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EFFECT OF CORPORATE SOCIAL RESPONSIBILTY PRACTICES ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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Abstract: **Although many studies have been conducted on corporate social responsibility practices, many questions concerning corporate social responsibility practices still remain unanswered. It is not clear for instance, whether banks carry on corporate social responsibility practices with a motive to look good and earn a profit or they concerned with the well-being of the society they operate from. Similarly, there is no evidence as to how corporate social responsibility practices affect commercial banks financial performance. Although corporate social responsibility practices are common in Kenya, the banking sector has been viewed as lagging behind the other industries, this is why this study focus on the banking industry in Kenya. The study was intended to examine the effect of educational corporate social responsibility practices, environmental corporate social responsibility practices and healthy corporate social responsibility practices on the financial performance of commercial banks in Kenya. Corporate social responsibility practices were measured by the expenditure incurred on the various corporate social responsibility practices by commercial banks in in year. On the other hand, financial performance was measured by return on assets. The study covered a period of five years beginning 2012 through 2016. Secondary data was collected from 15 commercial banks though the target populations was the 42 licensed commercial banks in Kenya. Data was collected from 15 commercial banks which represents 35%. The regression model was used in the study. P-value, alpha and coefficient of determination were used to determine if the correlation between the variables is statistically significant. The results of the study reveals that; education corporate social responsibility practices, environmental and health corporate social responsibility practices have a significant positive effect on financial performance of commercial banks. The limitations of the study includes; the study was based on secondary data only, the accuracy of the results depended on accuracy of the data provided in the various data sources used. The study focuses on banks only and therefore may not be representative of other types of industries lastly, the study covered 2012 to 2016 thereby excluded the periods before. The study recommends that; commercial banks having the objective of improving their financial performance should increase their budget allocation on corporate social responsibility practices so as to ensure improvement in financial performance. Similarly, the study further recommends that commercial banks adopt strategies that strengthen corporate social responsibility practices and build up corporate social responsibility programs so as to boost performance.**

Keywords: **CSR Practices, Education CSR Practices and Environmental CSR Practices.**

1. INTRODUCTION

In recent years, many organizations at Nairobi Securities Exchange have considered taking up corporate social responsibility (Gichana, 2004). It's one of the most recent administration procedures where organizations attempt to make a positive effect on society while working together. Sustainability programs are good for industry associations as they increase the value and relevance of a firm to current and prospective members, reducing the risk that members will have their needs met by other organizations (Smith, 2011). Pre-competitive CSR enables industry innovation and help identify industry priorities. Corporate entities are better positioned to contribute positively to regulatory initiatives by the government, NGO's and other agencies and finally it builds industry reputation and brand of that particular company (Young, 2012). Alternatively, there are those who believe that CSR is a faulty concept altogether (Morrison, 2011). They argue that it is an unrealistic expectation for companies and that CSR activities should not be within the definition of business. For instance, the Nobel Prize winning economist, Friedman (1970) believes that the main purpose of a company is to maximize shareholder's wealth, the executives are just agents.

Statement of the problem:

Many banks nowadays practice CSR reporting. Moreover, there is an increased investment in CSR practices (Brealey, 2012). Commercial banks have adopted strategies so as to be socially responsible up to date even though the effect of CSR practices on the banks performance in financial performance is not clear (McWilliams *et al.*, 2000). There is a question of concern that pertains CSR practices carried out by banks. It is not clear whether banks carry on CSR practices with a motive to look good and earn a profit or are they concerned with the well-being of the society they operate from (Wu & Shen, 2013). The intention as to why commercial banks carry out CSR practices has been and will always be unknown although by analyzing data which is available some concussions can be made (Mutuku, 2005). Although CSR practices are common in Kenya, the banking sector has been viewed as lagging behind the other industries, this is why this study focus on the banking industry in Kenya. Understanding the effect of CSR practices on the financial performance of commercial banks is thus vital and the interpretations arrived at can thus be used to determine the motive why commercial banks carry on CSR practices.

Studying the existing literature, which has been published by various authors concerning the effect of CSR practices and firm's financial performance in various countries the results are mixed. In a study conducted on commercial bank in Italy in the year 2011 with an aim to establish the correlation between CSR and financial performance of banks it was concluded that there is no relationship between CSR and financial performance of commercial banks. The study thus shows that investment in CSR practices does not improve the financial performance of commercial banks but instead these activities contribute to the balance in the image that is created in the financial market (Costa & Menichini, 2013). On the other hand, Yeshmin (2012) conducted a study on the relationship between CSR practices and financial performance of private commercial banks in Malawi in a period of 2009-2010. This study concluded that there is a weak positive relationship between CSR and financial performance of private banks in Malawi.

In Kenya the effect of CSR practices on financial performance of commercial banks is an area that has been researched for years but there is no agreement on the findings (Mutuku, 2005; Dimson *et al.*, 2013; Chih *et al., 2010)*. Mutuku (2005) conducted a research on the relationship between CSR and financial performance of commercial banks in Kenya.

The findings from Mutuku (2005) was that; there is no relationship between CSR and financial performance of commercial banks in Kenya. In another study carried out by Okiro *et al*. (2013) to determine the link between venturing in the CSR activities and continued growth of the commercial banks in the County of Nairobi it was found that a strong positive correlation exist between CSR activities and financial performance and growth in the banks. The researchers found out that indeed an investment in CSR was very important for the success of the entity and such firms or entities would carry out every activity in order to ensure they win more customers and retain the existing ones so as to maximize profits.

Even though a lot of research has not been conducted in the banking industry, the existing few studies provide conflicting evidence (Wu & Shen, 2013). Therefore, the existing empirical studies have failed to tell conclusively the impact of corporate social responsibility practices on the bank's performance in financial perspective; hence there exist a knowledge gap. This study will therefore be aimed at filling this gap by posing the question; does investing in CSR practices have effect on banks financial performance?

Justification of the Study:

The intention of this study was to demonstrate the effect that CSR practices has on performance of commercial banks in Kenya on the financial perspective. Bank executives are likely be the key beneficiaries of this study. This is because of the critical role that the executives perform in running banking institutions, this study is bound to provide adequate knowledge to enable them in decision making process and give them a better understanding on how social activities can aid in containing social risks. This study is likely to be useful to banks as they strategically draw and implement CSR policies and plans that promote bank image and reputation, attract customer base and improve their financial performance.

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Moreover, Investors are likely to determine how to allocate their portfolio, through better understanding of this study, to maximize returns and thereafter change their assessment of banks' performance and will be making decisions in a way that factors the ethical considerations (Carroll, 1991). Lastly this study is likely to be useful to students, practitioners and scholars of research are also expected to find this literature beneficial as it contributes a knowledge base in the areas of CSR and commercial bank's financial performance by enriching this discussion through adding to the existing theories and schools of thought.

Research Objectives:

The study addressed general objectives and also the specific objectives.

General Objective:

To determine the effect of corporate social responsibility practices on the financial performance of commercial banks in Kenya.

Specific Objectives:

1. To examine the effect of education corporate social responsibility practices on financial performance of commercial banks in Kenya.
2. To examine the effect of environmental corporate social responsibility practices on financial performance of the commercials banks in Kenya
3. To examine the effect of health corporate social responsibility practices on financial performance of commercial bank in Kenya.

Scope of the Study:

The study focused on the CSR practices that are carried on by and documented by the 42 licensed commercial banks in Kenya for a period of five years beginning 2012 through 2016. The study focused on three CSR practices; Education CSR practices, Environmental CSR practices and Health CSR practices.

Limitations of the Study:

Since the study was based on secondary data only, the accuracy of the results depended on accuracy of the data provided in the various data sources used. However, it is not such a limiting problem since FR by commercial banks is highly regulated by CMA, ICPAK and CBK and therefore it is unlikely to be manipulated by banks. Secondly, the study focuses on banks only and therefore may not be representative of other types of industries. However, banks deal with all industries and their performance maybe reflective. Lastly, the study covered 2012 to 2016. Thereby excluded the periods before. However, it is not very limiting since 5 years is deemed long enough to reveal consistent patterns.

2. THEORETICAL REVIEW

Stakeholder Theory of Corporate Social Responsibility:

This theory was endorsed by various authors (Porter, 1980; Weiss, 1994; Clarkson 1995; Cornell and Shapiro, 1987; Donald and Preston, 1995; Jones, 1995 and Freeman, 1984).The theory emphasizes on corporate entities to work for the good of all who contribute to its success. It discourages the emphasis of wealth maximization of the owners (shareholders) while ignoring the other key members in the entity such as employees, community or society, suppliers as well as customers. The theory states that entities should take in to consideration of all the parties' interests (Seen & Cowley, 2013). According to this theory, the survival of any organization will depend on the satisfaction of the economic as well as non-economic wishes of the stakeholders (Coelho, 2002). In the context of this study, the stakeholder theory was used to make deduction on the functioning of banks as well as identifying the rules and guidelines surrounding their operations. Thus managers and other leaders of commercial banks should encourage interactions with their stakeholders to achieve their goals which include profitability, stability and growth which in return lead to improved financial performance.

Theory of Social Cost:

The proponent of this theory is Marshall (1920). This theory highlights the impact of non-economic factors of a business on social and economic elements surrounding the community in which an organization operates within.

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The framework of this theory is based on analysis by Sec chi (2007) which came up with group of theories that explore CSR of corporations and society inter-relationships. He states that socio-economic systems in a given community are influenced by corporate non-economic activities. The theory is part of the Instrumental theories that majorly emphasize the achieving of economic objectives through social activities of an organization within the firms' community network. Thus, it emphasizes three key areas of concern namely; Corporate constitutionalism, integrative social contract and corporate citizenship (Sec chi, 2007). In this study, the theory was used to test the hypothesis that CSR practices has a positive effect on financial performance.

Classical Business Theory:

The proponent of this theory is Friedman (1970). According to Friedman (1970), the organization is considered as a machine and the human beings as different components/ parts of that machine. This theory is based on the classical thought which states that the business of business is business. It stresses on the cost of a business in social activities while underestimating the benefits to be received from the CSR activities such as differentiating products and productivity of the resources (Quazi, 2003). Friedman (1970) maintained that the business has one sole responsibility which is to make profits using its available resources provided that it is within the regulations and rules to ensure that there is a fair competition without activities such as fraud and corruption (Coelho, *et al.*, 2002). In the context of this study, the classical business theory was used remind the researcher that; the primary goal of business is profit, while corporate social responsibilities and ethical custom are deemed secondary.

Conceptual Framework:

The conceptual framework for this study was based on the relationship between the dependent variable and the independent variable. The dependent variable for the study was financial performance while the independent variables were Education CSR practices, environmental CSR practices and health CSR practices.

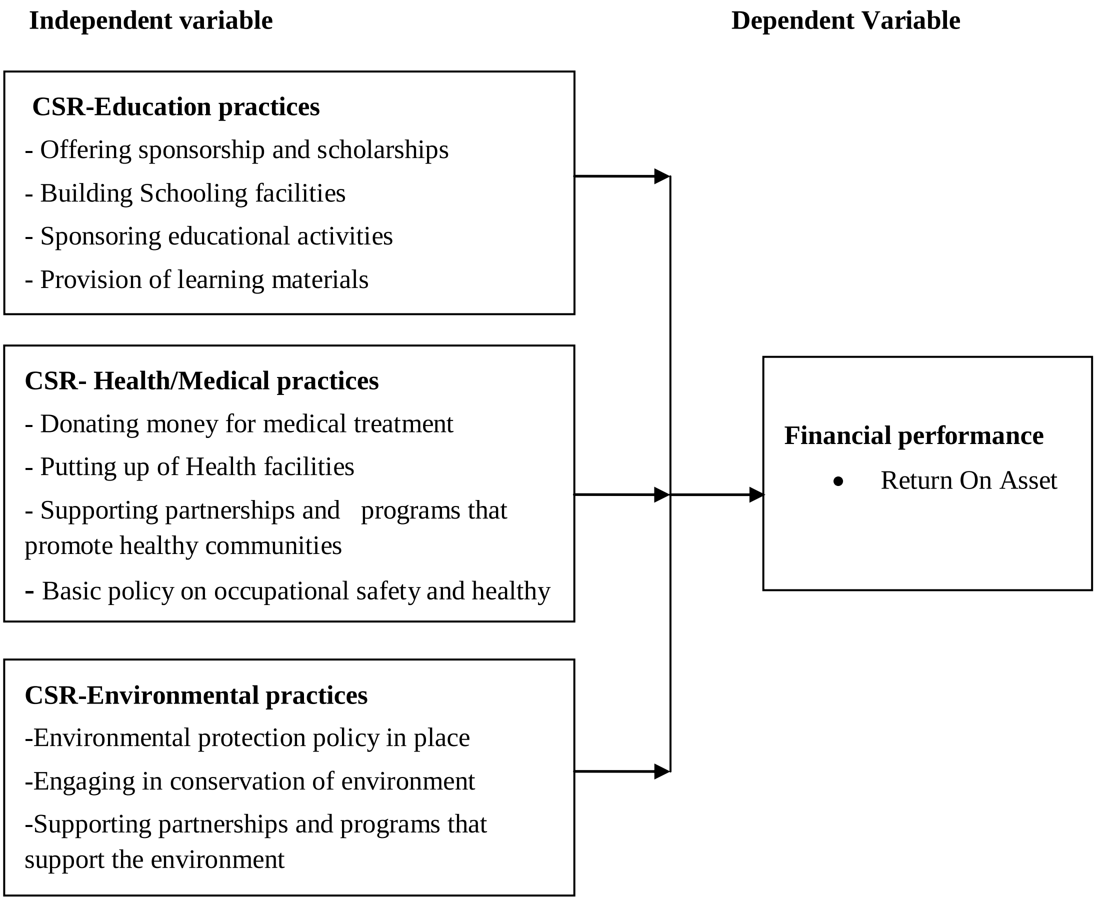

Figure 2.1: Conceptual Framework

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Empirical Review:

A descriptive survey study carried out in India to determine how the Indian banks were involved in the CSR activities found out that the banks were indeed they made some efforts though were inadequate and required a greater emphasis. This research aimed at determining out the gaps in research for the CSR in the commercial banks in India. The study found out that most of the banks operating as the public did much of the CSR while those that operated as Private entities did little or no CSR activities. The problem did not only affect the private banks but also banks from foreign countries (Sharma & Mani, 2013).

In a different study carried out in Nigeria by Amaeshi, Adi, Ogbechie and Olufemi (2006) in order to determine whether companies conducted CSR activities which reflected the activities of the local people or the western people found out that most companies operating in the third world countries or developing countries such as Nigeria carry out discretionary form of CSR. Since the study sought to determine the extent to which the CSR meet the needs of the local people, it found out that most of the CSR activities by the companies were charitable.

In another study carried out by Okiro *et al*. (2013) to determine the link between venturing in the CSR activities and continued growth of the commercial banks in the County of Nairobi found out that there is a strong positive correlation between venturing in CSR and increased growth in the banks. The researchers found out that indeed an investment in CSR was very important for the success of the entity and such firms or entities would carry out every activity in order to ensure they win more customers and retain the existing since the goal of a firm is to maximize profits. They concluded that there was a positive relationship between investment in CSR and the performance and continued growth in banks.

Okoth (2012), is CSR essential for the better financial performance of the banks categorized as large, medium and small? The research found out that CSR had a positive influence on the ROA and ROE of commercial banks. The study also found out that in terms of the market share and size, CSR was more beneficial to the larger and medium firms as opposed to the smaller firms. CSR rarely had a significant effect on the ROA of the smaller entities. In conclusion, Okoth noted that shareholders and investors of the smaller entities do not prefer investment in the CSR activities since they give an insignificant return if any.

Critique of Literature Review:

Okiro *et al. (*2013) studied the effect of CSR on growth on growth of commercial banks in Nairobi County. Although the study found a positive effect of CSR growth, it was limited in that; firstly, it only considered one county which was representative of other counties. Additionally, it covered investment as opposed to expenditure on CSR. Margolis and Walsh (2002) reviewed ninety five empirical studies which were done between the years 1972 and 2001 and found out that when CSR is taken as an independent variable, there is a positive link to the economic performance in forty two research studies (53 percent) while nineteen studies (24 percent) showed that there was no link. Four studies revealed that there is a negative link (5 percent) while 19 percent illustrated a mixed relationship which is equivalent to 15 studies.

CSR has been used a way that the banks can contribute to the economic development by assuming its obligations through the CSR activities. However, this has been criticized due to its inability to generate new resources to carry out investment on the social issues. According to Waddock and Graves (2011), good performance of any organization can be a source of funds or resources to carry out social responsibilities.

Research Gaps:

There are many gaps which can be noticed in the existing literature. To begin with, lack of consistency in the existing findings shows in the relationship between CSR activities and the financial performance of banks is evidence that there is need for more research which will ensure consistency in findings and one similar approach which can be relied on in this particular subject. This will have helped to elucidate the existing problems by the other scholars in methodology.

In addition, the long relied method in measuring the dimensions of CSR in many of the past studies is primarily flawed. The probability that there is no perfect relationship between the CSR components would mean that the composite method used to measure the CSR is not likely to deliver the appropriate results (Goss & Roberts, 2011). This means that the components of the CSR should be measured independently in order to obtain reliable and appropriate results as opposed to the composite way of measuring them (Goss & Roberts; Wu & Shen, 2013).

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3. RESEARCH METHODOLOGY

The research design used in this study was descriptive research design. The study population was the 42 licensed commercial banks operating in Kenya (CBK, 2015). The study made use of census data from the entire population because the target population which comprise of the licensed commercial banks in Kenya was small in size. The study made use of secondary data. The data was obtained from financial statements and annual reports prepared by commercial banks in Kenya. These documents were sourced from the respective bank websites and online repositories as well as from the respective banks themselves. The nature of data used includes the statement of financial position, statement of comprehensive income and annual reports to stake holders. The study covered a period of five years, beginning 2012 through 2016.The statistical Package for Social Sciences software version 22 was used for data analysis purpose.

Model:

The analysis of data was aided by a linear regression model, which is;

$Y= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

Where:

Y = Financial performance (Return on Asset)

X_1 = Educational CSR practices

X_2 = Environmental CSR practices

X_3 = Health CSR practices

β_0 = Constant

ε = the error term

$\beta_1, \beta_2, \beta_3$ = Independent variables' regression coefficients

ANOVA was used to assess the model significance while on the other hand, t-tests was used to assess the significance of the independent variables in explaining the dependent variable. Results from the study were presented in tabular form.

Variables Operationalization

The dependent variable for this study was financial performance while the independent variables are; Education CSR practices, health CSR practices and Environmental CSR.

Table 3.1 Variables Operationalization

VARIABLE	INDICATORS	MEASUREMENT	SCALE	ANALYIS	TOOLS
Independent- Education CSR practices	Expenditure on education CSR practices	Ratio of expenditure on education CSR practices to total expenditure of the CSR practices under study	Ordinal	Descriptive	percentage mean
Independent Health CSR practices	Expenditure on Health CSR practices.	Ratio of expenditure on Health CS practices to total expenditure on the CSR practices under study	Ordinal	Descriptive	percentage mean
Independent- Environmental CSR practices	Expenditure On environmental CSR practices	Ratio of expenditure on environmental CSR practices to total expenditure on the CSR practices under study	Ordinal	Descriptive	percentage mean
Dependent Financial	ROA	Net profit before tax over total assets	Ordinal	Descriptive	mean

Source: Author (2018)

Regression Results

To establish the effect of the CSR practices on the financial performance of the commercial banks, a linear multiple regression analysis was performed and the results presented below

Coefficients of Regression Model

Table 3.2: Coefficients of Regression Model

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	0.012	0.001		12	0
Education CSR practices	0.134	0.03	0.118	4.467	0.007
Environmental CSR practices	0.19	0.045	0.198	4.422	0.001
Health CSR practices	0.202	0.051	0.216	3.961	0

a. Dependent Variable: ROA

The results from the regression analysis establishes that there exist a significant positive relationship between education CSR practices, environmental CSR practices and health CSR practices and ROA. From the findings in table 3.2 above; X_1 ($_{\beta\,=}$ 0.134, p-value < 0.05), X_2 ($_{\beta\,=}$ 0.190, p-value < 0.05) and X_3 ($_{\beta\,=}$ 0.202, p-value <0.05). Thus the regression equation obtained for the study is: $Y= 0.012 + 0.134\ X_1 + 0.190X_2 + 0.202X_3 + \varepsilon$

From the results above the study established that education CSR practices, environmental CSR practices and health CSR practices had a significant positive effect on the ROA. This is because the t-value for the three CSR practices were greater than 2 at 95% confidence level. According to the Standardized coefficients of beta the findings of the study in table 4.1 further reveals that;

X_3 ($B_3 = 0.216$) had the largest effect on ROA, followed by X_2 ($B_2 = 0.198$), then X_3 ($B_3 = 0.118$) had the least effect on ROA.

In addition, the findings of the study establish that, while all the other factors are held constant a unit increase in education CSR practice the ROA will increase by 13.4%. The study findings also established that, while all the factors are held constant a unit increase in environmental CSR practices causes 19% increase in the financial performance. Similarly, the study findings also established that, while all the factors are held constant a unit increase in health CSR cause 20.2% increase in the financial performance. The findings of this study agree with the findings of (Okiro *et al.*, 2013) that there exist a significant positive relationship between CSR practices and financial performance of commercial banks. On the other hand, the findings to this study show a narrow range of dispersion with those of Okoth (2012) who found that, CSR rarely had a significant effect on ROA of banks categorised as small. The same study also pointed out that for medium and large banks CSR had a significant positive impact on ROA. In view of the findings above, it can be concluded that CSR practices have a significant positive effect on ROA.

4. CONCLUSION

The general objective of the study was to investigate the effect of CSR practices on the financial performance of commercial banks in Kenya. The regression equation obtained from table 4.1 above shows a significant positive relationship between Education, Environmental and Health CSR practices and financial performance of commercial banks and therefore the study concludes that generally, corporate social responsibility practices have a significant positive effect on financial performance of commercial banks in Kenya.

The specific objectives for the study were; the first was to examine the effect of education corporate social responsibility practices on financial performance of commercial banks in Kenya. The second was to examine the effect of environmental corporate social responsibility practices on financial performance of the commercials banks in Kenya and the last one was to examine the effect of health corporate social responsibility practices on financial performance of commercial bank in Kenya.The study established that education CSR practices, environmental CSR practices and health CSR practices had a significant positive effect on the ROA.

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5. RECOMMENDATION

From the findings and conclusion above the study therefore recommends for banks having the objective of improving their financial performance to increase their budget allocation on corporate social responsibility practices so as to ensure improvement in financial performance. In addition the study further recommends that commercial banks to adopt strategies that strengthen CSR practices and build up CSR programs so as to boost performance.

Suggestions for Further Research:

The study recommends that further investigation into impact of other CSR practices such as Ethical, legal and Philanthropic on financial performance of commercial banks. In addition, longitudinal approach of research should be adopted so as to analyse the effect of CSR practices on banks financial performance.

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