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

BY

FATUMA MAHAT IBRAHIM

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

Signature.......Fatuma...

Date..10 September 2021..............................

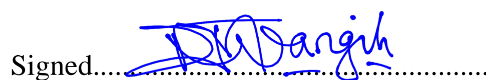
NAME

Fatuma Mahat Ibrahim

D63/6562/2017

Supervisor

This research project has been submitted for examinations with my approval as the university supervisor.

Signed.......................

Date...15 September 2021.............................

Prof Cyrus Mwangi Iraya

Senior Lecturer,

School of Business,

University of Nairobi.

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DEDICATION

I dedicate this work to my family.

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LIST OF ABBREVIATION AND ACRONYMS

CB Commercial Bank

CSR Corporate Social Responsibility

GDP Gross Domestic Product

NSE Nairobi Stock Exchange

ROA Return on Assets

ROE Return on Equity

ROI Return on investments

SPSS Statistical Package for Social Sciences

VIF Variance Inflation Factor

ABSTRACT

This study sought to assess the effect of CSR on profitability among Commercial banks in Kenya. To achieve this objective, a descriptive research design was adopted. This study relied on secondary data of fourty three (43) Commercial banks in Kenya. Data on the fourty-three commercial banks were sourced from respective banks annual report. Data relating to the CSR included the following; annual costs of Economic, Legal, Ethical and Philanthropic responsibilities as ratio of total assets. The data collected covered a period of 5 years, that is, 2015 - 2019. Information collected was subjected to diagnostic tests namely: normality test, multi-collinearity test and homoscedasticity. Descriptive statistics and inferential statistics approach was used to analyze the data. Findings from the descriptive statistics indicated that CSR had a mean of 0.044 and a standard deviation of 0.713. Bank size (total assets) had a mean of 17.726 and a standard deviation of 1.3658. Liquidity ratio had a mean of 0.077 and the standard deviation of 0.0537. Return on assets had a mean of -0.005 and the standard deviation of 0.0308. From the mean and standard deviations, the study established that CSR, liquidity, bank size and ROA came from data sets in which the data points were clustered around the mean. From the regression analysis, the study established that R Square for the model was 0.098. This put forward that 9.8% of the variation in the return on assets was accounted for by the regression model. Findings from the Anova table indicated that the model was statistically significant to predict return on assets based on CSR, bank size and liquidity. Further analysis revealed that liquidity and bank size had significant positive impact on return on assets while CSR had a positive but not statistically significant influence. Bank size had a positive effect on return on assets as indicated by the coefficient value of 0.007. Liquidity ratio had a positive impact on return on assets as shown by the coefficient value of 0.095. The study recommended that commercial banks in Kenya should continue engaging in CSR activities such as economic, legal, ethical and philanthropic. This is because the role of business is rapidly changing in the 21st century. Although many businesses have a primary responsibility to their stakeholders it is increasing coming to light that a business ability to respond to social and community needs of the location it operates in is important as well. Based on the findings, the study also recommends that policy makers and management of the commercial banks should come up with better strategies to deal with bank size as it has a positive impact on the profitability of the banks. The study also recommends that the central bank of Kenya should also come up with better policies to deal with illiquidity issues that the commercial banks experience.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

At the very onset, corporate social responsibility (CSR) reduces the profit margins of an establishment because it increases firms' aggregate expenses of the firm. However, studies have reported that CSR increases the revenues of the firm thereby positively affecting profitability. Firms that have a strong CSR have better employee satisfaction, who in turn work at their optimum best to deliver quality which translates to improved financial performance by the firms (Ksiezak, 2016). Corporate social responsibility enables the firms to have philanthropic obligations that endear them to the community and society. The benefits from this can be increased sales or increased investors all of which translate to enhanced stock performance. Additionally, through environmental responsibility which is another form of corporate social responsibility, firms can ensure that they have played a part in ensuring the environment is less polluted (Kao et al., 2018). This could translate to efficiency in business operation and also endear the firm to the consumers as was the case of the Tessler manufacturing company (Cho & Lee, 2019).

This study shall rely on three theories, triple bottom line theory, Carroll theory of CSR, and stakeholder theory. Carroll's (1991) theory remains of the core theories in the realms of corporate social responsibility. This theory recommended four forms or domains of responsibility i.e. ethical, legal, philanthropic/ discretionary, and economic which enhance various overall performance of the firm (Khurshid et al. (2014). Stakeholder theory by Freeman and Reed (2010) who argued that a

corporation has stakeholders who are a group of individuals who benefit from the organization. The stakeholder theory holds that there are several groups of people who are affected by the CSR investment programs of an organization. They include employees, customers, and investors. The theory holds that fulfilling interests of different stakeholders attracts more funds for investment leading to higher total profits. Therefore, firms are charged with the duty of safeguarding and balancing various parties' interests by adoption of activities as well as operations that meet the presented interests of the stakeholder. Triple bottom line by Elkington and Rowlands (1999) developed triple bottom line theory which states that corporates do not only have profit maximization as their sole objective but also on three spheres namely: environmental sustainability, economic sustainability and social sustainability.

Studies on banking have mostly focused on conventional banking and various aspects of conventional banking for example, these areas include operational management, financial structures, the challenges they face, the legal framework they operate in, the products they offer, risk management. The topic of CSR among the commercial banks (CBs) in Kenya and how it relates to their profitability is missing. The study assessed the effect of CSR on profitability among CBs in Kenya.

1.1.1 Corporate Social Responsibility

CSR is a wider business term that describes a firm’s commitment to execute their business in an ethical manner (Sarkar & Searcy, 2016). According to Kloppers and Kloppers (2018) CSR, which can also be referred to as corporate citizenship, is a business model that is self-regulating and assists the firm to be socially answerable to

the public, the stakeholders, and to itself. Another comprehensive definition of CSR was offered by Carroll (2016) who opined that CSR is the manner in which firms manage their enterprise activities to have a positive effect on community. Carroll (2016) added that CSR should stretch beyond mere acts of philanthropy to the core of the business. Moreover, CSR encompasses a range of investment outcomes, activities, and business processes. According to the stakeholder theory, CSR consists of diverse outcomes resulting from responsible behavior Roman, For a company with stakeholders such as employees, governments, customers, society, and investors, CSR with respect to every stakeholder, will be rewarding good performance, paying taxes, delivering superior products, providing jobs, and maximizing investment. The costs of CSR are, therefore, diverse in nature.

Carroll (2016) in agreement with the pyramid offered by Kloppers and Kloppers (2018) asserted that the pyramid consists majorly of four forms of CSR which are ethical responsibility, economic responsibility, environmental responsibility, and philanthropic responsibility. Ethical responsibility is mainly deal with looking after the welfare of not only the firm's employees but also the employees of the suppliers. Ethical responsibility works to ensure that employees have fair labor practices (Carroll, 2016). Economic responsibility strives to offer a balance between business environmental and philanthropic practices.

According to (Carroll, 2016) economic responsibility adheres ethical and moral regulation which can be seen when a firm finds a way in which it can enable business growth and make profits by benefiting the community around them. Focus on the environment has been on a steady rise in the recent past. Limiting pollution and

reducing greenhouse gases has been the main concern for most firms. As such, companies try to fulfill their economic responsibilities by being aware of the environment.

Moreover, firms that are at the forefront of conserving the environment through various means are seen as good corporate citizens. In very simple terms, von Schnurbein et al. (2016) stated that philanthropic responsibility means serving humanity. Philanthropic responsibility concerns itself with the wellbeing of the less fortunate in society. Firms can fulfill their philanthropic responsibilities by donating their resources, money, and time to organizations or charities that deal with assisting the less fortunate. CSR activities revolve around: environmental conservation, caring for the community, education, company donations to charity, waste management and engaging in fair trade practices amongst others, all aimed at changing the lives of people.

There are many advantages that a firm can draw from CSR regardless of its size. However, Kao et al. (2018) argued that most of the advantages can be drawn from the four main advantages that touch on employees, customers, and the image of the firm. Regarding employees, Kao et al. (2018) viewed that companies that practice CSR have increased or high rates of employee satisfaction. The productivity of those employees who feel appreciated by the firms is always higher than the contrary. High employee satisfaction has positive impacts on the performance of the firm and even in terms of retention of employees. Additionally, CSR allows the firm to be part and parcel of the society and community through its philanthropic and environmental responsibilities which endears the firm to the customers and promotes customer

loyalty (Kao et al., 2018). In the modern digital era, firms have been seen to use the digital space to show their engagement in CSR. These activities are gaining those firms' exposure which in turn improves their public image.

1.1.2 Profitability

Profitability is one of the four key aspects that are used when analyzing financial statements. The two key determinants of profitability are revenue which are the business incomes and expenses which are the monies used by the business. The ability of an organization to generate revenue that exceeds its expenses through the use of resources at its disposal is termed as profitability (Hanauer & Huber, 2019). Profitability can also be said to be the state of yielding financial gain through the use of available resources (Duan & Niu, 2020). Similarly, Wiech et al. (2019) defined profitability as a firm’s capacity to generate a return on investment (ROI) on the basis of the resources that are available compared to another investment. Profitability reflects the ability of a company to discharge its mandate to stakeholders. A company should perform activities to fulfill objectives that are quantified in monetary terms. Profitability is the degree to which a corporate entity achieves its objectives

Profitability can be measured in a variety of ways however, scholars such as Hanauer and Huber (2019) and Wiech et al. (2019) revealed that the two main ways of measuring profitability are return on assets, and profit margins. The profit margin is obtained by dividing the net income by the annual sales multiplied by 100 (Bowen et al., 2018). A higher profit margin means that the business enjoys a greater efficiency in generating profits. Return on assets is determined by the ratio of (net income to the

total assets) multiplied by 100 (Bowen et al., 2018). In this case, too, a higher figure means more efficiency in generating profits.

According to Selvam et al. (2016) other indicators of profitability performance apart from return on assets (ROA) and profit margins are, ROI, economic value-added, EBITDA margin, and return on equity (ROE). Accounting-based profitability measures are the cornerstone for previous research in determining CSR and profitability relationship. However, they only lead to a myopic way of evaluating performance. To 3 redress this literature shortcoming, researchers recommend the use of net profit to total asset ratio to preempt any possibility of managers adjusting net income figures.

Profitability of local commercial banks can be analyzed using growth, ROA, and market risk methods. Recently, the commercial bank sector has generally recorded increased profit, and growth. However, market risk analysis has recorded mixed results. Top lenders such as Equity, Kenya Commercial Bank, and Barclays Bank achieve double digit growth in profitability. Currently, growth is expected to be maintained as the economy remains supportive. Market risk is, however, very high. Many companies are relying heavily on banking technologies, such as mobile banking. This, coupled with government interventions, could cause major swings in profits for different firms.

1.1.3 Corporate Social Responsibility and Profitability

Firms that have strong CSR have always been reported to have a positive financial performance of which profitability is one of the indicators. According to Cho et al.

(2019), a strong CSR means that the firm has high levels of satisfaction to clients and staff all of which translate to increased sales thereby increasing revenue for the firm. Moreover, CSR ensures that the company has a good image among the public and therefore making it easier for it to gain investors if need be. An increased number of investors may improve the company's stock performance.

According to Aupperle, Carroll & Hatfield (2005), CSR will have a negative relationship with accounting measures of profitability in the short-term due to initial investments. On the other hand, it will reduce business risk. As managers invest in CSR activities, they inspire confidence in stakeholders. In the long-term, companies profit from CSR investment. The relationship between CSR and accounting measures of performance will be positive. CSR can have a positive, negative, or no effect on profitability, depending on expenditure to achieve CSR. The same findings demonstrate that some CSR investments are crucial for sustainability. Therefore, corporate management of CSR budget is crucial in determining the optimal effects CSR has on profitability. Aupperle, Carroll & Hatfield (2005) demonstrate that CSR costs are justified if they can recover hidden costs of not seeking CSR. Companies sacrifice shortterm profitability for long-term returns to attain a competitive edge. In consideration of previous empirical research studies and theories, this study will demonstrate a positive CSR-profitability relationship in the long-term.

Lee and Jung (2016) stated that it is particularly hard or almost impossible to pinpoint with accuracy the gains from the CSR activities. However, this notwithstanding, most executives believe automatically that CSR ultimately improves profits. Subsequently, almost 100% of large companies in either developed or developing economies do not

want to be seen as unengaged in CSR (Dias et al., 2019). The revelation by Dias et al. (2019) points out that indeed, there exists a positive link between CSR and profitability even though CSR on itself is an expense.

1.1.4 Commercial Banks in Kenya

The Central Bank of Kenya (CBK) become the regulatory authority for the banking sector in Kenya, forty-three banking institutions i.e. forty-two commercial banks and one mortgage finance company (MFC) (CBK, 2019). Thirty-one of the forty-three institutions of banking are locally owned and among the banking sectors that foreigners own, eight are incorporated between being foreign and locally owned with twelve being foreign owned. Kenya has created laws that ensure the formulation and management of banks such as banking act, appropriation act, Barclays of Kenya Limited act, banking act, cheque act, general loans, central depositories act, stock act, and capital markets among others (www.cbk.co.ke).

Over the last decades, there has been an outburst of unprecedented growth in the banking industry with an eye-catching performance. Despite the poor economic performance and the 2008 crisis, the sector has remained consistently profitable. Furthermore, the 2008 global financial crisis continues to affect the economy did not affect the banking institution (Kamau & Were, 2013). However, increasing innovation from new players and new advanced markets have increased banking competition contemporarily, which calls for relevant strategies that will make the banking institutions to remain relevant sustainably.

1.2 Research Problem

As stated, CSR positively impacts profitability. Firms that have strong CSR have always been reported to have a positive financial performance of which profitability is one of the indicators. According to Cho et al. (2019), a strong CSR means that the firm has high levels of satisfaction to clients and staff all of which translate to increased sales thereby increasing revenue for the firm. CSR has mutual benefits to both organization and society as well. Consumers gain confidence in the firms and the firms gain access to the resources within the community. CSR improves the living conditions of the people by providing them with the necessities and helping the society address some of its social problem (Jamali, 2015). Moreover, CSR ensures that the company has a good image among the public and therefore making it easier for it to gain investors if need be. An increased number of investors may improve the company's stock performance.

The concept of banking and CSR are not a relatively new phenomenon. However, Mallin et al. (2014) mentioned that the relation between CSR and banks is relatively interesting because banks, even as they engage in CSR must remain guided by rules and regulations by Central Bank of Kenya. To this extent and to add legitimacy to Mallin et al. (2014) claims, Khurshid et al. (2014) proposed the corporate social responsibility model (ICSR) that is anchored by socio-economic responsibility, legal responsibility, philanthropic responsibility, and ethical responsibility. Among the commercial banks in Kenya therefore, it is expected that they adhere to this model by Khurshid et al. (2014).

Globally, Babalola (2012) examined the impact of CSR on profitability of firms in Nigeria. The results from the analysis revealed a strong negative relationship between corporate social responsibility and profitability. Awan and Akhtar (2014) sought to explore the bearing of CSR on profitability of Fertilizer and Cement Industry in Southern Punjab, Pakistan. The outcome of the analysis indicated a positive link between the variables (r = 0.681) with a significance level of 0.00. Nwaneri (2015) sought to scrutinize the effect of CSR on firm profitability in Nigeria. The aims of the investigation were to evaluate CSR's role in creating a competitive edge and the association between CSR and firm profitability. The outcome of the analysis showed a positive association between CSR and profitability (R= 0.35). Lee and Jung (2016) sought to assess how CSR influence profitability of establishments in the Korean manufacturing industry. The outcomes of the investigation indicated that there exists a positive link between CSR and profitability.

In Kenya, Chege (2014) examined effects of CSR on the profitability of CBs in Kenya. This investigation's aim was to ascertain the link between CSR and profitability among CBs in Kenya. A descriptive research design was adopted. The findings of the investigation revealed that there was a positive significant link between CSR (community health programs, financial literacy programs, employees volunteering and supporting education) and profitability. Mbithi (2015) researched on the influence of CSR on establishment's' profitability of the banks registered on Nairobi stock exchange (NSE). The study findings shows that independent variable (CSR) has a positive link with profitability of CBs listed at the NSE. Ongwae (2016) studied the bearing of CSR on profitability of CBs in Kenya. The study findings

revealed a strong association between CSR, Bank size and ROA. Though, there is no substantial link between CSR and ROA. Ng'ang'a (2018) researched on bearing of CSR on profitability of CBs in Kenya. The findings revealed that CBs enhance their profitability by engaging in CSR activities. It can be seen that the results of the studies undertaken from both developed and undeveloped countries, as well as those conducted locally have only been conclusive of Philanthropic Activities of CSR. This was identified as the main research gap.

The studies reviewed above presents research gap due to conflict in findings, where Babaloa (2012) found a negative association between CSR and profitability as compared to other researches like Lee and Jung (2016) and Mbithi 2015. Therefore, this investigation will explore the effect of CSR on profitability of fully fledged CBs in Kenya by the answering the following research question: what is the effect of CSR on profitability of CBs in Kenya?

1.3 Research Objective

To assess the effect of CSR on profitability among Commercial banks in Kenya

1.4 Value of the Study

To management and employees of CBs, the findings of this investigation enabled them to appreciate the concept of CSR, know the various ways in which CSR can be implemented within their banks, and be more open to funding CSR projects. In assessing CBs, CSR strategies, the study allows the bank`s management to benchmark and assess the effectiveness of CSR towards the establishment of a positive image for

the firm. Additionally, the findings also guided the banks on which CSR activities they can engage in.

To policymakers, the findings of this study allowed them to formulate and amend existing laws to encourage the concept of CSR and banking. In addition, the study results may assist government officials formulate and implement certain CSR-centered policies and regulations that may help improve the programs. Furthermore, the study helps the government of Kenya, through the relevant officials know the areas of focus of CSR activities and the impact of those activities on the general public. Moreover, the study outlines various ways in which CSR can be measured and this was particularly insightful to policymakers who would be in a position to make decisions on the viable CSR activities depending on their returns.

To theory, this study added to the already existing pool of knowledge on the subjects of profitability, CSR, and banking by establishing the effects of CSR on profitability.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This part sought to discuss theoretical framework and empirical literature. Theoretical framework covers Carroll's theory of CSR, stakeholders theory and triple bottom line. Empirical literature review focused on global and local studies on CSR and profitability.

2.2 Theoretical Review

The following subsection discussed into detail the theories to support the study. That was, Carroll's theory of CSR, stakeholders theory and triple bottom line.

2.2.1 Carroll's Theory of Corporate Social Responsibility

This theory was propounded by Caroll (1991). This theory presents the infrastructure of CSR which encompasses; ethical, legal, economic and philanthropic. Carroll regards CSR to be framed in such a manner that the whole forms of enterprise responsibilities is adopted. Carroll proposes that CSR consists of four social responsibilities; legal, economic, philanthropic and ethical responsibility. A pyramid may be used to illustrate these four responsibilities (Carroll, 2016). Pertaining to the legal perspective, establishments are expected by the society to comply with the laws and regulations. A responsible firm should adhere to regulations since it has a belief that fair corporate practices is positively replicated on economy and society.

The economic perspective is pertaining to the responsibility to generate revenues and profit and this responsibility is a vital obligation to the survival of the business. Profits

are a necessity to stakeholders, investors and owners (Carroll, 2016). Generated profits and the process of money circulation will be enhanced and an establishment will effectively realize its CSR of economic responsibility.

Ethical responsibilities are pertaining to the manner in which the community expects the establishment to adopt norms and practices even if the norms and practices involve a higher performance standard than legally required. This is doing the right thing and not to harm stakeholders (Nalband & Kelabi, 2014). Philanthropic responsibilities are such undertakings that community expect for an establishment to be a good corporate citizen. In this case, it is expected to provide the community with financial and human resources and to improve the standards of living (Jamali & Karam, 2016).This theory supports this given the fact that it explains the dependent variable of this study since the economic perspective of this theory is pertaining to the responsibility to generate revenues and profit and this responsibility is a vital obligation to the survival of the business. Profits are a necessity to stakeholders, investors and owners.

2.2.2 Stakeholder Theory

This paradigm was originated by Freeman and Reed (2010) who argued that a corporation has stakeholders who are a group of individuals who benefit from the organization. Therefore, firms are charged with the duty of safeguarding and balancing various parties' interests by adoption of operations and activities that are in tandem with interests of the stakeholders. The theory maintains that the creation of value tailored towards meeting the stipulated stakeholder needs develops the basis of

the adopted operational processes in organizations (Brenner & Cochran, 1991). The theory maintains that the adoption of processes tailored towards meeting stakeholder interests develop the basis of the operational processes in the organization. The existence of a wide range of stakeholders presents a challenge for businesses that seek to provide value to all stakeholders (Harjoto & Jo, 2012).

The traditional stakeholder theory lays more emphasis on the adoption of measures designed towards encouraging firm profitability and growth. However, the changing nature of the stakeholders necessitates the adoption of measures tailored towards meeting all stakeholder needs (Borster, 2013). The consumers are the main stakeholders as they engage in the purchase of the company goods and services presented in the market. Engagement in CSR has been identified in the modern context as a critical component of the stakeholder theory. Brenner and Cochran (1991) argue that CSR initiatives are tailored towards meeting the existent needs presented in the society. However, the primary theory argues on the basis of shareholders whereby the profit making component is considered the main goal of the company.

The theory has faced numerous criticism from scholars as it has been considered as prioritizing technique over theory, which maintains that the system delimits the conduction of an effective analysis concerning the impact of the environmental aspects on business operations and policies (Borster, 2013). The stakeholder theory identified the public and community as key stakeholders in the company which posits that the banking companies remain inclined to engage in CSR initiatives tailored towards meeting the society needs. The adoption of CSR provided the companies with

an avenue to cater to the community, which identifies part of the stakeholders for the company. This theory buttresses this study by the commercial banks are expected to serve the expectations of the stakeholders. In this regard the stakeholders are represented by the customers and the community in this study. Moreover, corporate social responsibility is done with the help of organizations' stakeholders that includes the local community, suppliers, employees, and customers in order to be able to maintain organization's profitability as well as firms' survival. This theory relates to triple bottom line strategy where customers are beneficiaries and key stakeholders in the company.

2.2.3 Triple Bottom Line

Elkington and Rowlands (1999) developed triple bottom line theory which states that corporates do not only have profit maximization as their sole objective but also on three spheres of sustainability namely: environmental, economic and social. Environmental sustainability is concerned with the manner in which physical resources are managed in order to conserve them for the future. Precisely, actions ought be taken for the facilitation of our natural world's regeneration (Enquist & Hay, 2004). All such actions that establishments must support, not for the reason that they are legally bound to do that, but for the reason that the preservation of a livable planet is a direct responsibility in this paradigm of CSR.

Conversely, economic sustainability is pertaining to the establishment's economic performance itself. Additionally, the wider economic sustainability concept comprises the establishment's bearing on the economic model in which it is subject to. Though,

because of competition and challenging business situations, the social perspective development has not happened as swiftly as the economic and environmental perspectives. The major concern in social sustainability perspective is that of social justice. Despite the popularity of this paradigm, there are similarly those giving criticism. Norman and MacDonald (2013) term Triple Bottom Line as intentions establishments may prevent effective environmental and performance as well as social reporting. They term the paradigm as a good old-fashioned Single Bottom Line alongside uncertain commitments to environmental and social issues (Enquist & Hay, 2004).

2.3 Determinants of Profitability

Profitability is the capacity of an organization to provide services in the immediate future (Aupperle, Carroll & Hatfield 2005). Profitability reflects the ability of a company to discharge its mandate to stakeholders. A company should perform activities to fulfill objectives that are quantified in monetary terms. Profitability is the degree to which a corporate entity achieves its objectives. According to Roman, Hayibor, & Agle (1999), profitability can be defined by cumulative quantification measures that include accounting-based profitability measures, risk measures, growth of sales, and realized stock returns. Accounting-based profitability measures are the cornerstone for previous research in determining CSR and profitability relationship. However, they only lead to a myopic way of evaluating performance. To redress this literature shortcoming, researchers recommend the use of net profit to total asset ratio to preempt any possibility of managers adjusting net income figures.

Various factors influence the profitability of a firm within the industry. The banking industry is a growing sector in the industry that has many influences that needs to be broadly considered. The fact that it is a growing industry creates the necessity of creating broad time strategies. A look at the factors that determine the growth of a firm plays a key part in understanding the type of technology that needs to be applied. These are some key aspect that will be discussed based on the fact that the macroeconomics is an emerging sector that needs time to understand and grow. A broader look at the determinants plays a key role in this perspective.

2.3.1 Gross Domestic Product

Gross domestic product (GDP) is sum of everything produced in a particular nation. GDP comprises of government expenditure, business investment, and personal consumption expenditures (Callen, 2016). A country is considered to have a high living standard when the GDP rate is rising. Therefore, GDP affects a firm's growth since it attracts investors to invest in the company, increase sales since consumers are able to consume the company's' products.

The GDP of a Country is the most commonly used macro-economic indicator to measure the sum total of the economic activities within an economy determining the level of supply and demand for loans and deposits. A higher economic growth encourages lending at higher profit margins hence improving the net worth the firm's assets. A volatile economic growth on the other hand results in lower demand for financial services and increased loan defaults (Sufian, 2011). Macro-economic factors

have a significant impact on profitability and firms and the banking industry of any country. As indicated by Levine (1997), well-functioning financial markets lead to higher profitability of the financial sector facilitating trading, saving and resource allocation as envisaged by the proponents of the efficient market hypothesis theory.

2.3.2 Interest on Loans

The fees and interests from the loans make up the primary source of revenue for the banks. The average loans issued depends on the number of people that meet up the expectations of the loans. Loans refer to money issued out by a party to the other for future repayment with interests' charges. Financial institutions, governments and corporations normally issue them out (Wang & Yang, 2016).

Changes in interest rates indirectly affects the costs, revenues and profitability of financial institutions (Sufian, 2011). Loans give allowance for the growth of money supply within the country's economy leading to the opening of competition within industries and businesses. The practice means that the society is essential in determining the size of the establishment by accepting the interest rates that microfinance institutions offer to the people. This is a perfect practice that widely refers to the ability of the public to ensure that adequate resources are put in place to ensure that the profits generated fills in the profitable gap that is clearly required in this particular case.

Loans and loan interest make up the source of revenue for the commercial banks as they heavily rely on them to increase the rate of profits and other formable measures that needs to be placed under consideration. This is an apparent practice that the

organization relies upon to ensure that sufficient company measures are introduced to ensure that the interest of the company are perfectly highlighted. The practice leads to the creation of preferable skeptic that needs to be effectively considered when the interest of the customers is at stake.

2.3.3 Inflation Rate

Inflation rate represents the percentage level of money circulation in an economy or the general increase in commodity prices. Inflation rate have both adverse and positive bearing on profitability (Keynes, 2007). The negative effects are more visible than the positive impacts. The negative effects include depreciation of the real money value and other monetary factors. High inflation rates discourage investments and savings (Sharma, Kautish & Kumar (2018). Therefore, profitability of a firm is slow when during high inflation.

2.3.3 Firm Liquidity

Liquidity is the capability of the firm to possess assets and liabilities over a short period for increasing their performance. According to Slim and Bilal (2016) there is a relationship between the loans that are held by the bank and the assets owned by the bank. The loans that the customers obtained from the bank, if paid within the given time frame without defaulting, will increase the profitability of the bank, due to the maximization of profits. This can be done through efficiency in establishing a variety of ways in which one can increase the interest rate and adoption of capping. When there is a long-term risk due to interest capping, the short-term liquidity does not lead to the firm profitability.

2.4 Empirical Review

Global studies have presented arguments and evidence showing positive negative or neutral relations between CSR and profitability. Using CSR as a collection of independent variables, global studies seek to identify if it has an effect on profitability. If the study identifies a linkage, then it seeks to establish the nature of the relationship. According to Kotler (2008) 53% of the global empirical studies indicate a positive CSR profitability relationship. Orlitzky et al. (2015) supports the views of Kotler's study in his research which shows a strong and positive relationship between environmental awareness, and profitability. However, Arya (2009) conducts a research which factored in social pressure as an independent variable. The studies showed that the inclusion of social pressure resulted in negative profits for many international firms. As most of the global studies indicate a positive CSR-profitability relationship, international businesses stand to benefit from the contribution makes to international research.

Global studies on CSR and profitability include: Babalola (2012) analyzed the bearing of CSR on profitability of firms in Nigeria. 10 firms were randomly picked for the study. The study relied on secondary accessed from annual report and financial data for the period 1999 to 2008. Data gathered was analyzed via ordinary least square method. The independent variable was represented by CSR, while profit after tax ta proxy firms profitability of the selected company. The results from the analyzed revealed a strong adverse link between CSR and profitability. This was shown by a correlation coefficient of -0.178. This implies that an increase in costs associated with CSR leads to a fall company profits.

Lee and Jung (2016) sought to assess how CSR influence profitability of establishments in the Korean manufacturing industry. Mixed method design was adopted for the investigation. The investigation relied on secondary data that encompassed a period of 10 years, that is, 2006 to 2015. The data gathered was analyzed via linear regression where CSR represented the independent variable while return on assets represented the dependent variable. The effect of CSR was established by F test. The study outcome showed that there is a direct link between CSR and profitability. There was also a significant positive link between the variables (sig =0.037).

Nwaneri (2015) examined effect of CSR on firm profitability in Nigeria. The investigation aimed to evaluate CSR's role in creating a competitive advantage and the association between CSR and firm profitability. Quantitative research design guided this study. Target population comprised of Nigerian Breweries PLC and Lafarge Africa PLC. The study further relied on secondary data retrieved from annual reports from the selected firms. The dependent variable, profitability, was measured using profit after tax, while independent variable CSR was measured using annual CSR cost. The information gathered was analyzed through a simple linear regression. The outcome of the analysis indicated a positive association between CSR and profitability (R= 0.35). The regression output also revealed a significant relationship between the variables. Therefore, management should consider implementing CSR undertakings to boost profitability.

Awan and Akhtar (2014) sought to assess corporate social responsibility (CSR) and profitability of Fertilizer and Cement Industry in Southern Punjab, Pakistan. The

study focused on the following objectives: What are the conditions of CSR; and the effect of implementing CSR on profitability. The research design adopted was mixed method. Secondary was gathered and analyzed through multiple linear regression method and Delphi method. The results pointed out a positive association between the variables (r = 0.681) with a significance level of 0.00. Based on the analysis of what other studies have done, it is evident that most of them were cantered on one component of CSR, which was majorly philanthropic. As illustrated by this chapter, there is need to involve all the other three components namely legal, economic and ethical CSR activities so as to comprehensively cover CSR. Subsequently, the results obtained by comparing these activities to banks' profitability.

In Kenya, Chege (2014) examined bearing of CSR on the profitability of CBs in Kenya. This investigation's objective the link between CSR and profitability among the Kenyan CBs. A descriptive research design was adopted. Population of study was comprised of 43 commercial banks in Kenya which was sampled to 39 commercial banks. The selected sample was stratified into foreign banks, local public and local private. The study utilized both secondary and primary data. Secondary data was sourced from respective banks' yearly financial reports while primary data was sourced via questionnaires. Indicators of CSR comprise community health programs, financial literacy programs, employees volunteering and supporting education. Profitability was represented by profit after tax. Collected data was analysed via descriptive statistics and inferential statistics. The outcomes of the investigation indicated that a positive substantial link exists between CSR (community health

programs, financial literacy programs, employees volunteering and supporting education) and profitability.

Mbithi (2015) researched on the influence of CSR on establishments' profitability of the banks registered on NSE. The study's objective was to determine the influence of CSR programs on performance of firms listed at the NSE. Descriptive research design was applied to the study with a study population of 11 commercial banks listed. Secondary data was utilized, where dependent variable was represented by profit after tax for the last 6 years. Independent variables were represented by costs incurred on education, environment, health and sports. The information gathered was analysed via descriptive statitstics. The study findings shows that independent variable (CSR) has a positive link with profitability of CBs listed at the NSE.

Ongwae (2016) investigated the effect of CSR on profitability of CBs in Kenya. The investigation aimed to ascertain the link between CSR and profitability among CBs in Kenya. The study adopted a quantitative research design. Secondary data gathered covered a 5-year period of between 2009 to 2016. The data was analyzed through a multiple linear regression. The independent variables comprised CSR and bank size whereas the dependent variable was measured via ROA. The study findings revealed a strong association between CSR, Bank size and ROA. Though, there is no substantial link between CSR and ROA.

Ng'ang'a (2018) researched on effects of CSR on profitability of commercial banks in Kenya. The investigation aimed to analyze the effect of CSR on profitability of Kenyan CBs. A descriptive research design was adopted. The study population

comprised of commercial banks that were in operation between the period 2013 to 2017. Secondary data was utilized in the investigation. The data was analyzed via descriptive statistics. The findings revealed that commercial banks enhance their profitability by engaging in CSR activities.

2.5 Conceptual Framework

The diagrammatic representation below showed the link between the predictor variable and dependent variable. The predictor variable was represented by the CSR (Legal, Economic, Ethical and Philanthropic). While dependent variable was represented by profitability (Return on Assets).

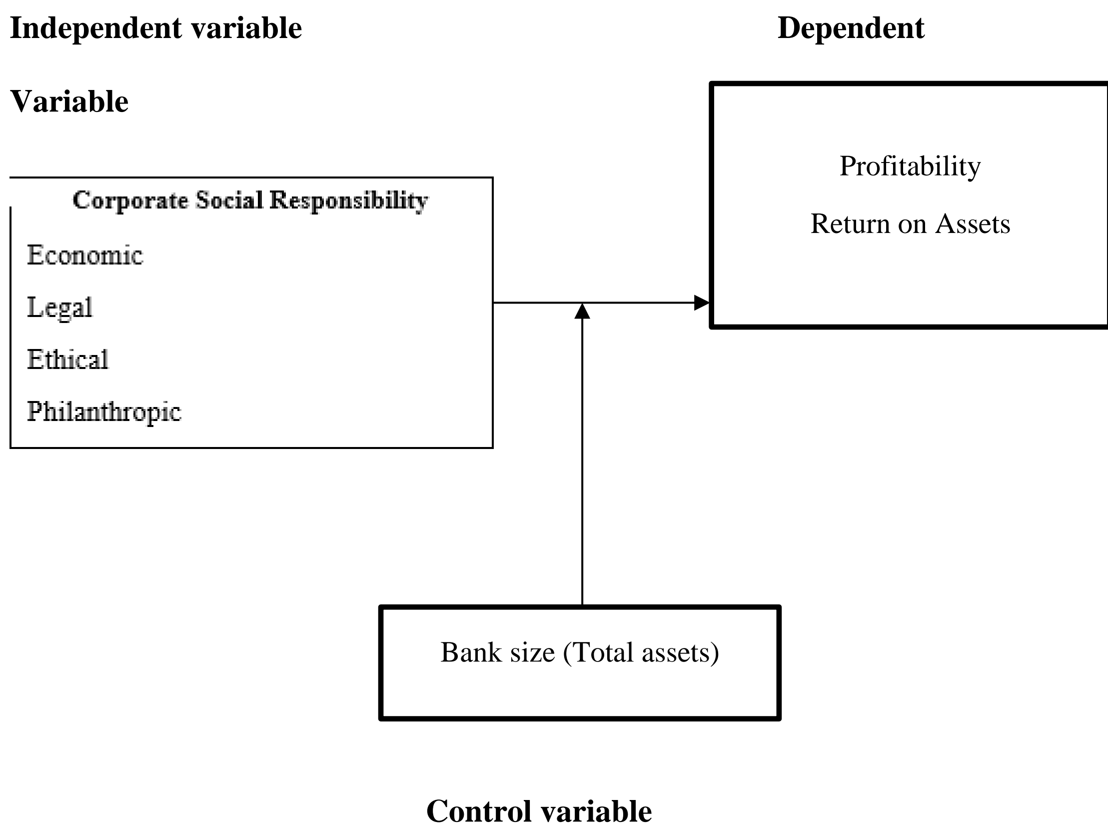

Figure 2.1: Conceptual Framework

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This part described the investigation's research methodology adopted by the researcher. The major areas in this section comprise the investigation's design, the targeted population, and the data collection and analysis techniques.

3.2 Research Design

A research design comprises the structure of a research study. As stated by Lodico, Spaulding and Voegtle (2016), research designs stick together all the dimensions and aspects of a research undertaking intertwined. Hence, a research design is used in research structuring, indicating all the key aspects and components of a research undertaking will use in answering the research questions. A descriptive research design was used.Donald and Pamela (1998) defines descriptive research study as a design that aims to find out the what, where and how of an occurrence. The descriptive study was employed in several circumstances to generate knowledge of group, organizational, political, social and linked occurrences and has been a major research approach in political and social sciences. Marczyk, De Matteo and Festinger (2005) points out that descriptive designs can either causal or correlational research describing a link between two things. It provides the researcher with information regarding the relationship between two or more variables in an investigation. Creswell (2009) points out that a quantitative study is used to give a description or prediction regarding the link between variables. Statistical instruments can be used to

collect, analyze, interpret and describe results in a study. Also, the reason behind the utilization of this approach is because it aids in the definition of the subject of investigation by analyzing and determining usability.

3.3 Population of the Study

In statistics, it is the particular participation population regarding which information is sought. Ngechu (2004) indicates that a population is a distinct set of persons, services, events, groups as well as elements under examination. Cooper and Schindler (2011) indicates that several qualitative factors are considered when establishing the sample size. They comprise; research's nature, the number of variables, standard of accuracy needed and the type of analysis.

As established by Boone and Sabo (2016), study population entails a section of proponents that a research sought to study and make generalizations on in a research process. In this regard, it was essential to note that this study’s population includes fourty three (43) Commercial banks in Kenya**.**

3.4 Data Collection

Data collection is the amassing of information, evidence, facts from the target population which can be used for decision making. Levy and Lemeshow (2015) note that data encompasses the facts presented to investigators from a study environment which majorly comprise the secondary data. The investigation utilized secondary data sourced from respective banks annual report.

Data relating to the CSR included the following; annual costs of Economic, Legal, Ethical and Philanthropic responsibilities while information on return on assets of each of the 43 commercial banks was obtained from respective annual report. The data collected covered a period of 5 years, that is, 2015 - 2019.

3.5 Diagnostic Tests

Information collected underwent diagnostic tests. The following diagnostic tests was performed: normality test, multi-collinearity test, homoscedasticity. Normality test of the data was tested through Q-Q plot. Data was normally distributed if the Q-Q plot is clustered around the horizontal curve. This aided in identifying outliers. Multicollinearity was tested via Variance inflation factor (VIF). When VIF>4.0 then multicollinearity is a problem. Homoscedasticity implies the link being investigated is similar for the whole range of the output variable. Lack of homoscedasticity is pointed out by greater errors (residuals) for certain proportions of the range relative to others (Garson, 2012).

3.6 Data Analysis

Marshall and Rossman (1999), points out that data analysis is the procedure of bringing order, organization and interpretation of the large quantity of data collected. Babbie (2002) indicates that once the data is collected it is then processed and analyzed. The data collected in the investigation was then be analyzed using inferential statistics approach that entails examining, identifying, and interpreting a multiple regression. A multiple regression equation is a model that helps in ascertaining the link of more than two variables.

Data analysis was to be undertaken by Statistical Package for Social Sciences (SPSS) to produce quantitative reports presented in the form of mean, percentages and

standard deviation to paint a vivid picture of the association of CSR on firm profitability in Kenya.

3.5.1 Analytical Model

A multiple regression model was used to test the association of one or more variables.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where; Y= Profitability was measured by Return on Assets

α= constant term (The Y intercept);

Beta (β) = Slope of each dependent variable; ε= Error term.

X_1 = CSR was measured by the ratio of annual cost on CSR to total assets.

X_2 = Liquidity measured by ratio of liquid assets to total assets

X_3 = Size of the Bank measured by Log of annual total assets

3.5.2 Tests of Significance

To test the statistical significance, the F-test was used to test the overall significance of the whole model while t-test was used to test the importance of the coefficients at 5% level of significance.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

The study was carried out to assess the effect of corporate social responsibility and profitability among commercial banks in Kenya. Explicitly, the study looked into CSR, Liquidity and size of the bank and sought to understand how they had an influence on profitability. This chapter focused on data analysis, interpretation, and presentation by presenting a discussion of the diagnostics tests, descriptive statistics, regression analysis and discussion of the findings. The study covered a 5-year period from 2015-2019.

4.2 Diagnostic Tests

Information collected underwent diagnostic tests. The following diagnostic tests were performed: normality test, multi-collinearity test, homoscedasticity. Normality test of the data were tested through Q-Q plot. Data would be normally distributed if the Q-Q plot is clustered around the horizontal curve. This would aid in identifying outliers.

Multicollinearity was tested via Variance inflation factor (VIF). When VIF>4.0 then multicollinearity is a problem.

Homoscedasticity implies the link being investigated is similar for the whole range of the output variable. Lack of homoscedasticity is pointed out by greater errors (residuals) for certain proportions of the range relative to others.

4.2.1 Normality Test

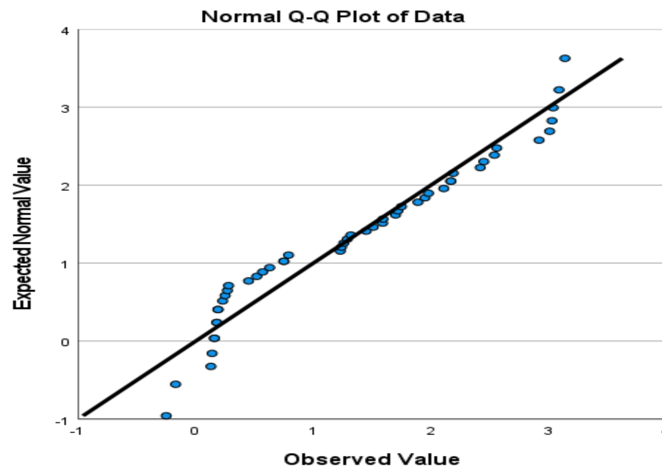

Figure 4.1 Q-Q Plot
Source: Secondary Data (2021)

From the Figure 4.1 the study deduced that the data set is normally distributed. This is because most of the plotted point clustered along the straight line for normal distribution with only a case of few outliers noted.

4.2.2 Multi-Collinearity Test

Table 4.1 Multi-Collinearity

Collinearity Statistics		
	Tolerance	**VIF**
CSR	0.394	2.538
Liquidity	0.386	2.591
Bank size	0.378	2.646

Source: Secondary Data (2021)

From table 4.1 VIF values of CSR, Liquidity and bank size are well below 4 an indication that they a fair multi-collinearity. The tolerance levels confirm the same findings as the values were all greater than 0.2.

4.2.3 Homoscedasticity

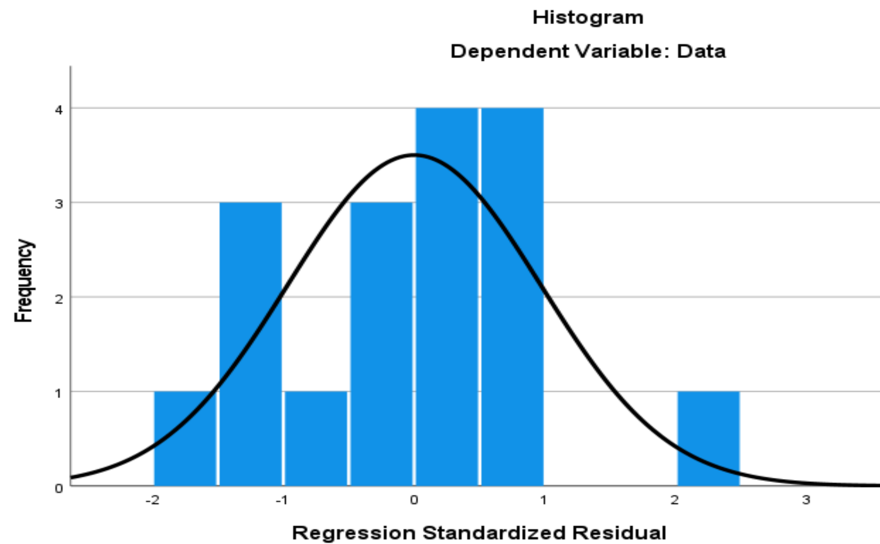

Figure 4.2 Homoscedasticity

The histogram in figure 4.2 shows the relationship between a plot of regression standardized residual against frequency which is used to access a violation of homoscedasticity. From the figure there is a relationship between the predicted values and the residuals an indication that homoscedasticity has not been violated and the data comes from a normal distribution.

4.3 Descriptive Statistics

Descriptive statistics numerical values used to describe and summarize data in a more meaningful way such that the patterns emerging from the data can be seen. The study looked into descriptive statistics such as mean, standard deviation, Kurtosis and Skewness. The mean is a mathematical average of two or more numbers and was used to show the average values of various data points. Standard deviation is used to measure variability of a data set. In essence, standard deviation was used in the study

to measure the dispersion of the data set relative to its mean. Standard deviations less than the mean are an indication that most of the values were clustered around the mean while standard deviations greater than the mean are used to indicate that data was more spread out from the mean. Kurtosis is a statistical measure that helps determine how the tail of a given distribution differs from the tail of a normal distribution. Kurtosis was utilized in the study to help determine if the data set contained extreme points. Skewness is used to measure the distortion or asymmetry of a data set compared to that of a normal distribution. In the study skewness was also used to assess the extent to which the data set differs from a normal distribution. If skewness value is positive then the data is skewed to the right, if it is negative it is skewed to the left and if it is zero then it's symmetric.

Table 4.2 Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation	Kurtosis	Skewness
CSR	.0004	.112	.044	.0713	2.445	1.677
Bank size	14.8	20.6	17.726	1.3658	-1.087	.220
Liquidity	.0205	.285	.077	.0537	-.220	-.132
ROA	-.245	.174	-.005	.0308	27.044	-4.725

Source: Secondary Data (2021)

From the table 4.2 findings reveal that cost on CSR had a minimum value of 0.0004 and a maximum value of 0.112. The mean was 0.044 and standard deviation was 0.713 an indication that most of the values in the CSR data set were clustered around the mean. The skewness values were 1.677 indicating that the distribution was skewed to the right. Bank size (total assets) had a minimum of 14.8 and a maximum of 20.6. The mean was 17.726 and the standard deviation was 1.3658 a suggestion that most of the data points in the bank size set were close to the mean. The skewness values were

0.220 implying that the distribution was skewed to the right. Liquidity ratio had a minimum of 0.0205 and a maximum of 0.285. The mean was 0.077 and the standard deviation was 0.0537. The skewness values were -0.132 signifying that the distribution was skewed to the left. ROA had a minimum value of -0.245 and a maximum value of 0.174. The mean was -0.005 and the standard deviation was 0.0308 implying that most of the values in the data set were clustered near the mean. The skewness value was -4.725 suggesting that the distribution was skewed to the left.

4.4 Correlation Analysis

The researcher carried out Pearson correlation analysis to establish the relationship between the predictor variables (CSR, bank size and liquidity) and the response variable which in this case is profitability. The results are as shown in Table 4.3

Table 4.3 Model Summary

		ROA	CSR	Bank size	Liquidity
ROA	Pearson Correlation	1			
	Sig. (2-tailed)				
CSR	Pearson Correlation	.108	1		
	Sig. (2-tailed)	.142			
Bank size	Pearson Correlation	.260**	.590**	1	
	Sig. (2-tailed)	.000	.000		
Liquidity	Pearson Correlation	.154*	-.173*	-.062	1
	Sig. (2-tailed)	.037	.019	.402	

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
c. Listwise N=185

Source: Secondary Data (2021)

The results reveal that CSR has a positive but not significant association with profitability (r = .108, p = .142). Bank size (r = .260, p = .000) and liquidity (r = .154, p = .037) exhibited positive and statistically significant association with profitability.

4.5 Regression Analysis

Regression analysis was used to identify how the dependent variable is influenced by the independent variables. Through regression analysis it becomes clear which factors influence the topic of interest more, which factors can be ignored and how the factors influence each other. In this study regression analysis was used to assess the relationship between CSR, Bank size and liquidity and their impact on profitability. Results of the analysis are summarized in the model summary, Anova and T-tables below.

4.5.1 Model Summary

The information in the model summary presents information about the models' ability explain variations in the criterion variable. Results from the model summary are as presented.

Table 4.4 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.312[a]	.098	.083	.0295

a. Predictors: (Constant), Bank size, Liquidity, CSR

Source: Secondary Data (2021)

From the model summary it can be deduced that R-Square was 0.098. This suggests that 9.8% of the variation in return on assets can be accounted for by the model. This also explains that the model is 9.8% efficient in estimating the relationship.

4.5.2 Analysis of Variance

Analysis of variance (Anova) in a regression analysis is used to provide information about the variability within the model and forms a basis to test the fitness of the model. In the study the Anova was used to check if the model significantly explained the deviations in return of assets. Results of the study are as presented in the Anova table.

Table 4.5 ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.017	3	.006	6.523	.000[b]
	Residual	.158	181	.001		
	Total	.175	184			

a. Dependent Variable: ROA

b. Predictors: (Constant), Bank size, Liquidity, CSR

Source: Secondary Data (2021)

From the Anova table the study deduced that the model is statistically significant. This implies that the model explains a significant amount of variation in the return of assets.

4.5.3 Regression Coefficients

Regression coefficients show the contribution of each independent variable towards explaining the model. Results from the study were presented in the coefficients table.

Table 4.6 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	-.128	.034		-3.766	.000
1	CSR	.015	.038	.035	.391	.696
	Bank size	.007	.002	.291	3.327	.001
	Liquidity	.095	.041	.166	2.309	.022

a. Dependent Variable: ROA

Source: Secondary Data (2021)

From the findings above it can be deduced that the model for predicting Return on assets based on CSR, bank size (Assets) and liquidity can be written as:

$Y = -0.0128 + 0.015X_1 + 0.007 X_2 + 0.095X_3$

Where; Y= Profitability was measured by Return on Assets

X_1 = CSR was measured by CSR to total assets.

X_2 = Bank size was measured by log of annual total assets

X_3 = Liquidity was measured via liquidity ratio

4.6 Discussion of the Findings

Findings from the descriptive statistics indicated that CSR had a mean of 0.044 and a standard deviation of 0.713. Bank size (total assets) had a mean of 17.726 implying that most of the data points in the bank size data set were close to the mean. Liquidity ratio had a mean of 0.077 and the standard deviation of 0.0537. Return on assets had a mean of -0.005 and the standard deviation of 0.0308. From the mean and standard deviations, the study established that CSR, bank size (total assets), liquidity came from data sets in which the data points were clustered around the mean. The study

also determined that there was incontinency in return of assets. This was indicated by the standard deviation that was above the mean was an indication for dispersion in most of the data points in that data set. This inconsistency can be accounted by the fact that profitability varies in the commercial banks from year to year as it is affected by so many factors such as bank size. Thus in some years the banks will be reporting losses while in other years the banks will be reporting profits.

From the regression analysis, the study established that R Square for the model was 0.098. This put forward that 9.8% of the variation in the return on assets was accounted for by the regression model. Findings from the Anova table indicated that the model was statistically significant to predict return on assets based on CSR, bank size and liquidity. Further, analysis revealed that bank size and liquidity had significant impact on return on assets. CSR had a positive influence on return on assets as indicated by the coefficient value of 0.015 but the influence was not significant. Bank size had a positive effect on return on assets as indicated by the coefficient value of 0.007. Liquidity had a positive impact on return on assets as shown by the coefficient value of 0.095.

Findings disagree with Babalola (2012) analyzed the bearing of CSR on profitability of firms in Nigeria. 10 firms were randomly picked for the study. Data gathered was analyzed via ordinary least square method. The independent variable was represented by CSR, while profit after tax ta proxy firms profitability of the selected company. The results from the analyzed revealed a strong adverse link between CSR and profitability. This was shown by a correlation coefficient of -0.178. This implies that an increase in costs associated with CSR leads to a fall company profits.

The findings of this study agree with those of Muchai (2014) who found out that an increase in cost associated with CSR activities such as donation to education, poverty alleviation, charity work lead to an increase in the profitability of the bank. Muchai attributed this relationship to the fact that CSR was a growing phenomenon in the recent years. More often banks and other cooperate entities have been forced to consider the fact that they don’t operate in a vacuum. Thus, it has become paramount for most of the banks to consider the interests of the groups in which their banks operate for them to achieve long term sustainability.

The study findings is in tandem with Lee and Jung (2016) study outcome showed that there is a direct link between CSR and profitability. There was also a significant positive link between the variables. Moreover, the findings agree with Nwaneri (2015) regression output also revealed a significant relationship between the CSR and profitability study variables. Therefore, management should consider implementing CSR undertakings to boost profitability.

These findings also concur with those of Arya (2009) who study established that CSR led to increased profitability for firms in the long run. Through her study she determined that 80% of companies that engaged in CSR in South Africa had an associated increase in profit margins. Mbithi (2015) while assessing the impact of CSR on profitability of companies listed in the Nairobi stock exchange concluded that CSR had a positive impact on profitability.

Study findings agree with Mbithi (2015) utilised secondary data where dependent variable was represented by profit after tax for the last 6 years. Independent variables were represented by costs incurred on education, environment, health and sports. The information gathered was analysed via descriptive statitstics. The study findings shows that independent variable (CSR) has a positive link with profitability of CBs listed at the NSE. However, disagrees with Ongwae (2016) analyzed data through a multiple linear regression. The independent variables comprised CSR and bank size whereas the dependent variable was measured via ROA. The study findings revealed a strong association between CSR, Bank size and ROA. Though, there is no substantial link between CSR and ROA.

However, the findings of this study contradicted those of Kotler (2012) who found that cost associated with CSR had a negative impact on profits. Specially, his study found out that commercial banks in Kenya that engaged in CSR due to social pressure ended up making losses and it was found that for the same banks to make sustainable profits they must only respond to stakeholders' demands.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings of the study. Conclusions related to the study objective which was to assess the effect of CSR on profitability among Commercial banks in Kenya. The chapter further presents recommendations based on the study findings as well as limitations of the study and suggestions for further research.

5.2 Summary of the Findings

The study sought to determine the impact of CSR on profitability of commercial banks in Kenya. Results from the studies indicated that the data used to conduct the investigation was normally distributed. This was verified through various diagnostics tests such as normality test, multi-collinearity test, homoscedasticity. The results from these tests showed that the data set utilized for the study didn't have a significant departure from a normal distribution.

Findings from the descriptive statistics in the study revealed that the data sets for bank size, liquidity and CSR were consistent as indicated by the standard deviation values that were below the mean. These data sets were also skewed to the right as indicated by the positive skewness values. CSR had a mean of 0.044 and standard deviation was 0.713. Bank size (total assets) had a mean of 17.726 implying that most of the data points in the bank size data set were close to the mean. Liquidity ratio had a mean of 0.077 and the standard deviation was 0.0537. Return on assets had a mean of -0.005

and the standard deviation was 0.0308. This was an indication that most of the points in the return on assets data set were clustered around the mean. Return on assets was also negatively skewed as indicated by the skewness value of -4.725.

Findings from the regression analysis indicated that CSR, bank size (total assets), and liquidity ratio had a statistically significant impact on return on assets. Cost associated with CSR had a positive impact on return on assets but not statistically significant as indicated by the beta value of 0.015 and a p value greater than 0.05. Bank size had a positive effect on return on assets as indicated by the coefficient value of 0.007. Liquidity had a positive impact on return on assets as shown by the coefficient value of 0.095. Their p values were less than 0.05.

5.3 Conclusion

The study was carried out with the primary objective of assessing the effect of CSR on profitability among Commercial banks in Kenya. Through regression analysis it was established that bank size and liquidity had a statistically significant influence on profitability which was represented by return on assets while CSR was not a statistically significant determiner. It was further concluded that the extent to which each variable had an impact on return on assets varied from one variable to another as indicated by the different coefficient values from the regression analysis. On overall it was noted that bank size had the greatest influence on profitability. This was an indication that the bigger the bank the more the profits they were likely to accrue. The study also concluded that liquidity had a positive impact on return on assets. This

implies an increase in liquidity in the economy was more likely to affect the profitability of the banks positively.

5.4 Recommendations

The study recommends that commercial banks in Kenya should continue engaging in CSR activities such as philanthropic, ethical, legal, ethical and economic. This is given the fact that the role of business is rapidly changing in the 21st century. Although many businesses have a primary responsibility to their stakeholders it is increasing coming to light that a business ability to respond to social and community needs of the location it operates in is important as well.

As for the management since they make all the decisions and decide on what is done in most organizations, social responsibility should be of importance like any other marketing mix in consideration. Besides profit maximization, Participation in social responsibility should be taken into consideration as it is also significant towards the general performance of the firm. Therefore, management should consider implementing CSR undertakings to boost profitability.

Based on the findings, the study also recommends that policy makers and management of the commercial banks should come up with better strategies to enhance with bank size as it has a positive impact on the profitability of the banks. The study also recommends that the central bank of Kenya should also come up with better policies to deal with the bank size that the commercial banks experience.

5.5 Limitations of the Study

The findings of the study were limited to secondary data that was compiled from the various commercial banks annual reports. Therefore, adjustments on the data sets was limited and thus the accuracy of the findings is subject to the validity of the annual reports presented by the banks.

The study was limited to a 5-year period that assessed profitability of commercial banks. Thus the findings from this study can be inferred to banks only and cannot be used to predict the impact of CSR on profitability for other financial institutions and corporate organizations.

The time also set aside for carrying out the investigation was limited. Thus, the researcher did not have enough time to query some of the information that was presented in the bank's annual financial reports.

5.6 Suggestions for Further Research

The study pre identified CSR, liquidity ratio and bank size as major factors that affected profitability of commercial banks. Through the study it was established that these factors could only explain 9.8% of the total variation in profitability. Thus it is paramount that further research is conducted to identify the other factors that help explain profitability of the commercial banks.

Corporate social responsibility was established to increase profitability of the commercial banks. Since this profitability is due to customers' good outlook on various commercial banks it is prudent to carry out further investigation to see how

CSR has an impact on customer retention and attraction of new customers. The study also recommends that further investigation be carried out on possible challenges that could hinder banks from engaging in CSR.

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APPENDICES

APPENDIX I: List of Commercial Banks in Kenya

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

APPENDIX I: Research Data

"Bank	Year	ROA	CSR	Bank size	Liquidity
ABC Bank	2015	0.0081	0.0022	16.9342	0.0544
	2016	0.0029	0.0020	16.9451	0.0659
	2017	0.0065	0.0021	17.0576	0.0992
	2018	0.0004	0.0012	17.1451	0.0633
	2019	0.0023	0.0016	17.1964	0.0750
Bank of Africa	2015	(0.0148)	0.0004	18.0537	0.0859
	2016	0.0002	0.0006	17.8408	0.1142
	2017	0.0012	0.0004	17.8080	0.0951
	2018	0.0035	0.0007	17.7090	0.2023
	2019	(0.0464)	0.0008	17.5996	0.2103
Bank of Baroda	2015	0.0297	0.0030	18.0376	0.0475
	2016	0.0355	0.0045	18.2332	0.0489
	2017	0.0408	0.0046	18.3812	0.0455
	2018	0.0319	0.0029	18.6278	0.0519
	2019	0.0286	0.0187	18.7805	0.0547
Barclays Bank	2015	0.0349	0.0077	19.2998	0.0755
	2016	0.0285	0.0069	19.3751	0.0515
	2017	0.0255	0.0051	19.4197	0.0602
	2018	0.0228	0.0049	19.6003	0.0723
	2019	0.0199	0.0049	19.7397	0.0770
Bank of India	2015				0.0362

“Bank	Year	ROA	CSR	Bank size	Liquidity
		0.0263	0.0557	17.5571	
	2016	0.0343	0.0639	17.6829	0.0335
	2017	0.0369	0.0770	17.8521	0.0391
	2018	0.0309	0.0683	17.9537	0.0340
	2019	0.0374	0.0837	17.9514	0.0427
Citibank	2015	0.0386	0.0040	18.2945	0.1110
	2016	0.0332	0.0061	18.4534	0.0672
	2017	0.0398	0.0035	18.4028	0.0835
	2018	0.0369	0.0076	18.2656	0.0860
	2019	0.0304	0.0056	18.3858	0.1219
Commercial Bank of Africa	2015	0.0167	0.0575	19.1891	0.0810
	2016	0.0287	0.0549	19.2507	0.1344
	2017	0.0231	0.0521	19.3199	0.0947
	2018	0.0226	0.0539	19.3172	0.0754
Consolidated bank	2015	0.0031	0.0109	16.4642	0.0537
	2016	(0.0152)	0.0109	16.4487	0.0469
	2017	(0.0249)	0.0087	16.4149	0.0637
	2018	(0.0419)	0.0080	16.3718	0.0713
	2019	(0.0448)	0.0074	16.2888	0.0764
Credit bank	2015	(0.0058)	0.0132	16.1464	0.0247
	2016	0.0090	0.0117	16.3200	0.0248
	2017	0.0092	0.0995	16.4904	0.0201
	2018				0.0228

Bank	Year	ROA	CSR	Bank size	Liquidity
		0.0139	0.0093	16.7006	
	2019	0.0098	0.0087	16.8910	0.0182
Co-operative bank of Kenya	2015	0.0342	0.1481	19.6518	0.0860
	2016	0.0360	0.1850	19.6787	0.0730
	2017	0.0295	0.1274	19.7736	0.0627
	2018	0.0308	0.1303	19.8406	0.0785
	2019	0.0313	0.1389	19.9402	0.0635
Development Bank of Kenya	2016	0.0038	0.0264	16.6135	0.0050
	2017	0.0017	0.0199	16.6072	0.0040
	2018	0.0075	0.0302	16.5449	0.0078
	2019	0.0703	0.0225	16.5472	0.0235
Diamond Trust Bank	2015	0.0243	0.1082	19.4199	0.0159
	2016	0.0236	0.1284	19.6087	0.0180
	2017	0.0191	0.0858	19.7107	0.0210
	2018	0.0187	0.0994	19.7497	0.0210
	2019	0.0188	0.0640	19.7719	0.0212
Dubai Bank	2017	(0.2298)	0.0236	14.7750	0.0420
	2018	(0.1192)	0.0040	15.4739	0.0990
	2019	(0.0636)	0.0019	16.0114	0.1263
Ecobank	2015	0.0017	0.0407	17.7749	0.0684
	2016	(0.0429)	0.0497	17.6683	0.0477
	2017	(0.0209)	0.0439	17.7944	0.0851
	2018				0.0743

"Bank	Year	ROA	CSR	Bank size	Liquidity
		0.0036	0.0451	17.8130	
	2019	0.0021	0.0324	18.1380	0.0301
Equity Bank	2015	0.0405	0.2398	19.8748	0.0814
	2016	0.0350	0.1799	19.9761	0.0494
	2017	0.0361	0.2209	20.0779	0.0509
	2018	0.0346	0.2254	20.1671	0.0425
	2019	0.0362	0.2089	20.3283	0.0710
Family bank	2015	0.0244	0.0300	18.2134	0.0759
	2016	0.0051	0.0210	18.0567	0.0790
	2017	(0.0145)	0.0145	18.0516	0.0816
	2018	0.0036	0.0195	18.0204	0.0937
	2019	0.0120	0.0280	18.1831	0.0883
First Community Bank	2015	(0.0008)	0.0038	16.4941	0.1685
	2016	(0.0037)	0.0042	16.5210	0.1486
	2017	0.0087	0.0039	16.6697	0.1340
	2018	(0.0119)	0.0042	16.6992	0.1271
	2019	0.0102	0.0044	16.7474	0.1678
Guaranty Trust Bank	2015	0.0095	0.0035	17.5282	0.0786
	2016	0.0130	0.0048	17.2864	0.2266
	2017	0.0067	0.0052	17.2774	0.1958
	2018	0.0024	0.0046	17.4516	0.0477
	2019	0.0197	0.0063	17.1856	0.0526
Guardian Bank	2015				0.0904

Bank	Year	ROA	CSR	Bank size	Liquidity
		0.0157	0.0168	16.4972	
	2016	0.0156	0.0219	16.5037	0.1042
	2017	0.0101	0.0231	16.5757	0.0782
	2018	0.0139	0.0232	16.5997	0.0863
	2019	0.0112	0.0241	16.6120	0.0961
Gulf African Bank	2015	0.0295	0.0095	17.0226	0.0890
	2016	0.0184	0.0127	17.1171	0.1278
	2017	0.0049	0.0146	17.2596	0.1095
	2018	0.0039	0.0163	17.3218	0.0866
	2019	0.0048	0.0181	17.3744	0.0642
Habib Bank Ltd	2015	0.0292	0.0379	16.1408	0.0526
	2016	0.0245	0.0365	16.3419	0.0670
	2018	0.0105	0.0223	16.8845	0.0322
	2019	0.0097	0.0211	17.0273	0.0305
Housing finance Company ltd	2015	0.0167	0.1162	18.0874	0.0004
	2016	0.0126	0.1175	18.0912	0.0699
	2017	0.0019	0.1324	18.0282	0.0604
	2018	(0.0099)	0.1594	17.9190	0.0459
	2019	(0.0020)	0.1790	17.8490	0.0504
I&M Bank	2015	0.0373	0.0419	19.0716	0.0519
	2016	0.0369	0.0715	19.1652	0.0526
	2017	0.0303	0.0981	19.2966	0.0495
	2018				0.0483

Bank	Year	ROA	CSR	Bank size	Liquidity
		0.0264	0.1429	19.3315	
	2019	0.0326	0.0762	19.4287	0.0440
Jamii Bora Bank Ltd	2015	0.0011	0.0080	16.6358	0.0647
	2016	(0.0106)	0.0097	16.5742	0.0438
	2017	(0.0367)	0.0137	16.3714	0.0133
KCB Bank	2015	0.0352	0.1492	20.1400	0.1737
	2016	0.0331	0.1587	20.2045	0.0494
	2017	0.0305	0.1521	20.2873	0.0450
	2018	0.0336	0.1758	20.3868	0.0589
	2019	0.0280	0.1468	20.6163	0.0676
Middle East Bank (K) Ltd	2016	(0.0127)	0.0069	15.4706	0.0575
	2017	(0.0049)	0.0031	15.4489	0.1582
	2018	0.0005	0.0055	15.4946	0.0660
	2019	0.0004	0.0046	15.9516	0.0615
M-Oriental bank ltd	2016	0.0034	0.0101	16.1101	0.0801
	2017	0.0091	0.0087	16.1741	0.0921
	2018	0.0078	0.0075	16.1683	0.1104
	2019	(0.0018)	0.0116	16.3327	0.0855
National Bank of Kenya	2015	(0.0092)	0.0079	18.6473	0.1310
	2016	0.0006	0.0068	18.5348	0.0764
	2017	0.0071	0.0093	18.5148	0.0683
	2018	(0.0007)	0.0056	18.5591	0.0533
	2019				0.1132

"Bank	Year	ROA	CSR	Bank size	Liquidity
		(0.0080)	0.0485	18.5343	
NIC Plc bank	2015	0.0271	0.0875	18.9262	0.0539
	2016	0.0256	0.0594	18.9481	0.0429
	2017	0.0201	0.0672	19.1442	0.0462
	2018	0.0203	0.0877	19.1550	0.0574
Paramount Bank Ltd	2015	0.0150	0.0346	16.1693	0.0958
	2016	0.0113	0.0049	16.0592	0.0812
	2017	0.0123	0.0028	16.0711	0.1153
	2018	0.0239	0.0056	16.1067	0.1249
	2019	0.0088	0.0214	16.1615	0.0866
Prime Bank	2015	0.0311	0.0021	17.9899	0.0575
	2016	0.0291	0.0018	17.9950	0.0413
	2017	0.0288	0.0019	18.1721	0.0611
	2018	0.0227	0.0020	18.4220	0.0876
	2019	0.0241	0.0022	18.5049	0.0531
SBM Bank	2015	(0.0054)	0.0002	18.7977	0.0798
	2016	(0.1918)	0.0033	16.0873	0.0307
	2017	(0.0286)	0.0032	16.2608	0.0877
	2018	0.0187	0.0003	18.0733	0.1112
	2019	0.0125	0.0004	18.0994	0.0586
Sidian Bank	2015	0.0195	0.0541	16.7655	0.1559
	2016	0.0013	0.0688	16.8541	0.1486
	2017				0.1991

Bank	Year	ROA	CSR	Bank size	Liquidity
		(0.0219)	0.0800	16.7757	
	2018	(0.0149)	0.0496	17.0467	0.0846
	2019	0.0041	0.0638	17.0908	0.1250
Stanbic Bank Kenya Ltd	2015	0.0235	0.1386	19.1552	0.0544
	2016	0.0206	0.1169	19.1847	0.0402
	2017	0.0173	0.0943	19.3319	0.0323
	2018	0.0222	0.1159	19.4537	0.0785
	2019	0.0211	0.1287	19.4947	0.0914
Standard Chartered Bank	2015	0.0271	0.2291	19.2707	0.0609
	2016	0.0361	0.2612	19.3389	0.0619
	2017	0.0242	0.2691	19.4705	0.0467
	2018	0.0284	0.3083	19.4694	0.0711
	2019	0.0273	0.3269	19.5264	0.0683
Spire Bank Ltd	2015	(0.0336)	0.0137	16.4876	0.0544
	2016	(0.0545)	0.0171	16.4404	0.0712
	2017	(0.1010)	0.0094	16.2268	0.0305
	2018	(0.2445)	0.0145	16.0372	0.0445
	2019	(0.0688)	0.0254	15.7413	0.0205
Transnational Bank	2015	0.0161	0.0176	16.1624	0.0974
	2016	0.0105	0.0323	16.1547	0.1242
	2017	0.0036	0.0239	16.1419	0.1391
	2018	(0.0070)	0.0522	16.1414	0.1290
	2019				0.0869

"Bank	Year	ROA	CSR	Bank size	Liquidity
		(0.0090)	0.0348	16.0475	
UBA Kenya Bank Ltd	2015	(0.0338)	0.0697	15.8672	0.0312
	2016	0.0043	0.1167	15.5385	0.0366
	2017	0.0029	0.0546	15.6880	0.0733
	2018	0.0035	0.0492	16.5455	0.0860
	2019	0.0042	0.0215	16.5936	0.0256
Victoria Commercial Bank	2015	0.0357	0.0047	16.8122	0.0659
	2016	0.0264	0.0049	16.9247	0.0598
	2017	0.0238	0.0040	17.0730	0.0673
	2018	0.0135	0.0027	17.2917	0.0816
	2019	0.0146	0.0031	17.4010	0.0780