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INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY ON FIRMS' PERFORMANCE: A STUDY OF COMMERCIAL BANKS IN KISUMU COUNTY

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Abstract: **Over the past decade, interest has increased in the concept of corporate social responsibility (CSR) and the proposition that corporations should take into account the interests of stakeholders other than their shareholders. Firms both locally and globally have increasingly embraced the CSR concept sparking debates on its role towards the business primary objective of creating wealth to its shareholders. The purpose of this study was to analyze the influence of CSR on firms' performance, to settle the debate as to whether it adds value to business or is wasteful with no benefit. The specific objectives were to determine the influence of publicity on firms' performance, to evaluate the influence of reputation on firms' performance, to examine the influence of customer goodwill on firms' performance and asses the influence of sustainability on firms' performance. To achieve this, the study employed the shareholder theory, stakeholder theory and agency theory. The study narrowed to commercial banks in Kisumu County and descriptive research design was employed. The research investigated 20 commercial banks based in Kisumu County which acted as a sample of the 27 registered commercial banks represented in Kisumu County. This is because the 20 banks served as a fair representation of the study population. Primary data was collected through semi structured questionnaires and they were administered to the employees of the sampled banks through "drop and pick later". The collected data was then analyzed using descriptive statistics and the results presented using frequency tables, charts and graphs. A linear regression model was also drawn to determine the influence that the independent variables has on the dependent variable. From the presented information, conclusions on whether and how CSR influences firms' performance was drawn and recommendations made from there. Findings were presented in the form of p-charts, tables and graphs. The study sought to reveal that most firms engage in CSR to enhance their performance. The study found a significant influence of publicity on firms' performance. It was also found that reputation influenced firms' performance. The same applied for customer goodwill and sustainability which were also found to have significant influence on firms' performance. This study helped establish the influence of CSR on firms' performance and recommends that it be used strategically to enhance performance for firms while it benefits the society at large. The findings of this research will be useful as a case reference in future studies on the subject and will also add to the existing literature on this topic.**

Keywords: **Firms Performance, Corporate Social Responsibility.**

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1. INTRODUCTION

Over the past decade, interest has increased in the concept of corporate social responsibility (CSR) and the proposition that corporations should take into account the interests of stakeholders other than their shareholders (Crook, 2005). Support for this idea has come not only from corporations themselves, but from national governments, extra national organizations, such as the UN, and nongovernmental organizations as well. Studies carried out by Mckensey& Company (2016) has shown that as customers, employees, and suppliers - and, indeed, society more broadly - place increasing importance on CSR, some corporate leaders have started to look at it as a strategic direction to fundamentally strengthen their businesses bottom line while contributing to society at the same time. This has led to many companies to start viewing CSR as a key element to their performance strategies, helping them to creatively address key business issues.

The concept of CSR is mostly a product of the twentieth century, especially from the early 1950s up to the present time. The term CSR came into common use in the early 1970s and it was much witnessed thereafter with a much shift from charity and traditional philanthropy towards a more direct engagement of business in mainstream development and a concern of disadvantaged groups in the society (Carroll 2008). Today, all over the world, CSR features among the top business strategies in most corporations.

Corporate Social Responsibility has been defined as the continuous commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as that of the society it operates in (Holme& Watts 2000). According to Bowen (1953), most companies voluntarily engages in CSR to satisfy their primary need of presenting themselves as legitimate member of the society in order to establish sustainable profitability and acceptability. Robert L. Heath &Lan Ni, (2008) on the challenges of corporate social responsibility defined Corporate Social Responsibility as a strategic decision whereby an organization undertakes an obligation to society, for example in the form of sponsorship, commitment to local communities, attention to environmental issues and responsible advertising.

The primary objective of a firm is to create wealth for its shareholders. A firms’ performance can be defined as the results of an organization measured against its objectives or intended output. Traditionally, corporates measured their performance using financial performance indicators like Return on Asset-ROA, Return on Equity and profitability. However, in recent years, many organizations have resorted to measure organizational performance using the balanced scorecard methodology where performance is tracked and measured in multiple dimensions such as: financial performance (profitability and shareholder return), market and product performance(sales volume and market share), and operational performance (employee productivity). According Richard et al. (2009), organization performance encompasses three areas of a firm’s focus which are financial performance, product market performance and employee productivity. Financial performance mainly refers to profitability, return on Asset, and return on equity, while product market performance involves sales volume and market share. On the other hand, employee productivity which is one aspect of operational performance is simply the actual employee output measured against expected output.

The 2010 global financial crisis ignited public concerns with corporate social responsibility. Before then, Enron and World.com drew attention to the current state of corporate social responsibility and later, the potential failure of the banking system intensified and expanded such attention globally. Today, since the formation of the European Union, corporate social responsibility has garnered heightened attention in Europe (Forte, 2013). This is evidenced by their development of sustainability strategies like the Sustainable Development Strategy for Europe which was approved in June 2001. The strategy which emphasizes on corporate involvement in environmental conservation stated that social cohesion, environmental protection, and economic growth must coexist.

Forte, (2013) in his study on CSR also observed that companies and countries differ in their understanding and development of corporate social responsibility due to their variety of social values and cultures. While businesses in the US acknowledge their ethical and social obligations, Maigman& Ralston’s (2002) study found that businesses in the U.K., the Netherlands, and France do not ascribe equal importance to projecting a socially responsible image. Most companies in the US and those under the European Union accept the idea that businesses bear economic, legal, ethical, and discretionary responsibilities (Forte, 2013).

In some countries, there are institutions and regulations to guide corporates on the issues of CSR to help them achieve the CSR goals and in this case almost all businesses are covered. For instance, in the U.S. Sentencing Commission’s

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Guidelines for Organizations helps facilitate such goals. In such case, all organizations including labor unions, partnerships, unincorporated organizations and associations, incorporated organizations, nonprofits, pension funds, trusts, and joint stock companies are all guided by the regulation.

Maignan and Ralston's (2002) study found that each country favored different motivating CSR principles. While the U.S. firms presented social involvement as reflective of their core values. In contrast, European firms discussing CSR on their websites promoted CSR as value-driven. Several studies also indicate that European Companies introduces CSR in their firms in response to the stakeholders' scrutiny and pressure (Forte, 2013). Summarily, the performance –driven perspective, mixed with stakeholder-driven view, dominated in the U.K. In France and the Netherland companies are more engaged in philanthropic programs and sponsorship respectively to portray socially responsible image (Forte, 2013)

The necessity of CSR in the organization has recently become a strongly debated topic. Experts have argued on whether the business should focus to solve social ill, or merely maximize shareholder wealth. On the other hand, businesses all over the world are increasingly implementing CSR policies and incorporating the same in their business structures. While many corporate executives argued that CSR creates a competitive advantage for firms through positive publicity, positive corporate reputation, contribution to environmental conservation and sustainability, motivation of employees(McWilliams & Siegel, 2001), how these influence firmsto perform in terms of financial, operational, market and product outcomes is still a highly debated subject that the research sought to contribute to.

Though the primary goal of any business is to generate profit to its shareholder, Waddock and Graves, (1997) argues that this is not possible if the said business has a bad relationship with the society it operates in. How the society talks about the organization and its products or services directly affects its sale volume which in turn affects the organization's profitability. While the argument that Corporations should only focus on legally maximizing shareholder wealth based on ethical principles persists, CSR can be pursued if doing so accomplishes this function. This raises the debate on the necessity of CSR on the market and product performance.

Negative publicity often results from complains on the firms' operations and can be very damaging to the business. Customers sensitive to the publicized negativities may keep off the firm's product or services hence reduce the market share and profitability. On the same note, lack of publicity is as good as non-existence. A firm needs to engage the society it operates in and participate in the activities of the community to establish and keep its brand alive in its market of operation. Most organizations engage in CSR initiatives to stamp their presence in the society hence publicizing their brand in the market.

Dedication to CSR is also perceived to enhance community relations and contribute to a favorable public image and reputation. Bad reputation makes it very difficult to attract new clients and retain the existing ones. Firms with bad reputation will find it very difficult to appeal to new client in a very competitive market like Kenya. It is not surprising that consumer tend to trust a brand with a good reputation better, opposed to a brand with a poor reputation. Good reputation is associated not only with greater purchase likelihood but also with longer-term loyalty and advocacy behaviors.

The biggest challenge to any business is sustainability due to material depletion or product/service obsolesces as new ones come in. Customers may get bored or markets shrink, and this calls for a need to not only innovate but also build a long lasting relationship with the society to sustain business in the long run. This requires heavy investment of time and funds.

In spite of all the potential benefits of CRS activities so far discussed, debate on its effectiveness in achieving beneficial publicity, reputation, customer loyalty and sustainability still persists. It is important therefore, to seek clarity on the influence of corporate social responsibility on firms' performance. The studywas aimed at analyzing the influence of CSR on firm' performance through a study of commercial banks in Kisumu county. The Specific Objective was to determine the influence of reputation on firms' performance in Kisumu County.

2. REPUTATION

The business or strategic case for CSR i.e. doing good in order to make a profit has recently become more pronounced (Rouse, 2012). Moon &Visser (2006) purport that Shareholders are more inclined to invest in businesses with outstanding corporate reputations, something which has seen more capital injection in the business in the recent past. Corporate

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reputation can be defined as a collective judgement of a corporation based on assessment on its financial, social and environmental impacts attributed to it over time. Business professors John Martin, William Petty, and James Wallace, observed that CSR investments are critical in helping companies maintain positive stakeholder reputations and without which a firms would most likely suffer from lost sales, negative publicity, and a discontented workforce. The trio reasoned that CSR as strategic direction increases shareholder wealth.

Shenkar and Yuchtman-Yaar (1997) in their definition of reputation use the term "standing" as a generic term for a number of concepts – image, prestige, goodwill – associated with corporate reputation in various disciplines, e.g., marketing, economics and accounting. A number of differences which distinguish disciplinary approaches are identified, including the unit of analysis (individual, brand, and firm), the point in time at which reputation is considered (past, present, future) and constituencies (range of stakeholders or "validating groups" (Perrow 1961).

The most used and accepted definition by Fombrun's (1996), defines reputation as "a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals". However, there seems to be a general consensus within the literature that reputation can be defined in terms of its perceptual nature, i.e., "the empirical truth of corporate reputation comes from whatever the respondents say" (Wartick, 1992,), which develops from "direct experiences with the company, any other form of communication and symbolism that provides information about the firm's actions and/or a comparison with the actions of other leading rivals" (Wilson, 1985, p 65).

According to Alshammari (2015), the firm can best benefit from CSR activities if it enjoys a good reputation among major stakeholders. Existing literature points to an understanding that firms that act responsibly in their social context are likely to draw a competitive advantage based on its good reputation which can be utilized to improve their financial performance.

Riordan, Gatewood& Bill (1997) used external 'corporate image as a proxy for social performance, and found that employee's perceptions of corporate image can positively influence job satisfaction, and negatively influence turnover and turnover intentions. Employees' satisfaction is very imperative to an organization performance. A recent global survey of 1,122 corporate executives suggests CEOs perceived that businesses benefit from CSR because it increases attractiveness to potential and existing employees (Economist, 2008).

Brand reputation can perceived in two different ways; as a reputation to the actual brand and as reputation to the company owning a brand. However, in the business and service markets it is quite common that the company name is the same as the brand name for a range of product (Otunga, 2010). When this is the case as it is in banking, the company reputation works as an umbrella brand for these product categories (Riordan, Gatewood& Bill, 1997)). This is especially evident in the financial sector. Brand reputation is pointed out to be one of the antecedents of loyalty (Selnes, 1993).

Lau & Lee (1999, p. 346) define brand reputation as "the opinion of others that a brand is good and reliable". It is not surprising that consumer tend to trust a brand with a good reputation better, opposed to a brand with a poor reputation (Pan et al., 2011). Corporate reputation is perceived slightly different from brand reputation, in a sense that with corporate reputation the emphasis is more on how fair and just the company is (Anderson &Weitz, 1992). Moreover, the integrity of the company is closely related to this. The integrity of a company is defined by how a set of acceptable principles, like being ethical, being honest and keeping promises, is perceived by a consumer.

Lau and Lee (1999, p. 348) argue that "the degree to which a company is judged to have integrity depends on: the consistency of its past actions, credible communications about it from other parties, belief that it has a strong sense of justice, and the extent to which its actions are congruent with its words". Corporate reputation is acknowledged to have a significant effect on consumer loyalty (Hall, 1993; Barney 1991). Similar to commitment, this implies that a good brand reputation can be a substantial barricade for negative publicity to overcome.

Reputation is seen by many commentators as an important asset which could be used as a competitive advantage and a source of financial performance. A "good" reputation is considered an intangible resource which may provide the organization with a basis for sustaining competitive advantage given its valuable and hard to imitate characteristics (Hall, 1993; Barney 1991). A growing body of literature has been concerned with organizational reputation as a valuable resource and its association with financial performance (Roberts and Dowling, 2002; Eberl and Schwaiger 2005).

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3. METHODOLOGY

This chapter presented the research methodology to be adopted in this study. It discussed the research design, the target population, samples and sampling design. It also discussed data collection, instruments of data collection, data analysis and concluded with data presentation techniques. The study adopteda descriptive research designas it allows samples to be selected and their opinions sought. The purpose of this study was to establish the influence of Corporate Social Responsibility on performance of banks in Kisumu County. The research sought the opinions of bank staff to whom the questionnaires were administered to, and analyzed the findings to determine the influence of CSR on performance of the respective banks in Kisumu County. Qualitative research design was the most relevant for this study because it seeks to understand the underlying reasons, opinions, and motivations in order to develop hypothesis on the subject. The research tookthe form of field survey. The study intended to restrict the population of the study to commercial banks in Kisumu County. The population of study consisted of about 500 employeesof the 27 registered commercial banks represented in Kisumu County on which the findings were generalized. A random sampling technique was used for this study as this technique gives every member an equal chance of being selected or chosen. This is due to the fact that the population is homogeneous. The studyopted to use the questionnaires as a tool since they are easy to construct having rules and principles for construction that are easy to follow also. The semi-structured questionnaires were administered to 100 bank staff randomly selected from each of our sampled bank. The 'drop and pick later' method of data collection was employed. This method was considered because of time factor and also to encourage more respondents who took time filling the questionnaires. The Statistical Package for Social Sciences (SPSS) version 17 computer software was then used to analyze the data. The coefficient of correlation (r) of various variables was determined to assess the nature of relationship between the dependent variables and the independent variables. The p-value was used to respond to research hypothesis. The study also used the t-test and ANOVA to analyze the data.

4. DISCUSSION

The study sought to evaluate the influence of reputation on firms' performance in Kisumu County. The findings are presented in a five point Likert scale where SA=strongly agree, A=agree, N=neutral, D=disagree, SD=strongly disagree and T=total.

Levitt (1958) and Friedman (1960) offered that there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits and nothing beyond the interest of shareholders. From table 4.2 below, the respondents were asked whether CSR reputation improves sales volume, market share and profitability of the organization. The distribution of findings showed that 30 percent of the respondents strongly agreed, 41.8 percent of them agreed, 22.7 percent of the respondents were neutral, 5.5 percent disagreed while 0 percent of them strongly disagreed. These findings implied that CSR reputation improves sales volume, market share and profitability of the organization.

The respondents were also asked whether CSR investments are critical in helping companies maintain positive stakeholder reputations and without which a firms. The distribution of the responses indicated that 30.0 percent strongly agreed to the statement, 16.4 percent of them agreed, 9.1 percent of them were neutral, 27.3 percent of them disagreed while 17.3 percent of them strongly disagreed to the statement. These findings implied that CSR investments are critical in helping companies maintain positive stakeholder reputations and without which a firms. The respondents were also asked whether Shareholders are more inclined to invest in businesses with outstanding corporate reputations, something which has seen more capital injection in the business in the recent past. The distribution of the responses indicated that 18.2 percent strongly agreed to the statement, 29.1 percent of them agreed, 19.1 percent of them were neutral, 28.2 percent of them disagreed while 5.5 percent of them strongly disagreed to the statement. These findings implied shareholders are more inclined to invest in businesses with outstanding corporate reputations, something which has seen more capital injection in the business in the recent past. The respondents were further asked whether the business or strategic case for CSR i.e. doing good in order to make a profit has recently become more pronounced. The distribution of the responses indicated that 23.6 percent strongly agreed to the statement, 28.2 percent of them agreed, 23.6 percent of them were neutral while 24.5 percent and 0 percent of them disagreed strongly and disagreed to the statement respectively. These findings implied that the business or strategic case for CSR i.e. doing good in order to make a profit has recently become more pronounced.

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Table 4.6: Influence of reputation on firms' performance

Statements		SA	A	N	D	SD	T
CSR reputation improves sales volume, market share and profitability of the organization	%	30.0	41.8	22.7	5.5	0	100
CSR investments are critical in helping companies maintain positive stakeholder reputations and without which a firms would most likely suffer from lost sales, negative publicity, and a discontented workforce	%	9.1	16.4	30.0	27.3	17.3	100
Shareholders are more inclined to invest in businesses with outstanding corporate reputations, something which has seen more capital injection in the business in the recent past	%	18.2	29.1	19.1	28.2	5.5	100
The business or strategic case for CSR i.e. doing good in order to make a profit has recently become more pronounced	%	13.6	28.2	23.6	34.5	0	100

4.6 Inferential Statistics

4.6.1 Pearson Correlation

The study sought to establish the strength of the relationship between independent and dependent variables of the study. Pearson correlation coefficient was computed at 95 percent confidence interval (error margin of 0.05). Table 4.9 illustrates the findings of the study.

Table 4.9: Correlation Matrix

		Firms' Performance
Publicity	Pearson Correlation	.502**
	Sig. (2-tailed)	.000
	N	82
Reputation	Pearson Correlation	.718**
	Sig. (2-tailed)	.000
	N	82
Customer goodwill	Pearson Correlation	.712**
	Sig. (2-tailed)	.000
	N	82
Sustainability	Pearson Correlation	.713**
	Sig. (2-tailed)	.000
	N	82

As shown on Table 4.9 above, the p-value for publicity was found to be 0.000 which is less than the significant level of 0.05, ($p<0.05$). The result indicated that Pearson Correlation coefficient (r-value) of 0.502, which represented an average, positive relationship between publicity and firms' performance.

As shown on Table 4.9 above, the p-value for Reputation was found to be 0.000 which is less than the significant level of 0.05, ($p<0.05$). The result indicated that Pearson Correlation coefficient (r-value) of 0.718, which represented a strong, positive relationship between reputation and firms' performance.

As shown on Table 4.9 above, the p-value for Customer goodwill was found to be 0.000 which is less than the significant level of 0.05, ($p<0.05$). The result indicated that Pearson Correlation coefficient (r-value) of 0.712, which represented a strong, positive relationship between Customer goodwill and firms' performance.

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As shown on Table 4.9 above, the p-value for sustainability was found to be 0.000 which is less than the significant level of 0.05, ($p<0.05$). The result indicated that Pearson Correlation coefficient (r-value) of 0.713, which represented a strong, positive relationship between sustainability and firms' performance.

4.6.2 Multiple Linear Regression

Multiple linear regressions were computed at 95 percent confidence interval (0.05 margin error) to show the multiple linear relationship between the independent and dependent variables of the study.

4.6.2.1 Coefficient of Determination (R^2)

Table 4.10 shows that the coefficient of correlation (R) is positive 0.529. This means that there is a positive correlation between the influence of corporate social responsibility on firms' performance in Kisumu County. The coefficient of determination (R Square) indicates that 28.9% of firms' performance in Kisumu County is influenced by corporate social responsibility. The adjusted R^2 however, indicates that 25.2% of firms' performance in Kisumu County is influenced by corporate social responsibility leaving 74.8% to be influenced by other factors that were not captured in this study.

Table 4.10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.529[a]	.289	.252	4.10718

a. Predictors: (Constant), publicity, reputation, customer goodwill, sustainability

4.6.2.2 Analysis of Variance

Table 4.11 shows the Analysis of Variance (ANOVA). The p-value is 0.000 which is < 0.05 indicates that the model is statistically significant in predicting how corporate social responsibility affects firms' performance in Kisumu County. The results also indicate that the independent variables are predictors of the dependent variable.

Table 4.11: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	586.766	4	123.691	32.078	.000[b]
	Residual	1671.234	78	19.869		
	Total	2358.000	82			

4.6.2.3 Regression Coefficients

From the Coefficients table (Table 4.12)the regression model can be derived as follows:

$$\mathbf{Y = 26.041 + 0.534X_1 + 0.350X_2 + 0.368X_3 + 1.055X_4}$$

The results in table 4.9 indicate that all the independent variables have a significant positive effect on firm's performance. The most influential variable is sustainability with a regression coefficient of 1.055 (p-value = 0.000), followed by publicity with a coefficient of 0.534 (p-value = 0.000) then and Customer goodwill with a coefficient of 0.368 (p-value = 0.025) and lastly reputation with a coefficient of 0.350 (p-value = 0.020). According to this model when all the independent variables values are zero, firms' performance of will have a score of 26.041.

Table 4.12: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	26.041	2.338		12.275	.000
	Publicity	.534	.126	.697	3.883	.000
	Reputation	.350	.144	.282	2.284	.020
	Customer goodwill	.368	.152	.356	2.202	.025
	Sustainability	1.055	.173	.743	5.520	.000

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4.6.3 Hypothesis Testing

Ho_2: Reputation does not have a significant influence on firms' performance in Kisumu County. From Table 4.12 above, reputation ($\beta = 0.350$) was found to be positively related firms' performance. From t-test analysis, the t -value was found to be2.284 and the ρ -value 0.020. Statistically, this null hypothesis was rejected because $\rho<0.05$ Thus, the study accepted the alternative hypothesis and it concluded that Reputation affects firms' performance of commercial banks in Kisumu County.

5. CONCLUSION AND RECOMMENDATION

The following conclusions were made;

There exist a positive relationship between independent and dependant variables in the study and firms' performance of commercial banks in Kisumu County. The findings also revealed that reputation ($\beta = 0.350$) was found to be positively related firms' performance. From t-test analysis, the t -value was found to be 2.284 and the ρ -value 0.020. Statistically, this null hypothesis was rejected because $\rho<0.05$ Thus, the study accepted the alternative hypothesis and it concluded that Reputation affects firms' performance of commercial banks in Kisumu County.

Based on the findings, the researcher recommended the following:

The increasing influence of CSR on firm's performance offers a real opportunity and a strategic approach that can be employed by firms in all industries to create value to both shareholder and stakeholders. As banks strive to capture these benefits related to their investment in CSR initiatives, they need to start now to involve their employees largely so that they too can feel part of the initiatives in order to motivate them to perform. The firms should be in good terms with both its environment and the society it operates in at large in order to reduce investment risk and maximize profit by taking all the stakeholder into consideration. From the research finding, it is evident that CSR reputation influences the firm's performance especially on sales volume and market share. This calls to firms to invest in building their reputation as viewed from the public eyes and this can be done by engaging the public and being involved in activities viewed to support the course of the public hence the need to invest in CSR activities that appeals to the market it operates in. There is need for the firms to invest in sustaining its relationship with the society it operates in, build a good reputation and gain public goodwill that may translate to customer loyalty and positive publicity. However, firms should consider other approaches in enhancing employee motivation and productivity other that CSR sustainability as the study revealed that there was statistically no relationship between CSR sustainability and firm's performance on employee motivation and productivity.

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