder personalizes social or societal responsibilities by delineating the specific groups or persons business should consider in its CSR orientation. However, the concept of stakeholder did not develop consecutively with the concept of CSR, although the explicit relationship defined by Carroll is widely accepted by academics (Jones *et al*., 2002). Indeed, if CSR aims to define what responsibilities business ought to fulfill, the stakeholder concept addresses the issue of whom business is or should be accountable to, and both concepts are clearly interrelated.

One major difficulty in examining a stakeholder model or theory lies in the extremely diverse backgrounds of studies that have participated in building a common ground eventually labeled stakeholder theory (Scholl, 2001; Jones *et al*., 2002). Jones *et al*. (2002) list the principal theoretical fields which have contributed to the development of the stakeholder conceptual framework, and which include CSR, corporate planning, systems theory and organization theory. Each field has analyzed the stakeholder concept based on a specific body of assumptions and through a specific lens, concluding to different views on the role of stakeholders, which can be referred to as 'pluralism' (Jones *et al*., 2002). Hummel (1998) suggests that the various interpretations of the legitimate claim of stakeholder groups on organizational purpose emphasize various sets of stakeholders, which leads to 'different expected distributions of benefits and burdens, of pleasures and pains, of values, rights and interests' amongst interpretations.

Fair and ethical as it may be, adopting a stakeholder approach is by no means an easy and simple step to make, and rather constitutes a daily challenge for managers. Wood (1991) suggests that stakeholders are likely to develop a different understanding of what CSR means, what they expect from the organization in relation to CSR and how they assess CSR. It becomes an even more necessary skill, or a 'core competence' to possess as today's corporations are viewed as 'extended enterprises' that operate at the center of a network of interrelated stakeholders that create, sustain and enhance [their] value-creating capacity (Post *et al*., 2002). The whole environment in which this extended enterprise operates has changed, and the firm's relationships with its stakeholders have shifted from essentially transactional to truly relational, with these relationships affecting, either positively or negatively, the creation of organizational wealth (Post *et al*.,2002; Simmons, 2004).

2.2.2 Stewardship Theory

Stewardship theory, linked to Donaldson (1990) and Davis et al. (1997), is separated from the agency theory because of the hypothesis that managers should be less individualistic, less opportunistic and less self-serving than usually happens. On the contrary, managers should be more collectivist, more pro-organization and more trustworthy. Stewardship theory implies that managers can better achieve their objectives by serving to the multiple interests of organization. Homo economicus is replaced by a steward whose behavior is pro-organization as well as more collectivistic than individualistic and self-serving (Robins, 2008).

A steward who successfully improves the performance of the organization generally satisfies most groups, because most stakeholder groups have interests that are well served by increasing organizational wealth. Stewardship theory assumes that managers are stewards whose behaviours are aligned with the objectives of their principals. The theory argues and looks at a different form of motivation for managers drawn from organizational theory. Managers are viewed as loyal to the company and interested in achieving high performance. The dominant motive, which directs managers to accomplish their job, is their desire to perform excellently. Specifically, managers are conceived as being motivated by a need to achieve, to gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses, thus non-financial motivators for managers (Robins, 2008).

2.3 Corporate Social Responsibility (CSR)

According to Al-Mansour (2007), social responsibility is not an external judgement on how 'good' or 'ethical' a company is. Rather, it is a matter of how far a company deals with its environment by incorporating external concerns into its decision-making process. This means that as long as CSR remains peripheral to the main business activity and strategic decision making agenda, CSR activities will not have much social impact.

Carroll (1999) points out that social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at any given point in time. The importance of Carroll's four-part definition is that it focuses on the types of responsibilities that a business might be argued to have towards society. Therefore, for many corporations, CSR has become an integral part of running a business. This is because companies are realizing that you cannot make a decent profit if you are not socially responsible. CSR seen this way is not a discretionary favour extended to society by business, but a strategic business imperative (Porter and Kramer, 2006).

Chaudhry and Krishnan (2007) assert that social responsibility in business means the establishment of standards of behaviour in areas where society has legitimate expectations of business but where these expectations cannot sensibly be given precise definition, quantification and monitoring. Chaudhry and Krishnan believe that the best way to deal with society's expectations regarding business performance is for business to change its behaviour and attitude towards society. According to Porter and Kramer (2006), CSR means that the corporation should be held accountable for any of its actions that affect people, their communities and their environment. However, they emphasize that becoming socially responsible does not mean that a company must abandon its primary economic mission but rather balance all its responsibilities.

Bowen (1953) proposes that CSR is an obligation to pursue those policies, to make those decisions, or to follow those lines of action that are desirable in terms of the objectives and values of our society. For corporations, social responsibility includes economic, legal, ethical and discretionary expectations that society has of them at a given point of time (Carroll, 1979). It goes beyond the legal, technical, and economic requirements of the company and is viewed differently by people having different values (Juslin and Hansen, 2003). Essentially, CSR could be defined as companies acting in accordance with societal demands.

Although CSR is mainly discussed in the context of larger and international enterprises, it also is a strategic tool to enhance the competitiveness of other local organizations (Kang et al., 2010). Little (2006) asserts that CSR may positively influence corporations in the following ways: Improved products and/or production processes, resulting in a better customer satisfaction and loyalty; Higher motivation and loyalty of employees, resulting in a higher creativity and innovativeness; Better publicity due to the award of prizes and/or enhanced word-of-the-mouth; Better position at the labour market and better networking with business partners and authorities including better access to public funds due to a better company image; Cost savings and increased profitability due to a more efficient deployment of human and production resources; Increased turnover/sales due to a competitive advantage derived from the above (Mwiti, 2009).

2.4 Areas of Corporate Social Responsibility

Al-Mansour (2007) affirms that the more a company has incorporated the concerns from its external environment into its decision-making process, the more that company is deemed to be socially responsible. Based on the research done by King (2000), corporate response strategies to CSR issues can be divided into three categories: economic, philanthropic and strategic**.**

2.4.1 The Economic or Inactive Strategy

The economic approach to CSR is the view supported by the classical economic theory of free enterprise where a business exists to maximize profits for its owners in a competitive market economy. Social responsibility in this regard is related to maximizing the financial return and is believed to accrue to society through shareholder dividends, taxes and wages. This response to CSR emanates from the premise that the "business of business is business", where the role of the private sector in society is clear; making money and creating jobs. Those who support this view believe that in the running of a profitable business, employment opportunities are created and the people who are employed are better able to support themselves (Herridge, 2003).

Sims (2003) points out that this view of CSR tends to attract union support on the basis that the payment of better wages to employees is regarded as more important than assisting the wider community. According to Herridge (2003), this strategy views corporate social investment as a distraction from the main task of creating value for shareholders. This was the prevailing attitude of business in the 1970s and much of the 1980s but today this perception has changed due to intense scrutiny from the media and Non-Governmental Organizations (NGOs).

2.4.2 The Philanthropic or Reactive Strategy

The philanthropic level of CSR is characterized by community involvement activities that are *ad hoc* in nature, short term and paternalistic in their implementation (King, 2000). This is where a business involves itself in society at the level of charity in response to a feeling of social concern. Businesses that engage in CSR at this level only base their social involvement as an ethical way to conduct business without necessarily integrating such activities into their long–term corporate strategy. With this strategy, the company is aware of the problems in its social environment but it does not wish to be engaged with them. However, because the company desires to be regarded as a ‘good’ or ‘progressive’ company, the company will engage in strategies associated with this model such as sponsorship, donations, employee volunteer programmes and cause related marketing (Chaudhry and Krishnan, 2007).

King (2000) observes that the philanthropic approach to CSR does not present a ‘real’ shift in business practice, since the corporate activities involved cannot be adhered to during a fiscal crisis. What is needed is a corporate culture change that builds CSR into the heart of business practice and conduct. This is lacking at the philanthropic level, because the company engages in an exchange relationship with the community, without its activities having an impact on its long-term corporate goals and strategic planning process.

2.4.3 The Strategic Involvement Level or Interactive Strategy

Moir (2001) asserts that strategic corporate responsibility is more than simply giving away money; it refers to companies making a conscious investment in worthy social causes from which they expect to receive a return in the future. In other words, there is a strong ‘strategic’ link between the charitable giving and the corporation’s bottom line. This definition of strategic CSR connotes that such activities are strategic because they give a return to the business involved. In other words, the fact that the business derives some tangible bottom line benefits makes these activities strategic.

Lockwood (2004) also observes strategic CSR as something that occurs when a company aligns its corporate giving with its business interests in areas that take advantage of their core competencies and support their business objectives. Put differently, Chaudhry and Krishnan (2007) affirms CSR to be strategic when a company incorporates community involvement activities into its strategic planning process and operations. This requires that a company incorporate external environmental concerns found in society into its strategic concerns. The company then searches for appropriate responses to these concerns instead of merely regarding them as constraints on commercial activity. The implication of all this is that strategic CSR is a long-term engagement in corporate social investment initiatives and must therefore be incorporated into the strategic planning process of a company (Moir, 2001).

2.5 Organization Performance

Hervani et al. (2005) noted that several studies have investigated the universal principle of performance measurement. These studies came up with a number of conclusions related to performance measurement and their systems, which include: performance measurement systems having either tangible or intangible measures; measures should be dynamic and present at multiple levels; products and processes need to be included; systems and measures are best developed with a team approach with derivation from and links to corporate strategy; systems must have effective internal and external communications; accountability for results must be clearly assigned and be understood; systems must provide intelligence for decision makers and not just compile data; systems should be capable of linking compensation, rewards and recognition to performance measurement.

Influence of CSR on business performance was discussed also by Lin *et al.* (2009). Their findings suggest that even if positive CSR activities do not increase immediate profitability, they may be instrumental in reducing the risk. Ghoulou *et al*. (2011) proved that investment in employee relations, environmental policies and product strategies contribute to lowering a firms' cost of equity. Not only do such activities contribute to society at large, but they also benefit the firm by lowering financing costs. Scholtens (2008) found a positive and significant interaction between financial and social performance. Financial performance (both risk and return) in general terms precedes social performance (both in strengths and concerns) much more often than the other way around.

2.6 Corporate Social Responsibility and Performance

According to Kotler and Lee (2005), CSR is a concept whereby organizations consider the interests of the society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities, and the environment. Over the last several years, companies have embarked on CSR projects as a way of 'giving back' to the societies in which they operate. CSR projects have also been used as a way of cleaning up the society or even launching of community dispensaries, schools, water provision through bore-holes among others, depending on the size of the company in question. When CSR began, it seemed like a voluntary initiatives and was done mainly by large multinationals that the community profits (Herridge, 2003).

According to Carroll (1983), “corporate social responsibility involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible then means that profitability and obedience to the law are foremost. This relates to the firm’s ethics and the extent to which it supports the society in which it exists with contributions of money, time and talent”.

One area of great interest for companies regarding CSR is whether a focus on CSR affects financial performance positively or negatively. The debate in this area became more engaging after Friedman (1970) asserted that the only social responsibility of a business is to create profits. With a study detailing the use of four data sources of information to measure the corporate financial performance and the corporate social performance, Griffin J (1997) identified the fortune reputation survey, a survey conducted by Fortune Magazine rating the top USA companies in comparison with each other in respect to different variables to determine which company is better performing; the Kinder, Lydenberg, and Domini (KLD) Index, a socially responsible investment benchmark to measure how social and environmental impacts of companies affect investment decisions by investors; the Toxics release Inventory (TRI), a database containing data on disposal or other releases of over 650 toxic chemicals from thousands of USA facilities and information about how facilities manage these chemicals through recycling, energy recovery and treatment in order to inform communities about toxic chemical releases to the environment and Corporate Philanthropy, the charitable donations of profits and resources given by corporations to non-profit organizations handled by the corporation or by a foundation created by the firm.

The Study by Griffin (1997) reviewed 25 years of previous data to link financial performance and CSR using the four data sources listed above to create an empirical and analytical link between Corporate Social Performance and Corporate Financial Performance. However, he found that the Fortune and KLD indices tracked each other closely, whereas TRI and corporate philanthropy differentiated high and low social performers and did not correlate to the firm's financial performance, and therefore concluded that there was still no empirical way to prove a relation between the two.

Frankentel (2001) asked the question whether CSR is just an invention for public relations with the sole aim to woo the public and exploit their needs and emotions to attain bigger profits while not really creating any sustainable impact, as sometimes evidenced in the budget allocations and strategic importance for CSR. If an organisation is serious about an issue it will but money and strategic importance behind it. For many companies, this is not the case. Usually at times of economic crisis, the first budgets to be axed are those for CSR initiatives. Marketers have also been found to use pictures of charities supported by companies unsustainably and unrelated to the business to gain market share by tugging at the emotions of consumers. This has undermined CSR and at time makes it more of a marketing tool as opposed to a sustainable practice of business with the focus of creating value for the businesses and the society.

Prahalad (2005), once proponent of this change in mind set, coined the term ‘fortune at the bottom of the pyramid’ where he postulated that if corporations could turn their focus to those whom he called people at the bottom of the pyramid, they stood to make profits. His rational was that the poorest have been ignored by business and do not have access to goods and services that are essential even for development. If corporations could innovate in their products and meet the demands of the market he claims exist, then these products would help uplift the poorest out of poverty and in so doing create sustainable development and increase their participation in the market economy leading to more profits for companies.

Al-Mansour (2007) argues that CSR should engage the serious attention of management of any company today. While such responsibility can impose a tedious burden on the management of any corporation, it brings its own rewards. Effective involvement of staff in the design and the implementation of CSR programmes enhance their performance. Due to the realization that community relations are essential to the well-being of corporations, different firms are involved in various community relations activities. Organizations have realized that perception is very important to customers and would be customers hence businesses strive to show their human face by engaging in matters that are aimed at improving the welfare of others (Sims, 2003; Kotler and Lee, 2005; Herridge, 2003; Waddock and Graves, 1997). Cheese (2007) also points out that a company's engagement in CSR has become factor for the new generation entering the workplace such that if a company does not have meaningful and significant focus on CSR, then talent will leave the company. Hence if organisations do not take CSR seriously, they stand the chance to lose their competitiveness when it comes to attracting and retaining the best talent especially among generation Y.

Here in Kenya, CSR has also gained currency as most companies are striving to give something back to the community (Muthuri, 2005). East Africa Portland Cement Company has built boreholes for communities around its plant. East African Breweries Limited has a scholarship scheme for poor students unable to pay for university education. Safaricom Limited has distinguished its role in carrying out CSR activities by paying wages for workers at Nanyuki Children's Home, sponsorship of Mathare United Youth Association, sponsorship of the annual Lewa Marathon, provision of water for marginalized communities, planting of over a million trees, Standard Chartered bank supports vision through the sponsorship of the Nairobi Marathon among others. As demonstrated, CSR requires funds for its success. Managers make a trade off whether the firms profit will be put in the pursuit of excellent CSR, the organization will expand or the shareholders will be paid more dividends. Odhiambo (2006) notes, however, that the sooner the CSR culture in Kenya moves from ad hoc charitable giving, to holistic stakeholder engagement, the better for the business community. The above misgiving show that indeed there are challenges facing CSR implementation among companies.

Muthuri (2005) argues that corporate giving depends on economic conditions and the size of the firms that engage in CSR. She argues that the best form of giving should be pegged on a percentage of the pre-tax profit. To emphasize this fact, Muthuri gave examples of companies in the UK and USA which give between 1% and 2% of their pre-tax profits. In contrast, she lamented about the lack of motivation for Kenyan firms where 'corporate giving' is not tax exempt. She reinforced her argument by giving an example of East African Breweries Limited, which has committed 1% of its post-tax profit towards CSR. Her argument is that firms should be encouraged to give to the society through tax exemptions. Thus, giving should be pegged on the pre-tax profits so as to encourage more firms to give.

According to Margolis and Walsh (2002), one hundred twenty-two (122) published studies between 1971 and 2001 empirically examined the relationship between corporate social responsibility and financial performance. The first study was published by Narver in 1971. Empirical studies of the relationship between CSR and financial performance comprise essentially two types. The first used the event study methodology to assess the short-run financial impact (abnormal returns) when firms engage in either socially responsible or irresponsible acts. The results of these studies have been mixed. Wright and Ferris (1997) discovered a negative relationship; Posnikoff (1997) reported a positive relationship, while Welch and Wazzan (1999) found no relationship between CSR and financial performance. Other studies, discussed in McWilliams and Siegel (1997), are similarly inconsistent concerning the relationship between CSR and short run financial returns.

The second type of study examined the relationship between some measure of corporate social performance (CSP) and measures of long term financial performance, by using accounting or financial measures of profitability. The studies that explore the relationship between social responsibility and accounting-based performance measures also produced mixed results. Cochran and Wood (1984) located a positive correlation between social responsibility and accounting performance after controlling for the age of assets. Aupperle, Carroll, and Hatfield (1985) detected no significant relation between CSP and a firm's risk adjusted return on assets. In contrast, Waddock and Graves (1997) found significant positive relationships between an index of CSP and performance measures, such as ROA in the following year.

Studies using measures of return based on the stock market also indicated diverse results. Vance (1975) refuted previous research by Moskowitz by extending the time period for analysis from 6 months to 3 years, thereby producing results which contradicted Moskowitz and which indicated a negative CSP/CFP relationship. However, Alexander and Buchholz (1978) improved on Vance's analysis by evaluating stock market performance of an identical group of stocks on a risk adjusted basis, yielding an inconclusive result.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methods that was employed to provide answers to the research questions in this study as listed in chapter one. The aspects of research methodology, research design, research instruments, data collection procedure and analysis are discussed.

3.2 Research Design

The research adopted the cross sectional study design to identify and determine the nature of the relationship between CSR and financial performance of commercial banks listed at the Nairobi Securities Exchange in Kenya. Cross-sectional is a study in which the research population is selected and assessed on a current or present variable of interest. "The goal of a cross-sectional case-control study is to examine factors that are associated with a particular characteristic of interest" (Kazdin, 2003).

Causal study was used as the element to analyse the data. Causal studies explores relationships between variables of which the researcher did seek to examine a possible cause and effect relationship; thus, there is an independent and dependent variable. Due to the fact that extraneous variables are not controlled for in this design, the results of the research can only suggest that one variable may cause another (Mugenda and Mugenda, 2003).

3.3 Population of the Study

A cross-sectional study provides a snapshot of the distribution of factors and outcomes in a target population at a specified period of time, enabling the prevalence of specific factors and outcomes to be calculated for a given study population of which the presence of factors and outcomes may be determined simultaneously.

Polit and Hungler (1999) refer to the population as an aggregate or totality of all the objects, subjects or members that conform to a set of specifications. In this study, a survey was done on the entire target population that comprised of commercial banks listed at the Nairobi Securities Exchange in Kenya and were operational between 1st January 2010 and 31st December 2014.

3.4 Data Collection

The study relied on both primary and secondary data. A structured questionnaire was the preferred mode of primary data collection in this study since the respondents of the study were literate and able to answer questions asked adequately and the questionnaire allowed for specific responses to a broad range of questions. The researcher administered the questionnaires to the respondents targeted for this study.

On the other hand secondary data was collected for a period of five years (2009 to 2013) from the financial statements database maintained by Nairobi Securities Exchange for the purpose of effective periodical analysis used as reference point on banks' performance.

3.5 Data Analysis

The primary data collected was checked for completeness and consistency, coded and classified into the different aspects of CSR to enable efficient analysis. CSR activities have different aspect components and for the purpose of this study, components for social, environmental, legal and economic aspects were used to analyse CSR practice. The response dedicated to each aspect of CSR was used to determine the score for CSR based on a scale of 1 to 5 where 1 represented total non-participation and 5 represented participation to a very large extent in CSR activities.

Financial performance was the dependent variable and was measured by Earnings per Share (EPS), which was calculated as the ratio of a banks' profit to each outstanding common share and Return on Equity (ROE), calculated as the ratio of the net income to average shareholders' equity.

The coefficient of determination, R^2 measure was used to test the significance of the regression model in explaining the relationship between CSR conduct and performance. R^2 as a measure of goodness of fit showed the percentage variance in the dependent variable that was explained by the independent variable(s), the higher the R squared, the better the model. The P-Value was used to test the individual significance of the predictor variables that was used in the study. The relationship was explained by the following regression equation model;

$$\text{EPS, ROE} = \alpha_0 + \alpha_1 x_1 + \alpha_2 x_2 + \alpha_3 x_3 + \alpha_4 x_4 + \varepsilon$$

Where:

EPS = Earnings per Share;

ROE = Return on Equity;

x_1 = Social aspects of CSR;

x_2 = Environmental aspects of CSR;

x_3 = Legal aspects of CSR;

x_4 = Economic aspects of CSR;

ε = Error term;

α_0 = Constant;

α_1- Constant (coefficient) of Social aspects of CSR;

α_2- Constant (coefficient) of Environmental aspects of CSR;

α_3- Constant (coefficient) of Legal aspects of CSR;

α_4- Constant (coefficient) of Economic aspects of CSR.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Introduction

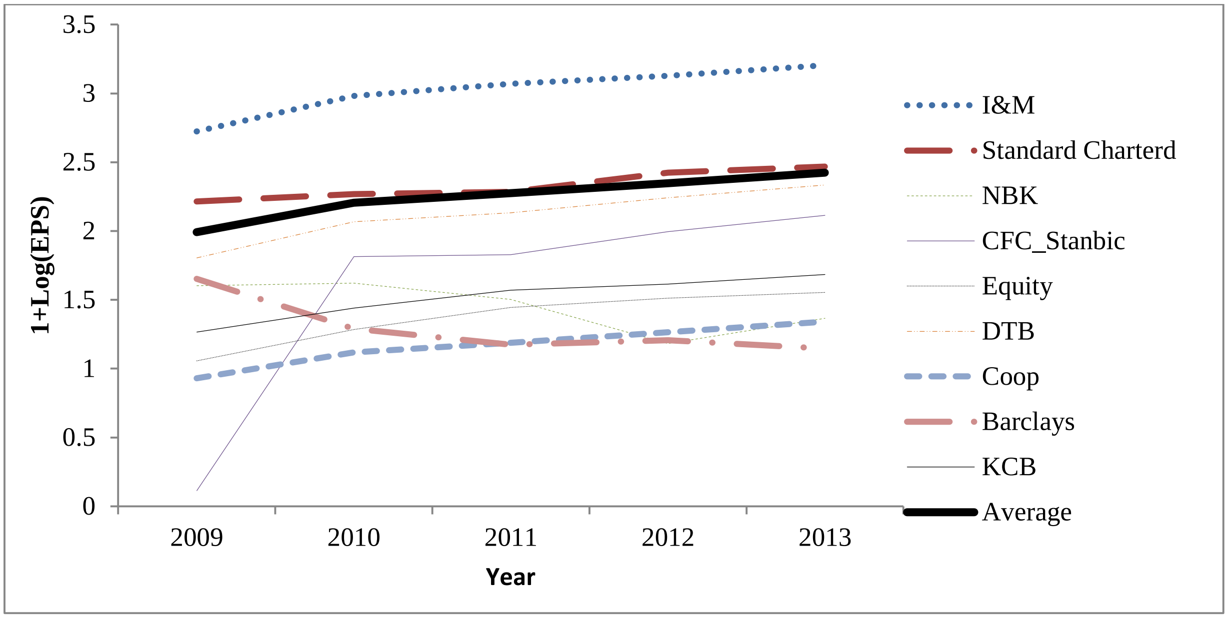
This chapter presents the findings of the data collected from the management of commercial banks listed at the Nairobi Securities exchange. It contains the data analysis, results, discussion and interpretation of the study.

The data compared the trend of the financial performance of commercial banks listed at the NSE in Kenya from 2009 to 2013 as expressed by Earnings per Share (EPS) and Return on Equity (ROE) which was computed and the results presented in tables 1 and 2.

4.2 Financial Performance by Earnings per Share (EPS)

EPS is the ratio of a company's profit to each outstanding common share that serves as an indicator of a company's profitability and is generally considered to be the single most important variable in determining a share's price. Figure 4.1 shows that I&M Bank, Standard Chartered Bank and DTB Bank were more profitable and resulted in averagely higher capital gains to their shareholders in terms of higher share prices over the five year period with average EPS scores of 112.2, 22.1 and 14.1 respectively while Co-operative Bank with an average of 1.6 had the lowest performance.

Figure 4.1: Financial Performance by EPS



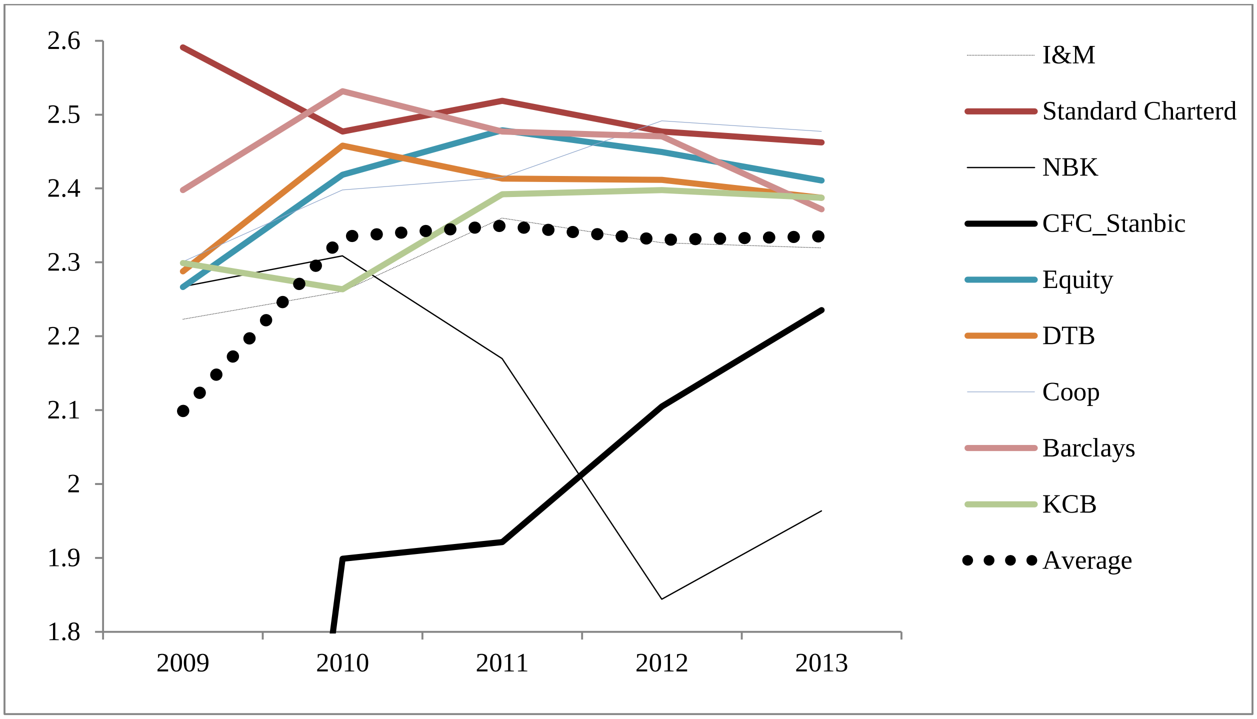
Source: Researcher, n=9

4.3 Financial Performance by Return on Equity (ROE)

ROE ratio indicates how profitable a company is by comparing its net income to its average shareholders' equity. The ROE measures how much the shareholders earned for their investment in the company. The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return is to investors.

As shown in figure 2, Standard Chartered Bank, NIC Bank and Barclays Bank returned a higher earning with respect to their shareholders' investment during the period under review with ROE of 32.2, 29.1 and 28.4 respectively reflecting a more efficient utilisation of resources to generate returns while Housing Finance Bank and CFC Stanbic Bank with 11.9 and 9.3 respectively returned the lowest earnings, an indication of an inefficient utilisation of equity.

Figure 4.2: Financial Performance by ROE



Source: Researcher, n=9

4.4 CSR conduct in Commercial Banks listed at the NSE

The findings regarding this hypothesis were based on analysing responses provided by the respective bank management on the existence of a CSR policy, budget and department to establish the extent to which the listed banks have integrated CSR conduct in their core business.

Table 4.1 contains data generated from the primary data collected from respondents of the listed commercial banks. The data shows that 89% of the respondent banks have a department dedicated to CSR activities, 100% allocate funds for CSR in their budgets while 78% has a policy in place to guide CSR conduct.

Table 4.1: Extent of CSR integration

CSR Conduct	Frequency	%
Bank have CSR department	8	89%
Bank Budgets for CSR	9	100%
Bank has CSR Policy	7	78%

Source: Researcher

4.5 CSR index Score for Commercial Banks listed at the NSE

The response scores were used to generate the indices score for CSR based on the different component aspects of CSR. The respective CSR aspect score was obtained by generating an index score from the respondent scores based on a scale of 1 to 5 where 1 represented total non-participation while 5 represented participation to a very large extent in CSR activities for the four aspects of CSR. Table 4.2 contains summary of the index scores from which it's apparent that KCB bank, Standard chartered Bank (SCB), National Bank (NBK), Stanbic Bank and Equity Bank had the highest average index score of 5 compared to Barclays Bank, I&M Bank, Cooperative Bank and Diamond Trust Bank (DTB) followed closely with an index score of 4.

Table 4.2: CSR Indices Score

	Social	Environmental	Legal	Economic	Average CSR Score
Barclays	4	3	5	5	**4**
KCB	5	4	5	5	**5**
I&M	4	4	4	4	**4**
SCB	4	5	5	5	**5**
COOP	4	4	4	4	**4**
NBK	5	3	5	5	**5**
STANBIC	5	4	4	5	**5**
DTB	4	3	4	5	**4**
EQUITY	5	4	4	5	**5**

Source: Respondent bank management

4.6 CSR and Organisational Performance

The regression equation established was as follows:

Financial performance (EPS) = 302.81+36.58X_1+13.12X_2+1.36X_3+40.95X_4

All aspects of CSR were positively related with listed banks' financial performance as measured by EPS and CSR had a direct relationship with financial performance. The regression coefficients shows that αo (the value of listed Banks' financial performance when CSR indices score and EPS were all rated zero) is equal to 302.81. The model also shows that for every one unit increase in aspects of CSR, listed banks' financial performance increases by 36.58 units (α1= 36.58) for Social aspect, 13.12 units (α2= 13.12) for environmental aspect, 1.36 units (α3= 1.36) for Legal aspect and 40.95 units (α4= 40.95) for Economic aspect.

Using P-Values to test on the individual significance; a predictor variable is said to be linearly related with the response variable if it's P-Value < 0.05 (5% significance level). The findings presented in Table 4.3 show that only social and economic aspects of CSR had a significant linear relationship with the listed banks' financial performance. The implication of this study would be that listed commercial banks should put more emphasis on social and economic aspects of CSR in order to increase financial performance (EPS).

Table 4.3: Regression Results; EPS

	Estimate	**Std. Error**	**t – value**	**P – Value**
(Constant)	302.810	206.026		
Social	36.582	67.816	0.539	0.042
Environmental	13.116	25.913	0.506	0.139
Legal	1.355	38.694	0.113	0.116
Economic	40.949	68.614	0.597	0.023

Source: Researcher

As shown in Table 4.3, Social CSR (β= 36.582, $p<0.05$) and Economic CSR (β=40.949, $p<0.05$) significantly predicted financial performance while the Environmental CSR (β=13.116, $p>0.05$) and Legal CSR (β=1.355, $p>0.05$) did not significantly predict financial performance.

Table 4.4: Regression Results; ROE

	Estimate	**Std. Error**	**t- value**	**P – Value**
(Constant)	-13.148	59.278		
Social	18.348	19.512	0.940	0.400
Environmental	6.569	7.456	0.881	0.428
Legal	3.510	11.133	0.315	0.768
Economic	15.221	19.742	0.771	0.484

Source: Researcher

Although all aspects of CSR were positively related with listed banks' financial performance as measured by ROE, overall CSR had no direct relationship with ROE. P-values to test on individual significance suggests that changes in the predictor are not associated with changes in the response.

As shown in Table 4.4, Social CSR (β= 18.348, $p>0.05$), Economic CSR (β= 15.221, $p>0.05$), the Environmental CSR (β=6.569, $p>0.05$) and Legal CSR (β=3.510, $p>0.05$) did not significantly predict financial performance as measured by ROE.

4.7 Multiple R from Regression

A correlation matrix was used to compare the level of participation of commercial Banks listed at the NSE in CSR activities that fitted into four CSR aspects namely; Social, Environmental, Legal and Economic.

Table 4.5: Variables Correlation Matrix

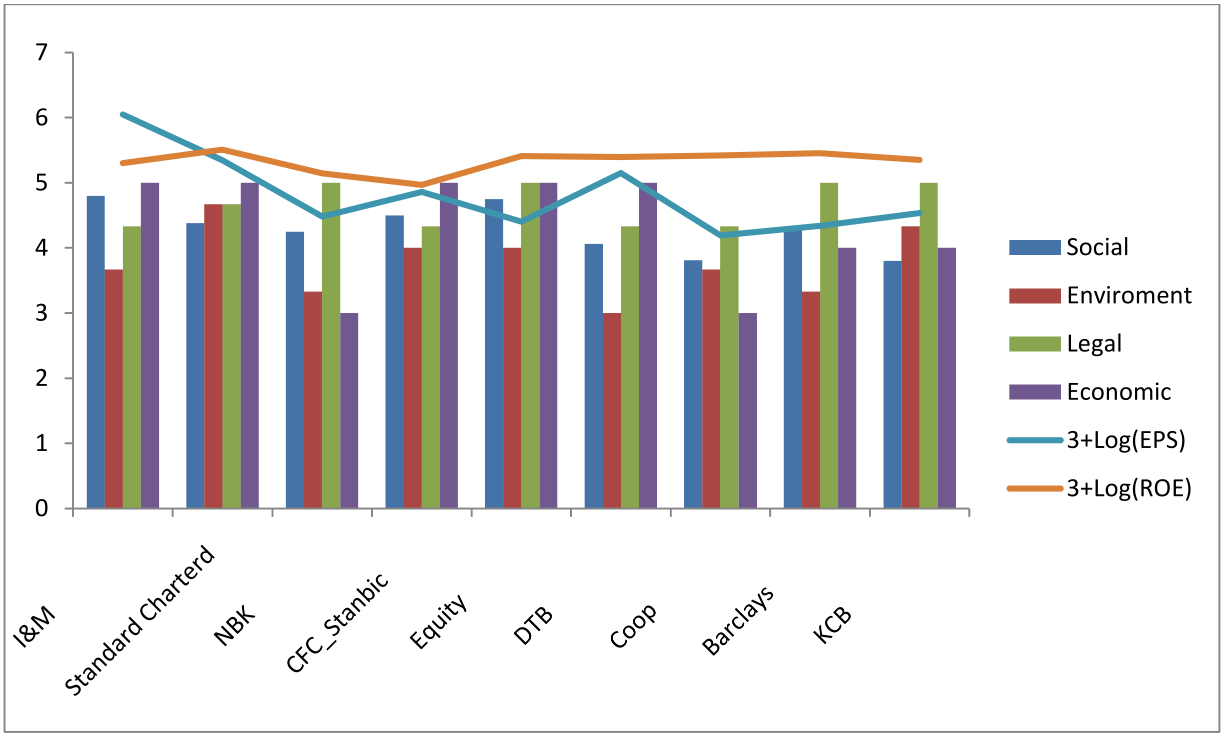
CSR Variables	**AV_EPS**	**AV_ROE**
Social	0.518* (0.044)	0.676* (0.037)
Environment	0.211 (0.186)	0.143 (0.113)
Legal	0.411 (0.272)	0.183 (0.638)
Economic	0.091* (0.025)	0.046 (0.091)
Overall	**0.341* (0.031)**	**0.646* (0.073)**

Note* Correlation coefficients that is significant at 0.05 level of significance.

Source: Researcher

The data on table 4.5 was generated using spearman's rank correlation analysis performed on the dependent and independent variables in order to determine the degree of relationship among them. The data confirm that there is a significant correlation between participation in CSR activities and the ROE and EPS of the listed commercial banks in the period under investigation. The analysis shows that the participation of the banks in the CSR activities was significantly correlated to their financial performance. Categorically, participation of the banks in the social aspects of CSR was significantly correlated to EPS (ρ=0.518, P=0.044) and ROE (ρ=0.676, P=0.037), while participation on economic aspects of CSR is significantly correlated to EPS ((ρ=0.091). overall participation on CSR activities is significantly correlate to both EPS and ROE at (ρ=0.341, P=0.031) and (ρ=0.646, P=0.073) respectively. The results of the analysis indicate a significant correlation between Financial Performance and CSR; supporting the view that CSR initiatives can be associated with bottom-line benefits to commercial banks listed at the Nairobi Securities Exchange in Kenya.

Figure 4.3: Graphical representation of Financial Performance and CSR



4.8 F- Statistics from Anova

The study further used the coefficient of multiple determination (R^2) to check on the magnitude and the direction of the relationship between the independent and dependent variable. Coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) and P- value were used to check on the overall significance of the model.

Coefficient of determination (R^2) of 0.614 shows that 61.4% of the variation in the listed banks' performance (EPS) is explained by the changes in the CSR score, leaving only 38.6% unexplained while for ROE, R^2 of 0.2134 shows that only 21.34% of the variation in the listed banks' performance (ROE) is explained by the changes in the CSR score . The regression model obtained for this study can therefore be used to forecast financial performance (EPS) fairly. The adjusted R - square of 22.8% for financial performance (EPS) showing the model estimate of the relationship between the variables is understandable as results in the regression analysis indicated that only social (P-value=0.042) and economic (P-value=0.023) participation in the CRS had a significant effect on the average EPS. The P-Value of 0.0332, which is less than 0.05 shows that there is a significant relationship between the dependent and independent variables used in the study for the case of EPS compared to P - Value of 0.8829 for ROE that shows none of the factors had significant relationship.

Table 4.6: Model Summary

Model	Multiple R - Squared	Adjusted R- Squared	Standard Error E	F-Statistic	P-Value
EPS	0.614	0.228	31.38	1.591	0.0332
ROE	0.2134	- 0.5733	9.028	0.2712	0.8829

Source: Researcher

As shown in Table 4.6, the researcher's prediction that CSR will have significant positive effect on financial performance was partially supported, with EPS ($R2=0.614$, $p<0.05$) and ROE ($R2=0.2134$, $p>0.05$). CSR in EPS model significantly predicted financial performance ($p<0.05$) with the multiple coefficient of determination of ($R2 =0.614$) meaning that CSR explained about 61% of the variance in financial performance with 39% unexplained. With respect to ROE model, CSR did not significantly predict financial performance ($p>0.05$). The multiple coefficient of determination ($R2=0.2134$) suggested that the proportion of the total variation in financial performance accounted for by customer CSR was 21%, with other factors accounting for approximately 79% of the variation which is not significant so as to influence performance.

4.9 Discussion

The objective of the study was to determine the relationship of CSR with financial performance of commercial banks listed at the Nairobi Securities Exchange. This study has found that CSR has a positive effect on financial performance of commercial banks listed at the Nairobi Securities Exchange. It has also found that only CSR with Social and Economic aspects accounted for the highest variance in corporate financial performance. This outcome buttresses the accumulating body of empirical studies on the effect of CSR on financial performance which found significant positive effect of CSR on financial performance (Simpson and Kohers, 2002; Orlitzky et al., 2003; Berrone et al., 2007).

Also, the claim of the stakeholders' theory that when a firm satisfies its stakeholders, it will lead to an enhanced financial performance is supported by the findings of the study. This is however contrary to Gray (2006)'s argument that no sound theory exists to potentially create the implausible effect, and that this can lead to no effect, and some other empirical studies which found no effect of CSR on financial performance (Griffin & Mahon, 1997; Fauzi, 2004). In order to determine which of the CSR dimensions (Social, environmental, legal and economic) made significant amount of contributions to financial performance, hierarchical multiple regression was performed. The result in Table 4.3 and 4.4 show that social CSR and economic CSR has a significant positive effect on financial performance. This means that an increase in the performance of social CSR by 1% will be associated with 36.58% increase in financial performance while an increase in the economic CSR by 1% will be associated with 40.95% increase in financial performance. The result further showed that environmental CSR and legal CSR did not significantly affect financial performance. This follows that an increase in the performance of environmental CSR and legal CSR is not significantly correlated with a decrease or increase in financial performance respectively.

In all, the results showed that CSR towards economic (β=40.949, $p<0.05$) accounted for the highest significance to financial performance followed by social (β= 36.582, $p<0.05$), environmental CSR (β=13.116, $p>0.05$) and legal CSR (β=1.355, $p>0.05$) respectively. This implies that CSR towards economic and social aspects make significant contribution to financial performance compared to CSR towards environment and legal aspects. This results supported the prediction that CSR has a positive relationship with the financial performance of banks listed at the Nairobi Securities Exchange.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter concludes the findings of the study providing a summary and recommendations of the key issues that have been addressed by the study. Conclusions drawn from the study have also been highlighted to give a better understanding of the results, with recommendations for policy, practice and suggestions for further research.

5.2 Summary

The primary objective of this study was to determine the relationship between CSR and financial performance of commercial banks listed at the Nairobi Securities Exchange. The aim was to seek to find out if there is any strategic value in participating in CSR activities given the cost involved and whether such CSR conduct can be associated with bottom-line benefits to the banks.

The study used regression and correlation analysis to establish the relationship between financial performance and CSR conduct of banks listed at the Nairobi Securities Exchange in Kenya. This study found that CSR has a positive effect on financial performance of commercial banks listed at the Nairobi Securities Exchange. The correlation coefficient of participation on CSR activities with social aspect was significantly correlated (ρ=0.518, P=0.044 and ρ=0.676, P=0.037) to performance in terms of EPS and ROE, with an overall significant correlation of CSR variables to both EPS and ROE at (ρ=0.341, P=0.031) and (ρ=0.646, P=0.073) respectively.

The coefficient of determination of 0.614 indicates a strong positive correlation between the dependent and independent variables taken together. However on the analysis of the relationship between the individual independent variables and financial performance, the results showed that only social and economic aspects of CSR had a significant positive relationship as shown in table 6 of the model summary. Whereas CSR score was found to have an overall positive relationship with financial performance (EPS), this was not significant with financial performance (ROE).

5.3 Conclusion

There is an extensive debate concerning the legitimacy and value of being a socially responsible business. There are different views of the role of a firm in society and disagreement as to whether wealth maximization should be the sole goal of a corporation. Although certain benefits have been identified for businesses for being socially responsible, most of these benefits are still hard to quantify and measure.

This study attempted to address the question of how corporate social performance is related to financial performance. The findings of this study indicate that there is a positive relationship between CSR conduct and financial performance of commercial banks listed at the Nairobi Securities Exchange and this relationship is statistically significant, supporting, therefore, the view that socially responsible corporate performance can be associated with a series of bottom-line benefits in line with those studies that found positive linkages in the past (Waddock and Graves, 1997; McGuire, et al., 1988, 1990; Auperle, et al., 1985).

Arguments exist that support the view that firms which have solid financial performance have more resources available to invest in social performance domains, such as employee relations, environmental concerns, or social/community relations. Financially strong companies can afford to invest in ways that have a more long-term strategic impact, such as providing services for the community and their employees. Those allocations may be strategically linked to a better public image and improved relationships with the community in addition to an improved ability to attract more skilled employees. On the other hand, companies with financial problems usually allocate their resources in projects with a shorter horizon as outlined in the slack resources theory (Waddock and Graves, 1997).

Other arguments propose that financial performance also depends on good or socially responsible performance. According to Waddock and Graves (1997), meeting stakeholder expectations before they become problematic indicates a proactive attention to issues that otherwise might cause problems or litigation in the future. Furthermore, socially responsible companies have an enhanced brand image and a positive reputation among consumers; they also have the ability to attract more accomplished employees and business partners. Companies that adopt the CSR principles are more transparent and have less risk of having to recall defective product lines or pay heavy fines for polluting the environment. They also have less risk of negative social events which could damage their reputation and costs millions in information and advertising campaigns or litigation.

5.4 Recommendation for Policy and Practice

This study found that CSR has a positive effect on financial performance of commercial banks listed at the Nairobi Securities Exchange. It also found that only CSR conduct with Social and Economic aspects accounted for the highest variance in corporate financial performance.

The researcher recommends that bank managers should improve their CSR efforts towards social and economic aspects to enhance their financial success. Also, the banks should continue to invest and abide by environmental laws and regulatory requirements bordering on their operations as it could provide opportunity for enhanced financial performance in the long term.

5.5 Implications for Theory

The implications of the findings of this study to the theoretical perspectives of CSR is that the Stakeholder theory offer valid arguments as to the benefit of CSR initiatives, for it must be assumed that economic and societal interests are so intertwined that it is an economic necessity to meet societal expectations for Stewardship theory to support CSR, which is never the case. The argument for Stakeholder theory's support of CSR is much clearer as it expands management's accountability past owners and to everyone affected by the company's practices and products which infers a responsibility to the stakeholders resulting in unique characteristics that offer a competitive advantage to organisations and improve performance.

5.6 Limitations of the Study

This study determined the effect of CSR on financial performance of commercial banks listed at the Nairobi Securities Exchange in Kenya. While certain elements and findings may be applied across the entire banking sector, the study may not be used solely to manage CSR conduct in all banks and in all countries as the study focused only on commercial banks that are listed at the Nairobi Securities Exchange in Kenya.

This study also focused only on CSR and financial performance and no other aspects of management or non- financial performance was included in the primary or secondary research. The analysis was based on the response of the respective respondent bank management and the study findings may only be limited to the CSR conduct and financial performance within the respondent commercial banks.

5.7 Suggestions for Further Research

The findings of this study indicate that there is a positive and statistically significant relationship between CSR conduct and financial performance of commercial banks listed at the Nairobi Securities Exchange.

There are however many opportunities for other studies to be conducted in this area to investigate and ascertain the cause and effect of relationship between CSR and organizational performance. It is recommended that other studies that includes all commercial banks in Kenya be conducted.

This study focused on the relationship between CSR and financial performance and it is recommended that other studies be conducted on CSR and non-financial performance for commercial banks listed at the Nairobi Securities Exchange in Kenya. It is also recommended that further studies be conducted to investigate and to ascertain the relationship between CSR and performance in all commercial banks in Kenya and the period of time it takes for the impact of CSR on organizational performance to be realized to enable the use of CSR conduct as a strategic tool for competitive advantage in banks.

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APPENDICES

Appendix I: Letter of Introduction

Raminya Ben,
P.O. Box 354,
Kisumu,

20th July 2014.

Dear Respondent,

RE: **DATA COLLECTION**

I am an MBA student from University of Nairobi carrying out a research on the '**corporate social responsibility and performance of commercial banks listed at the Nairobi Securities Exchange in Kenya'** to fulfil the requirements of the Award of Master of Business Administration. Your contribution towards this research is highly valued and appreciated.

You have been selected to participate in this study and I would highly appreciate if you assisted me by responding to all questions in the attached questionnaire as completely, correctly and honestly as possible. Your response will be treated with utmost confidentiality and will be used only for research purposes of this study only.

Thank you in advance for your co-operation.

Yours faithfully,

Raminya Ben,
Researcher

Appendix II: Secondary Data on financial performance (2009-2013)

Table 1: Earnings per Share (EPS)

	BANK	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	
		2010	**2011**	**2012**	**2013**	**2014**	**Average**
1	Barclays Bank Kenya ltd	4.49	1.95	1.49	1.61	1.40	2.19
2	CFC Stanbic Holdings ltd	0.13	6.53	6.72	9.90	12.97	7.25
3	Diamond Trust Kenya ltd	6.39	11.68	13.58	17.44	21.61	14.14
4	Kenya Commercial Bank ltd	1.84	2.76	3.72	4.11	4.82	3.45
5	National Bank of Kenya ltd	4.00	4.18	3.19	1.52	2.32	3.04
6	NIC Bank ltd	2.75	4.60	5.54	6.03	6.12	5.01
7	Standard Chartered Bank ltd	16.45	18.58	19.28	26.60	29.42	22.07
8	Equity Bank ltd	1.14	1.93	2.79	3.26	3.59	2.54
9	Co-operative Bank of Kenya ltd	0.85	1.31	1.54	1.84	2.20	1.55
10	Housing Finance	1.02	1.65	2.70	3.22	4.31	2.58
11	I&M Holdings Ltd	52.90	95.77	117.72	134.03	160.32	112.15

Source: Financial statements submitted to the NSE

Table 2: Return on Equity (ROE)

	BANK	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	
		2010	**2011**	**2012**	**2013**	**2014**	**Average**
1	Barclays Bank Kenya ltd	25.00	34.00	30.00	29.55	23.55	28.42
2	CFC Stanbic Holdings ltd	0.18	7.92	8.34	12.73	17.19	9.27
3	Diamond Trust Kenya ltd	19.40	28.70	25.90	25.80	24.40	24.84
4	Kenya Commercial Bank ltd	19.91	18.34	24.68	25.00	24.40	22.47
5	National Bank of Kenya ltd	18.50	20.36	14.79	6.98	9.20	13.97
6	NIC Bank ltd	22.48	31.23	34.26	29.18	28.51	29.13
7	Standard Chartered Bank ltd	39.00	30.00	33.00	30.00	29.00	32.20
8	Equity Bank ltd	18.48	26.22	30.12	28.15	25.76	25.75
9	Co-operative Bank of Kenya ltd	20.00	25.00	26.00	31.00	30.00	26.40
10	Housing Finance	5.75	8.91	13.19	14.47	16.98	11.86
11	I&M Holdings Ltd	16.71	18.23	22.90	21.22	20.88	19.99

Source: From financial statements submitted to the NSE

Appendix III: Structured Questionnaire

Instructions: Please respond to the following questions and where applicable, mark the relevant box with a tick (√).

Confidentiality: The responses you provide will be strictly confidential. No reference will be made to any individual(s) in the report of the study.

PART A: BACKGROUND INFORMATION OF THE BANK

1. Name of Bank____

2. Does your Bank have a department in charge of CSR?

   Yes [ ] No [ ]

3. Does the Bank have a CSR policy?

   Yes [ ] No [ ]

4. Does your Bank have a budget for CSR?

   Yes [ ] No [ ]

5. How long has the Bank been in operation in Kenya?

   Less than 10 years [ ] 11-20 years [ ] 21-30 years [ ]

   31 – 40 years [ ] 41 -50 years [ ] More than 50 years [ ]

6. Number of employees?

   Less than 100 [ ] 101 - 500 [ ] 501 – 1000 [ ]

   1001 -1500 [ ] 1501 – 2000 [ ] More than 2000 [ ]

PART B: CSR INVOLVEMENT

The following are the CSR activities that an organisation can practice. Please indicate the extent to which your organisation engages in them.

Use the key below to tick ( ) as appropriate;

1 - Not at all; 2 - To a less extent; 3 – To a Moderate extent; 4 – To a large extent; 5 – To a very large extent

CSR activities	1	2	3	4	5
The Bank sponsors sporting activities					
The Bank sponsors educational activities					
The Bank sponsors health initiatives/ activities					
The Bank offers internship/ vocational training opportunities					
The Bank provides donations to charities and community projects					
The Bank sponsors environmental preservation initiatives/ activities					
The Bank provides equal opportunity employment					
The Bank provides on the job training opportunities to its employees					
The Bank utilizes energy saving initiatives within its premises					
The Bank provides measures to enhance employee motivation					
The Bank considers the work & life balance for its employees					
The Bank grants free days to employees for community volunteering					
The Bank develops products and services that contribute to solving society's needs					
The Bank has an active health & safety policy					
The Bank abides with CBK economic regulations					
The Bank handles prudently and effectively customer complaints					
The Bank upholds the freedom of association and effective recognition of the right to collective bargaining					
The Bank prohibits and works against all forms of corruption, including extortion and bribery					

The Bank eliminates all forms of discrimination in respect of employment and occupation					
The bank safeguards consumer interests by providing unambiguous product information to potential customers					
The Bank abides by and is compliant with the respective taxation laws					
The Bank provides after sales service for its products					
The Bank treats its staff and customers fairly					
The Bank practises fair standards of advertising					
The Bank monitors and audits the possible impact of its customers' activities on environment, health and safety.					

Thank you for your time and cooperation

Appendix IV: Commercial Banks listed at the Nairobi Securities Exchange

1) Barclays Bank Limited,
2) CFC Stanbic Holdings Limited,
3) Diamond Trust Bank Kenya Limited,
4) Kenya Commercial Bank Limited,
5) National Bank of Kenya Limited,
6) NIC Bank Limited,
7) Standard Chartered Bank Limited,
8) Equity Bank Limited,
9) Housing Finance Bank Limited,
10) I&M Bank Limited and
11) The Co-operative Bank of Kenya Limited.