EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS LISTED AT THE NAIROBI STOCK EXCHANGE

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

Student Name………………………………….. Reg No…………………………………

Sign…………………………………………….. Date…………………………………….

I do hereby confirm I have examined the master's proposal of

Everlyne Chepkurui Too

And have approved it for examination

Sign…………………………………………….. Date…………………………………….

Dr. Edward Owino

Dissertation Supervisor.

DEDICATION

I dedicate this dissertation to my entire family who have supported me throughout and have ensured that I get the best education to guarantee me for a better future.

ACKNOWLEDGEMENT

Special thanks to God Almighty for giving me the strength and endurance to complete the programme successfully.

I want to sincerely thank my supervisor for the support, guidance, patience and the effort he put to ensure that this project was success. A special thanks to my family for the moral and material support and the many sacrifices that they have made during this period.

ABSTRACT

This study sought to establish the relationship between Corporate Social Responsibility and financial performance of commercial banks listed at the Nairobi Stock Exchange. To achieve this, the stud investigated the effect of the amount of corporate investment made by Commercial Banks listed on NSE on Philanthropic, Ethical, Legal and Economic Responsibilities on their financial performance. The study adopted a longitudinal approach based on an explanatory research design. The target population for this study was 11 commercial banks registered under the Central Bank of Kenya (CBK, 2017) and listed under the NSE. (See Appendix I). Considering this small number, this study was a census. Secondary data collected between 2006 and 2016 was the primary focus of this study. Data analysis was then be conducted using STATA. All the Panel data properties of the data were considered during this analysis. Results indicated that investing in Philanthropic Activities would result to a positive and significant effect on financial performance as measured by ROI. However, investments in ethical, legal and Economic Activities would result to insignificant increases in financial performance of commercial banks listed at the NSE. The study therefore recommends stakeholders of commercial banks to invest more on Philanthropic Activities if they are to realize significant improvements in the performance of their finances.

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ACCRINYMS AND ABBREVIATIONS

CSR - Corporate Social Responsibility

CMA - Capital Markets Authority

NSE - Nairobi Securities Exchange

ROA - Return on Assets

ROE - Return on Equity

SRI - Socially Responsible Investing

OPERATIONAL DEFINITION OF TERMS

Corporate Social Responsibility (CSR): a corporation's obligation to its stakeholders, which are any groups/people that have a stake or interest in a company's success and products including customers, employees, suppliers, investors and the communities surrounding the business (Mishra and Suar, 2010).

Philanthropic Responsibility: a discretionary responsibility of a firm that involves choosing how it will voluntarily allocate resources to charitable or social service activities in order to reach marketing and other business-related objectives of which there are no clear social expectations as to how the firm should perform (Park, Lee and Kim, 2014),

Ethical responsibility: the duty to follow a morally correct path. Business ethics relates to ethic theories which establish regulations and rules that draw the boundaries which help people to differentiate right from wrong (Fryer, 2016).

Legal responsibility: the requirements that are placed on an organization by the law as far as their operations are concerned (Harrison and Wicks, 2013).

Economic Responsibility: a company' obligation to turning a profit as related to shareholder view, which is aligned to making more profits in order to maximize shareholders' wealth (Epstein and Buhovac 2014)

Financial Performance: means shareholders in investing in a business to increase their wealth through profit maximization.

Banking: the employing of money held on deposit or on current account, or any part of the money, by lending, investment or in any other manner for the account and at the risk of the person so employing the money (Banking Act, 2010).

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Corporate Social Responsibility (CSR) has over the years grown from being a concept embraced by a small number of companies to a widespread global movement. As a matter of fact, today, CSR is a corporation's obligation to its stakeholders, which are any groups/people that have a stake or interest in a company's success and products including customers, employees, suppliers, investors and the communities surrounding the business. This is because whereas a customer's greatest concern may be the safety of a company's products, an employee's need might be for a fair wage and safe working conditions. An investor on the other hand may be concerned with profits and the bottom line, while the community in general may care about a business's interest as far as limiting the pollution it causes is concerned (Surroca, Tribó and Waddock, 2010).

As such, to an organization, CSR means maximizing the good and minimizing the bad effects it has on these stakeholders' diverse interests. This in turn may have positive effects on its performance. At its weakest level, CSR is represented by a few philanthropic gestures by organizations. However, when applied in its most complete form, it can steer an organization to deliver a fully-fledged, system-wide, multi-stakeholder operation, accompanied by multiple types of certifications. In essence, it can be used to transform an organization into achieving success which is realized differently by different organizations such as an improved financial performance by Commercial Banks (Karaibrahimoglu, 2010).

In the wake of the global financial crises, the banking industry has faced intensified regulatory pressures and public scrutiny. Moreover, banking malpractices have attracted a record level of regulatory fines and penalties. This has presented banks with the challenge of needing to restore public trust and establish clear and transparent business models. Integrating CSR factors within their long-term investment strategy has emerged as one way for not only developing new products and new growth opportunities, but has also ensured better management of risk in the banks' overall investment strategies (Karaibrahimoglu, 2010).

Today, the interest in business operation has gone up due to increased awareness of the effects of business activities on the environment which includes ethical issues. Banks are increasingly attracting this interest because of the current nature of the financial environment. This study therefore intends to identify how financial institutions listed on the Nairobi Stock Exchange fair on as far as their financial performance is concerned.

1.1.1 Corporate Social Responsibility

CSR is described as a corporation's obligation to its stakeholders, which are any groups/people that have a stake or interest in a company's success and products including customers, employees, suppliers, investors and the communities surrounding the business (Mishra and Suar, 2010). This implies that through CSR, organizations get to engage their most important stakeholders. Dahlsrud (2008) also defined CSR as generally referring to business practices which are purely based on the environment, community values and respect for the society. This is to mean that organizations are responsible for their impact on society besides profit making. This therefore makes a study on hoe CSR activities impact both parties involved. Ngatia (2012) further defined CSR as a company's obligations to be accountable to all of its stakeholders in all its operations and activities. As such, Social responsible companies consider the full scope of their impact on communities and the environment when they are making decisions, balancing the needs of stakeholders with their need to make profit.

CSR is vital for organizations that embrace responsibility for its actions and those that seek to positively affect the environment, society, consumers, employees, communities, and other stakeholders through its activities (Arora and Dharwadkar, 2011). These responsibilities come in the form of four activities namely philanthropic, ethical, legal and economic. Philanthropy, also called the discretionary responsibility, is best described by the resources contributed by corporations toward social, educational, recreational and/or cultural purposes. Ethical responsibilities on the other hand involves the duty to follow a morally correct path. Business ethics relates to ethic theories which establish regulations and rules that draw the boundaries which help people to differentiate right from wrong (Fryer, 2016). Thus businesses are required to act responsibly and act ethically in terms of managing reputation, moral obligations, observing laws among others. A company's legal responsibilities are the requirements that are placed on it by the law. According to the theory of corporate social responsibility, next to ensuring that company is profitable is ensuring that it obeys all laws (Elkington, 2002; Harrison and Wicks, 2013). Legal responsibilities can range from securities regulations to labor law, environmental law and even criminal law (Lambooy, 2014). Finally, a company's economic responsibility can be translated to mean that a company needs to be primarily concerned with turning a profit. This is for the simple fact that if a company does not make money, it won't last, employees will lose jobs and the company won't even be able to think about taking care of its social responsibilities.

Although the implementation of CSR is at a high cost to banks, the financial performance of companies that have successfully implemented CSR practices has historically been high. The high performance of ethical firms can be explained by two logical reasons. First, companies at the forefront of implementing CSR are healthy firms that strive to shape the future in light of new social and environmental challenges. Secondly, CSR is a way to create new businesses, and has allowed firms to attract new investors and new growth opportunities. Basically, implementing a CSR improves the bank's internal culture by motivating staff and giving them a reason to be proud of the company. It helps the bank to come up with new businesses through green and social bonds created through CSR, enhances public image and attracts socially interested investors. In the long run, this may translate into high financial performance (Arora and Dharwadkar, 2011).

It is therefore evident that the current financial industry is a highly demanding new environment coupled with increasingly strict regulations where banks are faced with the challenge of trying to gain a competitive advantage. This has been countered by the growth in ethical behaviour within business and as a result, has provided banks with new opportunities to remain competitive and attract new investment (Jo and Harjoto, 2012).

1.1.2 Financial Performance

Financial performance is a subjective measure of the use of a financial institution's assets in its pursuit to generate revenue (Ongore and Kusa, 2013). The main objective of shareholders in investing in a business is to increase their wealth. Thus according to them, the measurement of performance of the business must give an indication of how wealthier the shareholder, has become as a result of the investment over a specific time. Financial performance can also be described as a subject measure of how well a firm can use assets from its primary mode of business and generate revenues (Ariño and Canela, 2010). It can be used to measure a firms overall financial health over a given period of time. This can be used as a basis for comparison of similar firms across the industry, or to compare industries or sectors in aggregation. Kipruto (2013) also defined financial performance as a composite of an organization's financial health, its ability and willingness to meet its long term financial obligations and its commitments to provide services in the foreseeable future. According to him, it represents the organizations ability to achieve long-term objectives.

To know the financial performance of a company, one has to conduct a financial analysis. Financial analysis is the use of financial statements to analyze a company's financial position and performance and to assess the future financial performance (Ongore and Kusa, 2013). This therefore makes financial performance is a subjective measure of how well a firm can use its' assets from its' primary business to generate revenues. Wang and Qian, (2011) noted that financial performance measures like profitability and liquidity among others provided a valuable tool to stakeholders to evaluate the past financial performance and the current position of a firm. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare industries or sectors in aggregation (Wang and Qian, 2011).

According to Garcia-Castro, Ariño and Canela, (2010), organizations use various financial indicators to estimate if their investments are performing well and these are ratios like Return on Assets (ROA), Return on Investments (ROI), Return on Equity (ROE), profitability ratios and liquidity ratios. More specifically, ROI is used to evaluate the efficiency of an investment by taking the amount of return that particular investment has made and dividing this by the cost of the investment. Simply put, this is the cost of investment subtracted from the gain of investment then divided by the cost of investment. ROI is a very popular metric because of its versatility and simplicity. It can easily be used to gauge an investment's profitability.

Moreover, it can also be used on a variety of investments made by an organization (Wang and Qian, 2011). As such, the researcher chose to use it to measure the financial performance of banks as far as their investments in CSR is concerned.

1.1.3 Banking Industry in Kenya.

The Kenyan banking industry is regulated by the Central Bank of Kenya Act, Banking Act, and the Companies Act among other guidelines issued by the Central Bank of Kenya. The local banking industry was liberalized back in 1995 and exchange controls revoked. The banking system comprises 42 commercial banks, 15 micro-finance institutions and 109 forex bureaus as at the end of Dec 2016 out of which Eleven (11) are listed at the NSE (see appendix 1) (NSE, 2015; CBK Bank Supervision Annual Report, 2016). The Banking industry in Kenya is governed by the Central Bank of Kenya. The Companies Act and the Banking Act get prudential guidelines from the Central Bank of Kenya.

Even though CSR initiatives are applicable to virtually all organizations, banks are more sensitive to these programs as they have to strive to satisfy a multiplicity of stakeholders. These include maximizing profit to shareholders who are the true owners of the business, maintaining optimal liquidity for depositors, complying with regulator’s demands, satisfying the deficit sector demands for credits, contributing to the development of the economy as well as satisfying the needs of the immediate community in which they operate. Several factors have stiffened the competition among the various players in the banking industry leading the banks to look for more innovative ways of satisfying their customers while at the same time making profit. Some of these factors include the concept of globalization which has taken competition beyond the national boundaries, advancement of technology, deregulation of financial services and privatization of banks that were initially public. The major stakeholders, especially the more informed ones are also demanding greater social and environmental performance by banks because they have come to understand and appreciate the fact that businesses can ever succeed without public trust and confidence.

The overall performance and profitability of the banking sector in Kenya has improved tremendously over the last 10 years. Despite the overall good picture a critical analysis indicates that, not all banks are profitable. The huge profitability enjoyed by the large banks vis-a-a Vis the small and a medium bank indicates that there are some significant factors that influence the performance of commercial banks. Cheng, Ioannou and Serafeim, (2014).and other several studies have shown that bank profitability is determined by bank-specific factors and industry specific factors.

1.2 Statement of the Problem

For all commercial banks, financial performance is crucial to their survival in the banking industry. As such, all stakeholders in the industry concentrate on understanding it so as to be able to make viable financial decisions. While various aspects of commercial banking such as financial innovation have improved, the sector has over the last few years recorded a steady but decreasing financial performance. For instance, in 2006, the Central Bank of Kenya recorded in its bank supervision annual report that the ROI for all banks was at 6.0%, which decreased to 5.8% in 2010 and subsequently 2.8% in 2016 (Central Bank Supervision Annual Report 2006; 2010; 2016). This steady decrease in performance of investments prompted the researcher to seek to understand the effect of CSR as one of the investments made by banks on their financial performance.

From the analysis of what other studies have done, the researcher noted that most studies did not consider all four pillars of CSR. For instance, Wu and Shen (2013) investigated the motives and financial performance of CSR in the banking industry in China. The study considered strategic choices, altruism, and greenwashing and found that two of these variables i.e. strategic choices and altruism suggest a positive relationship between CSR and financial performance. On the other hand, while studying the Impact of corporate social responsibility on the financial performance of banks in Pakistan, Malik and Nadeem (2014) found that there is positive relationship between profitability and CSR practices. Furthermore, they asserted that financial institutions which implements CSR in their operations earn more profit for the long term periods. Also, while studying the Impact of Corporate Social Responsibility Practices on the Banking Industry in Romania, Mocan, Rus, Draghici, Ivascu and Turi, (2015) concluded that understanding the key elements of CSR contributes to the fulfilment of the principles of this concept and to the increase of market share, profit and advancement in bank rankings.

Additionally, in their study on Effect of corporate social responsibility on financial performance in the banking sector evidence from the Nairobi Securities Exchange, Nyamute and Batta (2014) acknowledged that Corporate Social Responsibility (CSR) is increasingly being embraced by organizations worldwide. They found that there was an insignificant positive relationship between CSR and financial performance in the Kenyan banking industry with CSR having a very minimal effect on financial performance. Gichohi, (2014) also studied Effects of Corporate Social Responsibility on Financial Performance of Firms Listed in the Nairobi Securities Exchange. It was established that CSR had a positive but insignificant effect on financial performance. Study findings were that none of the variables were strongly correlated.

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. It is on this basis that the current study seeks to analyze the effect of all the other pillars of CSR on financial performance among commercial banks in Kenya listed on the NSE.

1.3 Research Objectives

1.3.1 General Objective

The general objective for this study was to assess the effect of Corporate Social Responsibility on financial performance of Commercial Banks listed on the Nairobi Stock Exchange.

1.3.2 Specific Objectives

The specific objectives was as follows:

i. To investigate the effect of investment made in Philanthropic Activities on the financial performance of commercial banks listed on NSE

ii. To investigate the effect of investment made in Ethical Activities on the financial performance of commercial banks listed on NSE

iii. To investigate the effect of investment made in Legal Activities on the financial performance of commercial banks listed on NSE

iv. To investigate the effect of investment made in Economic Activities on the financial performance of commercial banks listed on NSE

1.4 Research Questions

The research questions therefore were as follows;

i. What is the effect of investment made in Philanthropic Activities on the financial performance of commercial banks listed on NSE?
ii. Does investment made in Ethical Activities affect financial performance of commercial banks listed on NSE?
iii. Is the investment made in Legal Activities effective on of commercial banks listed on NSE?
iv. How does corporate investment made Economic Activities affect the financial performance of commercial banks listed on NSE?

1.5 Significance of the Study

Results obtained from this study would help three key stakeholders on the financial industry; bank stockholders, employees and the community at large. It is however important to note that most stakeholders interested in this kind of arrangement do not fully understand the direct relationship between financial performance and CSR.

Most organizations, including banks, have to rely on the environment for customers, suppliers, security, raw materials and many more for it to operate profitably. A problem within the community therefore translates to a problem for the bank. Therefore understanding how helping the society serves to better improve their financial performance is key for banks all around the world. This also serves as an effort to keep their legal obligations that ensures that organizations give back to the society as an ethical consideration.

Additionally, there is a significantly small amount of literature available for a conclusive conclusion to be made about this relationship. This paper therefore intended to give these stakeholders an opportunity to learn more about what their organizations can engage in to improve their financial performance. It is also important to increase this literature for individuals interested in pursuing this or a related topic of study as it would serve as a point of reference.

1.6 Scope of the study.

This study specifically investigated the effect of CSR on financial performance of 11 banks listed on the NSE. Data from 2006 and 2016 will be collected on all the investments made on CSR and this will be compared to the return on investment accrued by the banks after every year.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Many researchers have shown how CSR initiatives can reap benefits for a company. Companies that have engaged in CSR all over the world have elicited favorable responses from their key stakeholders. These CSR activities have also acted as a source of competitive advantage. This chapter carried out a review existing literature that are related to the study, it also presented theoretical review of the study, the empirical review according to the study objectives and concluded with a conceptual framework.

2.2 Theoretical Framework

This study is guided by stakeholder theory and triple bottom line model because of the following: CSR relates striking a balance between satisfying shareholders and key stakeholders and this implies making profits in order to support CSR activities.

2.2.1 Stakeholder Theory

Stakeholder theory is based on assumptions that corporate values are an integral part of doing business (Freeman, Wicks and Parmar, 2007). Under this theory, managers are tasked with sharing the value they create to all stakeholders which also extends to the type of relationships they wish to nurture to push their business agenda forward. Ideally, it is often known that companies exist to serve shareholders but other key stakeholders interests (employees, the society, suppliers and others) must be taken care of. Furthermore, stakeholder theory is linked to the managers and how they operate besides addressing economists and management theorists.

As observed by this theory addresses two fundamental questions: What purpose does a firm serve which makes managers to develop long lasting relationships with key stakeholders and secondly what is the responsibility of the managers to all stakeholders which helps them to strike a balance between making profits and meeting other stakeholders' needs (Phillips, Berman, Elms and Johnson-Cramer, 2010). This implies that managers are tasked with satisfying a society's needs besides providing goods and services to fulfill basic needs. The relevance is that a satisfied society will allow a business to make more profits with minimal disruptions forming long lasting relationships. For example, it would be wrong for a firm to make more profits by providing goods and services that cause pollution, environmental degradation, human displacement and the likes. Stakeholders include Shareholders, employees, creditors, distributors, customers and suppliers and each stakeholder has some level of influence to a firm. A firm should analyze its stakeholders using the following yardsticks: type of stakeholders, their interests in the business or project, support required from them, risks associated with them, their attitudes and actions required to address the their needs (Phillips, Berman, Elms and Johnson-Cramer, 2010).

This theory is related to the topic of study because engaging in CSR is always an effort to engage all stakeholders of an organization together. Failure to pull all stakeholders towards one direction may disrupt the organization's objectives as well as goals. The theory explains how this can be achieved effectively, hence making it key to the study.

2.2.2 Triple Bottom Line Model

The Triple Bottom Line (TBL) model by Elkington (2002) shows being responsible for firms means ensuring that their activities have positive economic impact, social impact and environmental impact. Triple Bottom Line model maintains that businesses should pursue various goals like taking care of the environment, meeting social needs of people other than making money for the shareholders. If Equity Bank was to establish a branch in a highly populated area that has high levels of pollution and environmental degradation which causes diseases and death, then it will take advantage to act socially responsible by cleaning up, feeding people and organizing free medical clinics. This will definitely enhance customer confidence in the bank (Elkington, 2002).

Over the last 50 years, environmentalists and social justice advocates have struggled to bring a broader definition of bottom line into public consciousness by introducing full cost accounting. For example, if a corporation shows a monetary profit, but their asbestos mine causes thousands of deaths from asbestosis, and their copper mine pollutes a river, and the government ends up spending taxpayer money on health care and river clean-up, how do we perform a full societal cost benefit analysis? TBL adds two more "bottom lines": social and environmental (ecological) concerns (Norman and McDonald, 2004).

The triple bottom line has also been extended to encompass four pillars, known as the quadruple bottom line (QBL). The fourth pillar denotes a future-oriented approach (future generations, intergenerational equity. It is a long-term outlook that sets sustainable development and sustainability concerns apart from previous social, environmental, and economic considerations (Norman and McDonald, 2004).

Clearly, this theory is critical as far as establishing the relationship between social responsibility and financial accounting. Since this study is concerned with this relationship, this theory is an integral pillar.

2.3 Empirical review

This section highlights various studies conducted to show the relationship between financial performance and CSR on various fronts. This was closely related to the topic of study by analyzing the methodology, research design and results these studies obtained as far as the objectives of this study are concerned.

2.3.1 Investments on Philanthropic Responsibilities and Financial Performance

A company that practices CSR embraces responsibility for its actions and, through its activities, positively affects the environment, society, consumers, employees, communities, and other stakeholders. One such responsibility entails philanthropy, also called the discretionary responsibility. It is best described by the resources contributed by corporations toward social, educational, recreational and/or cultural purposes. As observed by Park, Lee and Kim, (2014), corporate philanthropy is a discretionary responsibility of a firm that involves choosing how it will voluntarily allocate resources to charitable or social service activities in order to reach marketing and other business-related objectives of which there are no clear social expectations as to how the firm should perform. Corporate philanthropy falls within the organization's ethical and social commitments. These are values that organizations subscribe to comprising of ethical and social standards as evidenced in their mission, organizational objectives and organizational culture (Park, Lee and Kim, 2014).

In their study on Effect of corporate social responsibility on financial performance in the banking sector evidence from the Nairobi Securities Exchange, Nyamute and Batta (2014) acknowledged that Corporate Social Responsibility (CSR) is increasingly being embraced by organizations worldwide. This study aimed to investigate the relationship between CSR and financial performance for the banks listed on the Nairobi Securities Exchange (NSE).

Through the multiple regression analysis of 11 banks listed on the NSE for the period 2008 to 2012, they found that there was an insignificant positive relationship between CSR and financial performance in the Kenyan banking industry with CSR having a very minimal effect on financial performance. This implies that activities such as making investment to the education sector would only serve to increase the financial performance of banks insignificantly. The study further concluded that in the Kenyan banking industry, CSR activities are not undertaken for the purpose of improving the banks financial performance but are undertaken for other reasons such as building brand image and building customer loyalty Nyamute and Batta (2014).

Gichohi, (2014) also studied Effects of Corporate Social Responsibility on Financial Performance of Firms Listed in the Nairobi Securities Exchange. It sought to establish the effect of CSR on financial performance of 14 companies listed firms in the Nairobi Securities Exchange. The study measured financial performance was measured using the return of assets. Investment in CSR was measured using monetary spending on social activity. Data was obtained from audited financial statement, websites publications and annual report. Secondary data was obtained from the year 2010 to 2014. It was established that CSR had a positive but insignificant effect on financial performance. Study findings were that none of the variables were strongly correlated. The study concluded further that a positive but insignificant relation existed between CSR and financial performance. Factors such as the amount of investment spent on the resources contributed by corporations toward social, educational, recreational and/or cultural purposes were seen to improve the reputation of the company but could not necessarily imply that this would translate into a significant increase in financial performance. The study recommended that firms should be socially responsible so as to enhance the value of the firm for the shareholders. The study also recommends CSR not to be viewed as a voluntary undertaking but a compulsory practice for the firms. Lastly, policies among firms to ensure that the firm acts in ethical and socially responsible manner to all stakeholders should be formulated and implemented (Gichohi, 2014).

2.3.2 Investment on Ethical Responsibilities and Financial Performance

Ethical responsibility is the duty to follow a morally correct path. Business ethics relates to ethic theories which establish regulations and rules that draw the boundaries which help people to differentiate right from wrong (Fryer, 2016). Business ethics thus refers to establishing principles that guide how people conduct themselves. As Bassell, Fischer and Friedman, (2015) pointed out, businesses are required to act responsibly and act ethically in terms of managing reputation, moral obligations, observing laws among others. The implication is that as businesses conduct their activities, they should consider the societal impact. Business ethics is embedded in sustainability and revolves around things like environmental pollution, closure of plants, disposal of wastes etc. (Fryer, 2016).

Studies have been conducted on the significance of engaging in some of these activities. For instance, Mungai (2015) studied Effects of corporate social responsibility on financial performance of manufacturing companies in Kenya. This study sought to find out the effects of corporate social responsibility on financial performance of manufacturing companies in Kenya. This descriptive and inferential statistics study was conducted by the use of secondary data. The data was collected using structured data collection instrument and analysis of the financial statements of manufacturing companies in Kenya. The study targeted 68 manufacturing companies in the Kenya association of manufacturers. The data was analysed using multiple regression model. The study found out that there was a small significant direct relationship between corporate social responsibility and the financial performance of manufacturing companies in Kenya. The findings of the study showed that corporate social responsibility had little effect on the financial performance compared to the total assets, which had significant effect on financial performance. For instance, engaging in ethical responsibilities such as ensuring that their products do not have any ethical implication only increased awareness of the public regarding the manufacturing company, which would translate into financial performance after some time. The study also showed that participation in Corporate Social Responsibility was on voluntary basis and it aimed at improving the social welfare of the community. The study concludes that many manufacturing companies in Kenya do participate in CSR activities and CSR has weak effect on the financial performance of the manufacturing companies. From the study, the key recommendations are that manufacturing companies in the Kenya association of manufacturers should engage in CSR activities because it will increases their customer base especially those regarded as small and medium size manufacturing companies. The study suggests further research to be carried out on the effects the corporate social responsibility on financial performance of manufacturing companies but in small and medium size companies in Kenya (Mungai, 2015).

In another study, Osino (2013) researched the relationship between corporate social responsibility and financial performance of small and medium enterprises in Kenya. The study attempted to overcome the weaknesses in previous studies and to provide better insights into these issues by examining the relationship between this variable from Kenyan SMEs perspective by identifying drivers of CSR in the Kenyan sector in explaining the voluntary adoption of CSR activities by SMEs. The research survey consisted of active top 100 SMEs in the year 2012 in Kenya and questionnaire used to collect data regarding corporate social responsibility while companies' financial statements used to collect data for the financial performance variable. Return on assets ratio was used in measuring firm's financial performance with regression analysis will been applied for data analysis of financial variables. The study further revealed that there was a positive and significant correlation between ROA, other variables under study such as the amount of income used in poverty alienation programs and net income. This also implies that there is a positive relationship between net income, CSR, financial performance and growth in the total assets. Results also indicate that the correlation between ROA and growth in CSR and net income was significant (Osino, 2013).

2.3.3 Investment on Legal Responsibilities and Financial Performance

A company's legal responsibilities are the requirements that are placed on it by the law. To ensure that company is profitable, it is prudent to make it clear that it obeys all laws pertaining to its day to day operations. This is a very important responsibility, because the law is a key starting point for any business and most leading businesses also have their own statement of Business Principles which set out their core values and standards on good citizenship. According to the theory of corporate social responsibility (Elkington, 2002; Harrison and Wicks, 2013). Legal responsibilities can range from securities regulations to labor law, environmental law and even criminal law (Lambooy, 2014). Thus in the context of CSR, a large variety of private self-regulatory instruments related to social or environmental aspects of Economic Activities, such as codes of conduct or private labels, have emerged. Some have been adopted unilaterally by multinational companies, others have been developed together with NGOs or international institutions. These instruments often have acquired legal effect under private law because they have become part of supply chain contracts and under labor law if they have been referred to in labor agreements.

Similarly, studies have been conducted to identify how such an engagement could be financially beneficial to banks. Simon (2014) conducted a study on the effect of corporate social responsibility on financial performance of 100 top small and medium enterprises in Kenya. This is so mostly with the large corporations who are using it as a corporate positioning tool and have continued to enjoy high profits from positive market perception due to CSR. Whereas CSR is taken to have positive effect on financial performance, those opposed to it argue that CSR involves the undertaking of a set of actions which are potentially cost increasing. Whereas studies on effect of CSR on financial performance are intensive, the findings have been contradicting, concentrating on large firms and leaving SMEs out. This study sought to determine the effect of CSR on financial performance of small and medium sized enterprises in Kenya using the top 100 SMEs. The study used descriptive survey research design with data being obtained from secondary sources which were the published financial statements, Chairman's Statement and notes to the financial statements for five years period from 2009 to 2013. The data obtained was analysed using SPSS version 21 with multiple regressions being used to show the relationship between dependent and independent variables (Simon, 2014).

This study found CSR has significant positive effect on financial performance of small and medium sized enterprises in Kenya. The study also found that size of SME has significant effect on profitability where bigger SMEs have better financial performance than small ones. This can be attributed to the labour created by engaging the youth in their practices or the various benefits attracted by CSR engagement. SME industry was also found to affect financial performance with SMEs in service industry having highest financial performance followed by trading and manufacturing being least profitable as measured by return on assets. The study recommends for more investment in CSR as a way of boosting SMEs profitability (Simon, 2014).

Ngari (2016) also conducted a study on Effect of Corporate Social Responsibility on the Financial Performance of Commercial Banks in Kenya. In her study, she asserted that corporate social responsibility has been increasingly visible and central feature of businesses all over the world as consumers and governments become more concerned about aspects of sustainability and environmental impact that these businesses and corporations make as they pursue profits. This study thus sought to establish the effects of CSR activities on performance in financial terms of 39 commercial banks in Kenya with focus on education, health and environment CSR activities. A cross- sectional descriptive research design was used in this study. The study exclusively used secondary data for a period of five years from 2011 -2015 obtained from official financial statements of all the 39 banks. Data collected was analysed using Statistical Package for Social Sciences (SPSS) Version 24 software through descriptive and inferential statistics and then presented via tables. The study found a significant positive relation between education CSR activities and financial performance, an insignificant negative relation between heath CSR activities and performance in financial terms, an insignificant but positive relation between environment CSR activities and the banks' performance in financial terms. It was concluded that CSR activities influence the banks' performance in financial terms. The study recommended that the management of banks to allocate more resources in different forms of CRS activities since CSR activities significantly influence the financial performance of Banks (Ngari, 2016).

2.3.4 Investment on Economic Responsibilities and Financial Performance

A company's first responsibility is its economic responsibility. This can be translated to mean that a company needs to be primarily concerned with turning a profit. This is for the simple fact that if a company does not make money, it won't last, employees will lose jobs and the company won't even be able to think about taking care of its social responsibilities. Before a company thinks about being a good corporate citizen, it first needs to make sure that it can be profitable. Economic responsibilities relates to shareholder view which is aligned to making more profits in order to maximize shareholders’ wealth. Epstein and Buhovac (2014) asserted that being profitable is the sole responsibility of managers with good corporate citizenship ranking last. As such, shareholder wealth maximization by making enough profits is the primary objective of firms. This in turn allows a firm to fulfill the needs of other diverse stakeholders. A business is required to be profitable first and by doing so observe all laws and lastly be philanthropic such that without a healthy profit base which is often left to the management’s discretion, social responsibility may not happen (Khan, Muttakin and Siddiqui, 2013).

A study conducted by Nyakundi (2009) on Communicating corporate social responsibility and its impact on poverty alleviation (the case of Safaricom CSR programme in Mukuru slum sought to establish the level of knowledge and attitude about Safaricom's CSR activities; to identify sources of information among target group; to determine the level of community involvement in CSR; and to establish the relationship between CSR activities and growth in household income. The population of interest consisted of residents of Mukuru slums that were targeted beneficiaries of Safaricom's CSR activities. The sample size consisted of 100 members of CSR targeted charitable organizations. The sample was drawn from a sample frame obtained from Mukuru Slums Development Project. Data was collected through structured questionnaires. Results showed that radio, television and newspapers in that order were the most appropriate and preferred sources of CSR information by slum dwellers. The use of websites was the least preferred channel by poor people. Coincidentally, it was established majority of slum dwellers owned radio, television and mobile phones. Respondents had access to channels of communication used by Safaricom. Even though Safaricom implemented CSR in Mukuru, it did not involve beneficiaries in identifying interventions leading to poor participation. Communicating CSR activities had insignificant contribution to improving children's education and security of target beneficiaries. CSR activities did not contribute to reduced medical bills incurred by respondents. In addition, there was no relationship in communicating CSR and reduction on house rents, water and medical bills. The study concluded therefore, that communicating Safaricom's CSR activities did not contribute to reduction of poverty in Mukuru slums. Although it was concluded that this does not have a direct impact on financial performance of Safaricom, the company enjoys this through the attraction of SRI's it gathered from participating is SRI.

Nzovah (2012) also studied Factors influencing the practice of Corporate Social Responsibility by standard Chartered bank in Kenya. The study stated that in recent times, there has been an evident tremendous growth in the adoption of Corporate Social Responsibility (CSR). This growth shows that CSR proliferates on the boardroom agenda across many sectors and thus proves that modern corporations understand the need to give to their business a more holistic sense in order to ensure their viability. In the context of international organizations operating in diverse host countries, the objective of this study was to determine factors that influence the practice of CSR in Standard Chartered Bank-Kenya.

Through its Youth and Empowerment project, Standard Chartered bank managed to recruit a number of youth into their operations thereby improving on their performance financially since this translated into reduced costs. As the study reveals, financial performance increases as a result of the bank engaging in dinvestment made for Innovative Programmes Targeted at Youth Empowerment. This study therefore intends to identify if this is the case as far as banks listed at the NSE is concerned.

2.4 Corporate Social Responsibility and Financial Performance

It is true that the role of business in society has continually changed over time in that the modern organization not only aims at profitability through efficient conduct of business but also its contributions to the social wellbeing of its social constituents (Choi, Kwak and Choe, 2010). CSR provides a set of standards to which a company subscribes in order to make its effect on society and has the potential to make positive contributions to the development of society and business. Its activities are focused on the strategic goal of achieving competitive advantages, which would produce long-term profits. It is also used to achieve competitive advantage by investing in Philanthropic Activities, identifying strategic social and ethical resources and capabilities through disruptive innovation, a means of attending to the bottom of economic pyramid. The implication is that as a firm increases its expenditure in CSR activities, its financial performance should equally improve (Surroca, Tribó and Waddock, 2010).

This, in essence, implies that an adequate level of investment in philanthropy and social activities is also acceptable for the sake of profits. For example (Freeman, Harrison, Wicks, Parmar and De Colle, (2010) argued that concern for profits does not exclude taking into account the interests of all who have a stake in the firm (stakeholders). In fact, he argues further that under certain conditions the satisfaction of these interests can contribute to maximizing the shareholder value. An adequate level of investment in philanthropy and social activities is also acceptable for the sake of profits (Cheng, Ioannou and Serafeim, 2014).

CSR is also the ability of organizations to relate their operations and policies to the wider society in ways that are mutually beneficial to them and their social constituents. These actions are taken for reasons that are partially beyond the organization’s direct economic and legal obligations (Cornett, Erhemjamts and Tehranian, 2014). These are actions that are sometimes regarded as purely philanthropic and voluntary that is aimed at benefiting the organization’s social constituents. Organizations that embrace this concept can reap long term benefits.

It is therefore clear that CSR can clearly build up valuable intangibles, making brands more attractive to buyers and helping to attract more talented workers. It can burnish corporate image in other ways, making it easier to lobby for favourable regulations or positive media coverage. This becomes very important in an era where customers and stockholders increasingly care about it.

2.5 Knowledge Gap

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 the financial performance of commercial banks will therefore be inclusive. Unlike what other studies have presented, this study intends to bring this out clearly. By answering the research questions raised, it not only brought out the effect of investing in Philanthropic Activities but also how investing in ethical, legal and Economic Activities would affect the performance of these commercial banks.

2.6 Conceptual Framework

Independent variables **Dependent Variable**

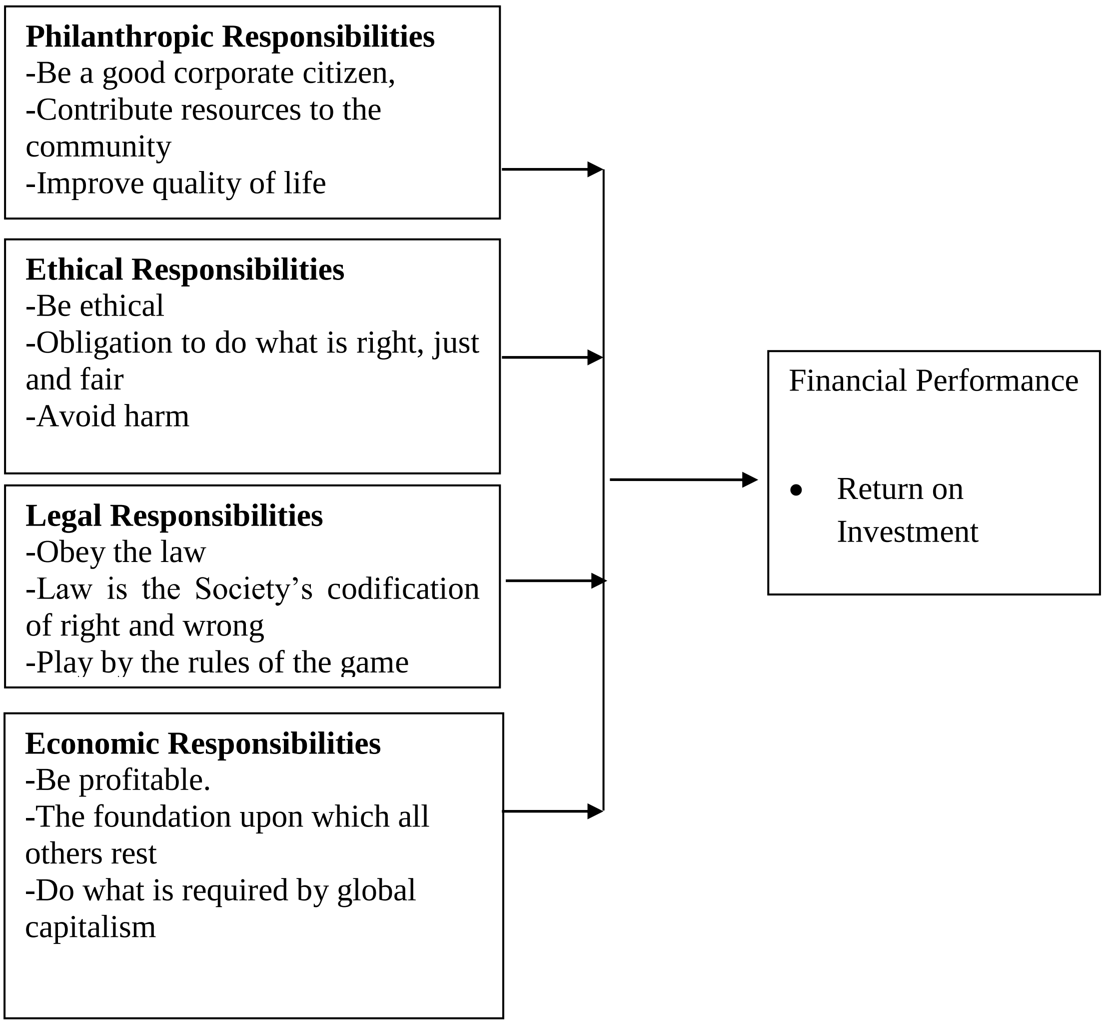

Figure 2. 1 Conceptual framework

2.7 Operationalization of the Variables

Table 2. 1 Operationalization of the Variables

Type of Variable	**Variable**	**Indicator**	**Scale of Measurement**	**Data collection Method**
Dependent	Financial Performance	• Return on Investment	ROI	Secondary data
Independent	Philanthropic Responsibilities	• Amount Invested	Ratio	Secondary data
Independent	Ethical Responsibilities	• Amount Invested	Ratio	Secondary data
Independent	Legal responsibilities	• Amount Invested	Ratio	Secondary data
Independent	Economic Responsibilities	• Amount Invested	Ratio	Secondary data

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presented the research methodology that was adopted by the study. This includes the research design, target population, data collection, processing and analysis as well as diagnostic test results.

3.2 Research Design

The study used a longitudinal survey approach covering a period of 10 years from 2006-2016. To address research objectives, exploratory tory research design was used to explain how investing in CSR activities such as philanthropic, economic, legal and ethical affect financial performance, with ROI as the measurement value. According to Polyhart and Vandenberg (2010), the driving force behind most organizational theories is explanation by describing how parts of the theory interact together to yield certain outcomes given certain outputs. This explanation of relationships is best described using longitudinal approach.

Therefore to explain the change in the study variables, longitudinal design is useful because the variability associated with a construct can be understood well when it is observed over time. The study therefore developed and tested models to show the level of effect that each of the independent variables has on the dependent variable. Quantitative methods was employed as the basis for collection and analysis of secondary data to establish the relationship between the dependent and independent variables.

3.3 Target Population

The target population for this study was 11 commercial banks registered under the Central Bank of Kenya (CBK, 2017) and listed under the NSE. (See Appendix I). Considering this small number, this study was a census.

3.4 Data Collection and Processing

Secondary data was the primary focus of this study, and focused on the period between 2006 and 2016. This study period was chosen because 2016 is the latest financial year, implying that the study results were the most recent ones, while it was prudent to investigate 10 years back to 2006 so as to give a comprehensive and definitive basis upon which a solid conclusion about the relationship between CSR and financial performance can be made. It is important to note that this data was obtained from the Central bank of Kenya's as well as the websites of the individual banks that was included in the study. This data was then cleaned by ensuring that all the correct values are represented in each period of the study.

3.5 Data Analysis

The secondary data collected was prepared accordingly, analyzed and reported as per the findings. The researcher made use of STATA to clean, explore, describe, test and analyse the data. The study utilized panel data which consist of data that has both time series and cross-section properties. Fixed effect and random effect were therefore the most useful regression models for the data analysis. The fixed effects model according to Hausman assumes that individual groups/time have different intercept in the regression equation, while random effects hypothesize individual group/time have close intercepts. The error term thus capture the random effects due to the panels and the random errors. And for the random effect, this was taken as exceptional errors, for each panel, that has a normal distribution with zero means and variance.

In order to resolve the problem of choosing between the random or fixed effect the Hausman specification test was employed in case the null hypothesis is rejected. A Panel data regression model was used to examine the relationship between the resulting dependent variable and each independent variable.

3.5.1 Model Specification

This study aimed to establish the effect of CSR on financial performance of commercial banks listed at the NSE. The independent variables of the study comprised of Philanthropic Activities, (PA) Ethical Activities, (EA) Legal Activities (LA) and Economic Activities ECA). All the independent variables were taken as ratio of investments made by of commercial banks in CSR activities. The dependent variable was financial performance of banks. (FP)

The model specification is as follows;

$$ROI = f\,(PA, EA, LA, ECA)$$

$$ROI_{it} = \beta_0 + \beta_1 PA_{it} + \beta_2 EA_{it} + \beta_3 LA_{it} + \beta_4 ECA_{it} + \varepsilon_{it}$$

Where ROI= Financial Performance (return on investments)

PA= Amount invested on Philanthropic Activities

EA= Amount invested on Ethical Activities

LA= Amount invested on Legal Activities

ECA= Amount invested on Economic Activities

ε=Error term

3.6 Diagnostic Analysis

Comprehensive data analysis was carried out and data characteristics was taken into consideration. The results were presented using visual aids such as tables as well as the use of descriptive statistics. Key tests that were conducted include Breush and Pagan Lagrangian Multiplier test, to determine the suitability of a pooled regression model in place of panel data model, Hausman specification test to determine whether there were any significant time-related fixed effects, Wooldridge test for autocorrelation and Breusch-Pagan/ Cook-Weisberg test for heteroscedasticity.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

In this chapter, the results obtained from the analysis of data and its interpretation were presented. The section first describes the statistics of all the variables in the estimable model and then goes further to establish their time series properties. The model is then estimated and post estimation tests conducted.

4.2 Exploratory Data Analysis

The study conducted exploratory data analysis in order to make comparisons between different commercial banks listed at the NSE in relation to the dependent variable chosen over the study period. This was necessary in order to explore the data in a bid to establish the best model that can be used to fit it. To effectively do this, line graphs were used.

Figure 4.1 illustrates how financial performance of various banks has been over the years.

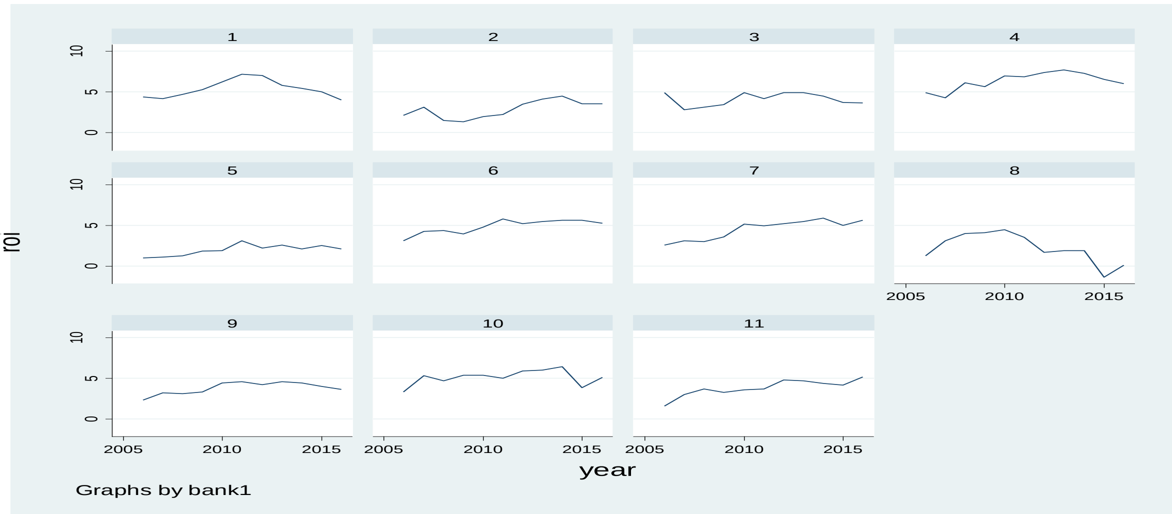

Figure 4. 1 Graph by banks

From the graphs, it was established that 9 out of the 11 banks registered a steadily increasing financial performance between 2006 and 2016. The only banks that registered a decrease in performance, implying that their ROI changed significantly with time, were bank 1 and 8. In essence, this meant that there were no significant time-related fixed effects on the graphs except on these two banks.

The study also conducted an overlain graph to check if the intercept was the same for all banks listed in the NSE. It is important to note that the basic models assumes that the intercept is the same for all banks. Additionally, these plots also confirm whether there are any time-related fixed effects on the data.

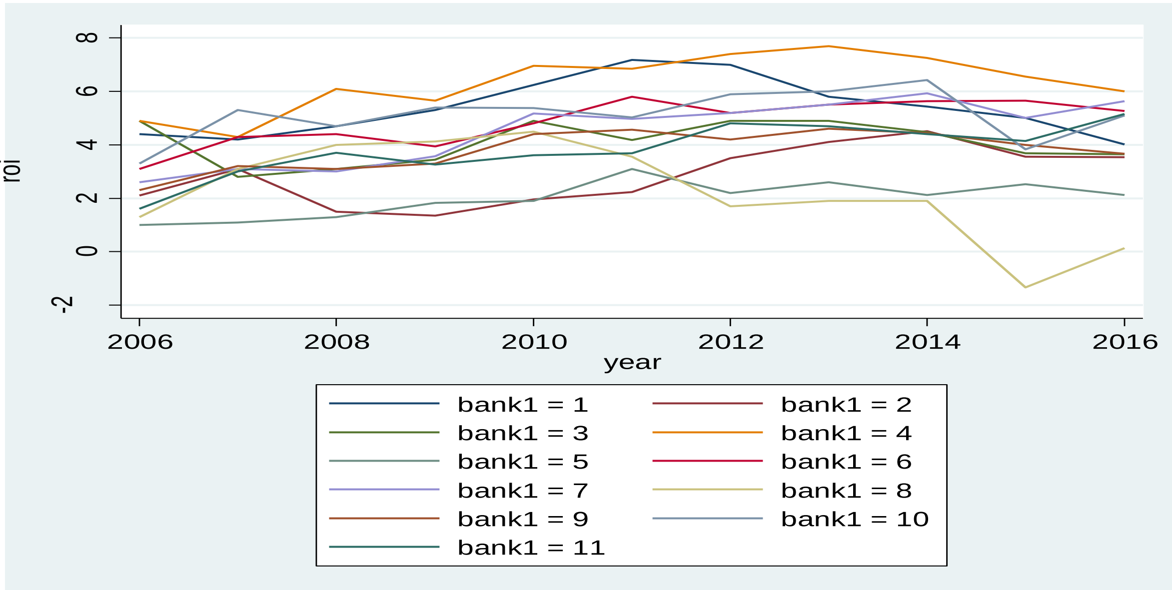

Figure 4. 2 Overlay plot for ROI

It was noted that ROI did not change significantly over the time period except for a few cases from bank 8, which decreased significantly towards the end of the study period (2014 and 2016). Despite this one change, it was concluded that the existence of a significant time-related fixed effect for the 10 year period was not present. It was also concluded that there are no significant differences between firms, and that they had an almost similar y intercept.

Descriptive statistics were provided for in a bid to explain the independent variables being analyzed. This description included statistics for the overall, between and within the panels, which in this case, were commercial banks listed on the NSE. Table 4.1 indicates these results. The standard deviation between tells us the variation in individual banks over time while the standard variation within gives the variation of investment in various CSR activities for all banks over the 10-year period.

Table 4. 1 Descriptive Statistics

Variable		**Mean**	**SD**	**Min**	**Max**	**Observ.**
ECA	Overall	3650.256	1660.698	1092	8902	N=121
	Between		1050.184	2260.818	5847.455	n=11
	within		1321.717	1120.256	9069.347	n=11
LA	Overall	9650.521	1866.072	5520	13630	N=121
	Between		1209.856	8167.545	11665.73	n=11
	within		1463.029	7002.975	14201.79	n=11
EA	Overall	12814.85	2593.385	1236	18902	N=121
	Between		2129.454	10296.55	17417.45	n=11
	within		1602.795	3520.033	16802.03	n=11
PA	Overall	51362.07	48603.71	551	139587	N=121
	Between		49459.49	1227.273	130796.5	n=11
	within		10951.42	-10887.29	80687.71	n=11

The study found an overall average mean of 3650.256, a standard deviation (SD) of 1660.698, a minimum value of 1092 and a maximum value of 8902 for economic activities by commercial banks throughout the study period. The SD within was found to be 1321.717 while the SD between was found to be 1050.184. The study also found the mean for investment in legal activities to be 9650.521, with an overall SD of 1866.072, SD within as 1463.029 and SD between as 1209.856. Regarding ethical activities, the study found an average mean score of 12814.85 throughout the study period. It was also found that ethical activities had an overall SD of 2593.385, SD between was 2129.454 and SD within was 1602.795. Finally, an average mean score of 51362.07 for investments in philanthropic activities, an overall SD of 48603.71, SD between of 49459.49 and SD within of 10951.42.

4.3 Diagnostic Statistics

This section reported the results of the diagnostic results conducted on the data collected. Through it, the study determined the sustainability of a random effect model in place of a fixed effect model. It also presented the results of other diagnostic tests including tests for serial correlation and heteroscedasticity.

The Breush and Pagan Lagrangian Multiplier test was used to determine the suitability of a random effect in place of a fixed effect model. The aim of this test was to establish whether fitting a random effect model was better than fitting a fixed effect model. The results indicate that all the chi square values for the model was significant at 5% level ($p < 0.05$), indicating that there were significant differences of ROI among the listed commercial banks. This therefore indicated that using an OLS regression was not appropriate for the data.

Table 4. 2 Chi-Square values for the Breusch-Pagan LM Test

Model	**Variable**	**χ^2-value**	**p-value**
1	ROI	137.40	0.000

Moreover, the study conducted tests to establish whether there were any significant time-related fixed effects. It is important to note that the presence of significant time fixed effects requires the inclusion of dummy variables to enable the fitting a two-way random effects model so that the effects are well captured. The results are presented in Table 4.3 which reveal that there were no significant time fixed effects ($p > 0.05$) indicating no need to fit two-way random effects model.

Table 4. 3 Test Results for Time Fixed Effects

Model	**Variable**	**F (14, 96)**	**Prob > F**
1	ROI	4.93	0.000

The study also tested for heteroscedasticity using Breusch-Pagan/ Cook-Weisberg test for heteroscedasticity. The null hypothesis is that the variables have a constant variance, which is rejected if p value is greater than 0.05. Table 4.4 indicates that p value is 0.5241, which is greater than 0.05, hence the study failed to reject the null hypothesis. This means that there was a constant variance.

Table 4. 4 Breusch-Pagan/ Cook-Weisberg

Chi^2 (1)	**Prob> Chi^2 (P-Value)**
0.41	0.5241

From Table 4.2, it was deduced that since all the variables have a VIF value of less than 5, then there was no multicollinearity. An average mean VIF was 2.56, which is less than 5, also confirms this. This means that the variables included in the study cannot be predicted from each other.

Variable	**VIF**
Roi	1.28
Eca	1.06
La	1.16
Ea	1.14
Pa	1.29

Mean VIF=1.18

To test for autocorrelation in panel data, this study employed Wooldridge test. The results indicated that there was no autocorrelation since the p value was less than 0.05.

Table 4. 5 Test results for autocorrelation

Model	**F (1, 10)**	**Prob > F**
1	23.801	0.0006

4.4 Panel Data Analysis

Since simple pooled regression model was found to be inappropriate for the data collected, the study applied Panel data model because it captures both cross-sectional and time series effects in data (collected over 10 years from 11 different commercial banks). Using panel data model, the study had to select either the fixed effects or the random effects model. Due to violation of linear regression assumption by presence of serial correlation the Hausman test of the model specification was not done to decide between fixed or random effects. The researcher fitted a Prais Winsten Panel regression model (with corrected standard errors) that produces instead robust results in the presence of serial correlation. The results are as per table below

Table 4. 6 Prais Winsten Panel Regression with Corrected Standard Errors

<table>
<tr><td colspan="4">Linear regression, correlated standard errors: (PCSEs)</td></tr>
<tr><td>Group Variable</td><td>Bank 1</td><td>Number of obs.</td><td>121</td></tr>
<tr><td>Time Variable</td><td>Year</td><td>Number of Groups</td><td>11</td></tr>
<tr><td rowspan="3">Panels</td><td rowspan="3">Correlated (balanced)</td><td>Obs. Per group: Min</td><td>11</td></tr>
<tr><td>Avg.</td><td>11</td></tr>
<tr><td>Max</td><td>11</td></tr>
<tr><td>Autocorrelation</td><td>No-Autocorrelation</td><td>R-Squared</td><td>0.2170</td></tr>
<tr><td>Estimated covariance</td><td>66</td><td>Wald chi^2(4)</td><td>74.74</td></tr>
<tr><td>Estimated</td><td>0</td><td>Prob. > chi2</td><td>0.0000</td></tr>
</table>

autocorrelations					
Estimated coefficients	5				
roi	Panel Correlated				
	Coef.	Std. Error	z	P>z	[95% Conf. Interval]
eca	-0.0000663	0.0000864	-0.77	0.443	-0.0002357 0.000103
la	0.0001793	0.0000686	2.62	0.009	0.0000449 0.000317
ea	0.0000676	0.000031	2.18	0.029	0.0000657 0.0001284
pa	0.0000141	0.00000199	7.08	0.000	0.0000102 0.000018
cons	1.015974	038716228	1.17	0.244	-0.692375 2.754323

Results indicated that the study used Random Effect model as opposed to using Fixed effects model because p value is 0.0000.

Table 4. 7 Random Effects GLS regression

ROI	**Coef**	**Std. Err**	**z**	**P>lzl**	**[95% conf. interval]**	
eca	0.0000466	0.0000694	0.67	0.502	-0.0000895	0.0001826
la	0.0000585	0.0000631	0.93	0.354	-0.0000652	0.0001823
ea	0.0000718	0.0000565	1.27	0.204	-0.0000389	0.0001824
pa	0.0000241	0.0000006	3.57	0.000	0.00000966	0.0000332
Constant	1.340178	1.183391	1.13	0.257	-0.9792257	3.659582
Sigma_u	1.265886					
Sigma_e	1.0174736					
rho	0.60751995					
No. of Obs. **No. of groups**	121 11					
R-Sq.	Within			0.1091		
	Between			0.2506		
	overall			0.1873		
Wald Chi2 (4) **Prob > Chi2**	14.42 0.0061					

After the Hausman test, the panel data analysis was done using the random effects model where the results are presented in table 4.6. The regression involved all the four independent variables included in the study which included amounts invested in philanthropic, legal, economic and Ethical Activities. The results indicate that the overall r-squared is 0.1873 which indicates that means overall 18.73% of the variations in ROI in the listed commercial banks are explained by the independent variables conquered in the model. Further, the within r-squared is 0.1091 indicating that 10.91% of the variations within the variables were explained by the model. The between r-squared is 0.2506 indicating that 25.06% of the variations between the variables were explained by the model. However, only one of the four independent variables were significant at 5% in explaining financial performance as measured by ROI.

On examining the P>IzI column, it was established that the p-value of PA was 0.000, which is less than 0.05. This implied that the study rejected the first null hypothesis (H_01) that investing in Philanthropic Activities does not have a significant effect on the financial performance of commercial banks listed at the NSE. Additionally, the P>IzI column also indicates that the p value for LA was 0.0354, which is greater than 0.05. This indicated that the study failed to reject the null hypothesis (H_02) that investing in Legal Activities has a significant effect on financial performance of commercial banks listed at the NSE. A p value of 0.204 was indicated for EA which is also greater than 0.05. This equally implied that the study failed to reject the null hypothesis (H_03) that investing in Ethical Activities does not have a significant effect on financial performance of commercial banks listed at the NSE. Finally, the p value of ECA was 0.502, which is greater than 0.005. The study therefore failed to reject the fourth null hypothesis (H_04) that investing in Economic Activities does not have an effect the financial performance of commercial banks listed at the NSE.

As such, the following equation was applicable in explaining the effect of CSR on financial performance of commercial banks listed at the NSE;

$$ROI=1.340178+0.0000214PA.$$

The equation can be interpreted as follows; a 1% increase in the amount invested in Philanthropic Activities would lead to a 0.00214% increase in financial performance of commercial banks listed at the NSE and thus the absence of an investment in Philanthropic, Ethical, Legal and Economic activities would mean that the return on investments is at 1.340178.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section presents the summary, conclusion and recommendations made by the study. The summary of the findings are presented as indicated in the previous section while conclusions and recommendations are based on those conclusions. The study also highlights what makes it unique by comparing the findings with what other related studies have found.

5.2 Summary of Findings

This study was set to investigate the effect of CSR on financial performance of commercial banks listed on the NSE in Kenya. In order to achieve this, the study focused on the four main pillars of CSR namely philanthropic, ethical, legal and Economic Activities. Based on a descriptive research design, the researcher collected secondary data between the years 2006 and 2016 from 11 commercial banks listed on the NSE. Upon analyzing this data, the study revealed the following about the relationship between CSR and financial performance;

5.2.1 Financial performance and Philanthropic Activities.

The study sought to illustrate how investing in Philanthropic Activities as a CSR practice affects the financial performance of commercial banks listed at the NSE. Yearly panel data on the amount of money invested in these activities, which include donating to charitable organizations, investing in educating the less fortunate or needy students among other activities, was collected. The study revealed that an increase in this investment would increase firm performance significantly.

These results are in line with what Ngari (2016) found while investigating the effect of corporate social responsibility on financial performance in the banking sector evidence from the Nairobi Securities Exchange. They noted that although CSR is being embraced by these banks, its role as far as the financial performance of these banks is concerned is indirect. However, investing in activities such as education have a significant effect on financial performance and banks therefore gain from this investment because it would eventually impact their financial performance. Gichohi (2014) also found this effect to be significant but small in effect.

5.2.2 Financial Performance and Ethical Activities.

Commercial banks in Kenya also invest in Ethical Activities. This study was set to investigate how this investment affects their financial performance and regression equation results revealed that an increase in the amount invested in Ethical Activities has a positive but insignificant effect on financial performance. Mungai (2015) found similar results in his study on Effects of corporate social responsibility on financial performance of manufacturing companies in Kenya. The study concluded that corporate social responsibility had little effect on the financial performance. Osino (2013) equally found that CSR on its own has an insignificant effect on financial performance.

5.2.3 Financial Performance and Legal Activities

Investing in Legal Activities by commercial banks was found to have a positive effect on financial performance. However, it is important to note that this increase is also insignificant, meaning that it does not significantly increase firm performance because it is an investment that has an indirect effect of financial performance. These results are shared by Ngari (2014), who noted that investing in health and education CSR activities has an insignificant effect on financial performance of commercial banks in Kenya. Simon (2014) also found similar results while studying the effect of CSR on financial performance of 100 top small and medium enterprises in Kenya.

5.2.4 Financial Performance and Economic Activities

The study also investigated the effect of investing in Economic Activities on the financial performance of commercial banks in Kenya. It was revealed that an increase would have a positive insignificant effect on financial performance. Other researchers such as Nyakundi (2013) and Nzovah (2012) also found similar results. While studying the effect of communicating CSR activities to reduction of poverty by Safaricom, Nyakundi (2013) found that CSR activities had a positive effect and thus significantly led to a reduction in poverty. However, to Safaricom itself, this investing in CSR did not have a significant effect on its financial performance. Instead, this effect was negative. Nzoavah (32012) on the other hand concluded that investing in CSR did not have a significant effect on the economic performance of Standard Chartered Bank.

5.3 Conclusion

Based on the findings, this study concludes that only investing in Philanthropic Activities will have a significant and positive effect on financial performance of banks listed at the NSE. The other three main activities that banks can invest in including ethical, legal and Economic Activities do not have significant effects on performance of commercial banks financially. However, an increase in all these investments will insignificantly increase the overall financial performance of these banks.

This study is unique in the sense that it clearly brought out a comprehensive effect of CSR on financial performance. Many studies, including those conducted by Nyamute and Batta (2014), Mungai (2015), Ngari (2014) and Nzovah (2012) described CSR from a philanthropic point of view. This study however included other three components namely legal, ethical and Economic Activities.

5.4 Recommendations

Based on the conclusion, the study therefore recommends all stakeholders in banks to take investments made towards Philanthropic Activities such as donating to charitable organizations, investing in educating the less fortunate or needy students among other activities very seriously. This is because investing in these activities will best serve to increase brand awareness and subsequently increase their financial performance. Moreover, engaging in them will boost their social status. This is because a company that practices CSR embraces responsibility for its actions and, through its activities, positively affects the environment, society, consumers, employees, communities, and other stakeholders. This therefore makes any investment in CSR a long term investment that would eventually lead to an increase in financial performance.

5.5 Limitations of the Study

Several limitations can be noted in this study. First, the findings of this study are only limited to the data collected between the years 2006 and 2016. Although this meant that the study provided the most recent trends as far as the relationship between financial performance and CSR is concerned, this is a limitation to those who would be interested in results from a longer time frame.

5.6 Area for Further Research

The study recommends future studies to consider a different time frame for purposes of comparing results. Studies can therefore be framed using the same topic but covering more than 10 years. Additionally, the researcher used ROI as a measure of financial performance. A different study can use a different measure such as ROE or ROA.

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APPENDICES

APPENDIX I: LIST OF COMMERCIAL BANKS LISTED AT THE NSE

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

APPENDIX III: DATA COLLECTION TEMPLATE

Years	Investment in Philanthropic Activities (PA)	Investment in Ethical Activities (EA)	Investment in Legal Activities (LA)	Investment in Economic Activities (ECA)	Return on Investment (ROI)
2006					
2007					
2008					
2009					
2010					
2011					
2012					
2013					
2014					
2016					

APPENDIX IV: DATA

BANK	bank1	YEAR	PA	EA	LA	ECA	ROA
BBK	1	2006	54000	12520	10020	1092	4.4
	1	2007	55026	12302	11230	1192	4.2
	1	2008	51020	12541	13620	1152	4.7
	1	2009	53021	12000	10020	1345	5.3
	1	2010	54125	12512	13450	1533	6.24
	1	2011	51245	13125	10026	3260	7.18
	1	2012	51702	13125	10020	2500	7
	1	2013	52410	12345	11520	4200	5.8
	1	2014	52630	12333	9550	5200	5.44
	1	2015	58930	13260	13540	2600	5.01
	1	2016	57239	12500	13600	2500	4.02
CFC	2	2006	41052	14200	10600	2540	2.1
	2	2007	40102	15200	9250	2500	3.1
	2	2008	40100	12600	11250	4055	1.5
	2	2009	40650	12500	11522	5033	1.35
	2	2010	41302	12540	10800	3955	1.96
	2	2011	48205	12500	9562	6025	2.23
	2	2012	48305	14055	9520	8600	3.5
	2	2013	48392	15033	11200	5600	4.1
	2	2014	47105	10255	10220	4250	4.51
	2	2015	43825	16025	11320	6250	3.56
	2	2016	41051	10255	9580	6522	3.54
DTB	3	2006	34021	10399	11520	5800	4.9
	3	2007	34502	10500	10600	4562	2.8
	3	2008	38214	10255	13500	4520	3.1
	3	2009	30525	10288	11500	6200	3.44
	3	2010	35201	10288	9800	5220	4.9
	3	2011	30252	10299	11220	6320	4.19
	3	2012	30626	10244	13630	4580	4.9
	3	2013	30125	10256	12850	6520	4.9
	3	2014	30200	10235	11500	5600	4.47
	3	2015	30120	10242	11003	8500	3.69
	3	2016	34021	10256	11200	6500	3.64
EQTY	4	2006	55036	10255	9200	4800	4.9
	4	2007	54056	13250	10300	6220	4.3
	4	2008	44050	12125	9500	2244	6.1
	4	2009	125065	12011	11300	3256	5.66
	4	2010	120154	12033	13300	2235	6.95
	4	2011	120325	12055	12600	3242	6.84

	4	2012	125412	10266	13500	3256	7.4
	4	2013	135022	10200	9200	2255	7.7
	4	2014	135625	10500	8200	3250	7.26
	4	2015	132023	12544	9200	2125	6.56
	4	2016	122525	10266	11200	2011	6
HF	5	2006	1210	10325	9200	2033	1
	5	2007	1202	15023	8200	2590	1.1
	5	2008	1202	10222	9200	2360	1.3
	5	2009	1002	10362	11500	2582	1.83
	5	2010	1302	10252	8522	2250	1.91
	5	2011	1440	10366	8200	2472	3.1
	5	2012	1220	10255	9220	5260	2.2
	5	2013	1235	10242	8600	2583	2.6
	5	2014	1214	10253	9220	2820	2.12
	5	2015	1220	12062	10300	4250	2.52
	5	2016	1253	12032	9200	4203	2.12
I&M	6	2006	12052	12563	8200	5602	3.1
	6	2007	12503	12025	11200	2035	4.3
	6	2008	12405	10252	7300	2506	4.4
	6	2009	12360	12142	7500	4250	3.94
	6	2010	13254	10250	8000	2540	4.8
	6	2011	13542	12360	11500	8902	5.8
	6	2012	13600	12350	8022	2362	5.2
	6	2013	13546	12580	8400	2252	5.5
	6	2014	13458	12540	10020	2366	5.64
	6	2015	13698	13250	9300	3255	5.66
	6	2016	14230	12480	11500	2242	5.27
KCB	7	2006	125006	12905	9200	2253	2.6
	7	2007	125003	10280	8600	2062	3.1
	7	2008	125447	1236	9800	2032	3
	7	2009	126114	12705	7500	2563	3.57
	7	2010	127110	10239	11250	2025	5.17
	7	2011	128110	10526	7300	2252	4.98
	7	2012	130114	10282	10200	2142	5.2
	7	2013	130116	10236	9050	2250	5.5
	7	2014	130254	12480	7503	2360	5.93
	7	2015	130658	12590	7530	2350	5.01
	7	2016	130569	12360	10630	2580	5.64
nbk	8	2006	3201	12582	10420	2540	1.3
	8	2007	3021	10250	11520	4200	3.1
	8	2008	3325	12472	11205	6500	4
	8	2009	3362	15260	8502	3522	4.13

	8	2010	3425	12583	7523	3200	4.49
	8	2011	3425	12820	7540	4220	3.56
	8	2012	3230	14250	8203	3600	1.7
	8	2013	3200	14203	7563	4220	1.9
	8	2014	1025	15602	7580	5300	1.9
	8	2015	879	12035	7576	4200	-1.34
	8	2016	551	12506	7860	3200	0.14
NIC	9	2006	1420	14250	12530	6200	2.3
	9	2007	1255	12540	10260	2300	3.2
	9	2008	1623	18902	7590	2500	3.1
	9	2009	1625	18250	7460	3000	3.3
	9	2010	1512	18560	13560	3200	4.41
	9	2011	1514	18560	10230	2500	4.57
	9	2012	1520	18650	7580	2544	4.2
	9	2013	1500	18750	7456	2266	4.6
	9	2014	1532	18590	7450	3325	4.44
	9	2015	1524	16290	7450	5023	3.99
	9	2016	1825	18250	7530	5222	3.66
SCB	10	2006	40125	17050	7560	3362	3.3
	10	2007	42025	15030	10240	2252	5.3
	10	2008	43021	15202	10230	2366	4.7
	10	2009	45426	14520	7403	3255	5.39
	10	2010	50215	15203	7560	2242	5.37
	10	2011	53562	16230	5520	3253	5.03
	10	2012	50521	15260	9523	4520	5.9
	10	2013	53025	12540	9250	5203	6
	10	2014	60214	15260	7503	6230	6.42
	10	2015	62035	12302	7506	5260	3.83
	10	2016	65200	12502	7548	2540	5.1
COOP	11	2006	125420	14050	7560	5260	1.6
	11	2007	125632	16520	7452	3280	3
	11	2008	125252	15240	8250	2630	3.7
	11	2009	125865	14250	10260	2705	3.26
	11	2010	125000	16202	9250	2502	3.61
	11	2011	125452	16220	10250	4050	3.68
	11	2012	136952	15260	9200	6520	4.8
	11	2013	136852	14520	7000	5240	4.7
	11	2014	139587	14520	7500	4250	4.4
	11	2015	136250	12020	7450	2025	4.14
	11	2016	136500	12023	11000	2250	5.15