EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ONORGANISATIONS' PROFITABILITY OF THE BANKS LISTED ON NAIROBI STOCK EXCHANGE

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A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF BUSINESS AND ENTREPRENEURSHIP IN THE SCHOOL OF BUSINESS AND ECONOMICS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF SOUTH EASTERN KENYA UNIVERSITY.

2015

DECLARATION

This report is my original work and has not been presented for a degree in any other University

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RECOMMENDATION

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DEDICATION

I dedicate this piece of work to my wife Stella Mueni and my daughter AngellaMutuku for their inspiration, support and encouragement throughout the project.

ACKNOWLEDGEMENT

I acknowledge the almighty God for his mercies and grace that have seen me come this far. My heartfelt gratitude to my supervisors Mr. ZablonEvusa andDr.JoashMigosi for their able support and guidance.Lastly, my appreciation to go to my colleagues James Muriera and Daniel Ngundo for their company and moral support.

ABSTRACT

The concept of corporate social responsibility has prevailed since time immemorial and has for a long time paved way for organizations' to have moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law. For a long time, corporate social responsibility has raised issues on who actually benefits from the CSR initiatives. Business analysts have documented that CSR benefits the organization by pushing the business to the next level while at the same time benefiting the society. CSR has been associated with financial performance for organizations but this area has not been well researched.The main objective of this study was to assess the effects of corporate social responsibility programs on organizations' financial performance in Kenya. The purpose of the study is to help both private and public companies to realize the need of establishing CSR for achievement of the competitive advantage and improved performance. The study used descriptive design and thetarget population was elevenChief Finance Officers of Kenyan commercial banks listed in NSE. The research instrument was an interview guide and data was collected through a drop and pick later method of the interview guide. The data was then be analyzed and the findings recorded by use of tables and figures. The process involved tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives through use of SPSS. Data analysis was based on the findings on amounts spent on health, education, environment and sports for six years compared to the profits realized by the banks over the period. The results were based on a response rate of 100% (n=11).The dependent variableswere found to have a positive correlation with profitability. Sports CSR having P (value=0.97) was the most significant variable impacting CSR, followed by environmentandeducation with P (value=0.87) and P (value=0.54) respectively. However health with P (value=0.17) was the least impacting variable.The study concludes that CSR has a positive impact on an organizations financial performance and recommends that the banks should have a well-planned and effective CSR approaches in order to enhance brand and company reputation as well as improve efficiency, reduce the risk of business disruptions, and open up new opportunities driving innovation.

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ACRONYMS

CSR – Corporate Social Responsibility

KCB – Kenya Commercial Bank

KES – Kenya Shillings

NSE – Nairobi Stock Exchange

PBT – Profit Before Tax

SPSS – Statistical Package for Social Scientists

WBCSD - World Business Council for Sustainable Developments

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Corporate social responsibility (CSR)is popularly referred by the business fraternity as one of the discretionary societal expectations of organizations be it a small scale enterprise or a multinational company. The World Business Council for Sustainable Developments (WBCSD) sees CSR as the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large (Schnackers, 2007). Multinational companies have well established CSR programs that to some extent work as an independent entity of the organization. Examples of well-established CSR initiatives include MasterCard Foundation, Qatar Foundation, Safaricom Foundation, Equity Foundation, KCB Foundation among others.

The concept of corporate social responsibility has been there since time immemorial and has for a long time paved way for organization's to have moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law. A classical view of the CSR shows that the sole responsibility of CSR is to the organization/ company owners, or stockholders.

Today, CSR has become complex and requires organizations to adopt a broader view of its responsibilities that includes not only stockholders, but many other constituents as well, including employees, suppliers, customers, the local community, local, state, and Countygovernments, environmental groups, and other special interest groups. Collectively, all these various groups that are directly or indirectly affected by the actions of the organization through CSR are referred to as stakeholders.

Although corporate social responsibility may be related to business ethics, the two focus on different entities within the business context. CSR encompasses the economic, legal, ethical, and discretionary responsibilities of organizations while on the other hand business ethics purely focuses on the moral judgments and behavior of individuals and groups within organizations. Hence business ethics may be regarded as a component of the larger study of corporate social responsibility.

Over the years, corporate social responsibility has raised issues on who actually benefits from the CSR initiatives. The society view CSR initiatives as avenues for solving world problems especially in the developing countries. CSR benefits the organization by pushing the business to the next level while at the same time benefiting the society. It is a way of giving back to the society who for the end users of the organization products and services. Organizations that embrace corporate social responsibility to the fullest are doing well in terms of market sustainability. CSR allows businesses manage and plan on how social, economic and environment affect their values, strategy and culture in their endeavor to maximize benefits and minimize downsides. CSR is driven by the desire for the organization to look for more businesses through making positive contributions alloyed with the incorporation of new business approaches in governance, ethics, environment, health and safety, accountability, sustainability, human rights, labor, culture, minorities and customer satisfaction. In addition, CSR serves as an engine for an organization’s social progress and through CSR organizations are able to live up to their responsibilities in the fast changing world (Siegel and Vitaliano, 2007).

A well planned and effective CSR approach enhances brand and company reputation since it improves efficiency, reduces the risk of business disruptions, and opens up new opportunities driving innovation. Philips (2005) cited a triple bottom line consisting of three pillars namely people, plant and profit as sustainability pillars guiding CSR.Jonker and Witte (2006) noted that an effective Corporate Social Responsibility strategy that is bound to offer clear business benefits has a firm foundation of sound ethics and core values. They added that in order for a CSR initiative to be sustainable, it has to incorporate three fundamental pillars: economic growth, ecological balance, and social progress.

The concept of CSR is underpinned by the idea that corporations can no longer act as isolated economic entities operating in detachment from broader society (Mermod and Idowu, 2013). Traditional perspectives on CSR that were based on competitiveness, survival and profitability are slowly being swept away and other drivers are pushing businesses to CSR. New drivers to CSR include the shrinking role of governments where by governments especially those in the developing countries have diminished resources to deliver social and environmental objectives within the business sector, the demands for greater corporate disclosure from the organization’s stakeholders, increased customer interest where by consumers are today rewarding companies based on their perceived social performance, fast growing investor pressure, competitive labor markets and supplier relations (Sagebien and Lindsay, 2011).

Finn (2007) cites that the adoption of CSR policy come with numerous positive outcomes to the organization, community and the environment. The main attributes of CSR that contribute to profitability are those programs that focus on health, environment, education and sports. Those attributes benefits the company through improved financial performance, increased sales and customer loyalty, enhanced brand image and reputation, workforce diversification and increased ability to attract and retain employees. CSR benefits to the community include employee volunteer programs, charitable contributions, product safety and quality, corporate involvement in community education and employment opportunities. Lastly, environmental benefits include greater material recyclability, integration of environmental management tools into business plans, including life-cycle assessment and costing, environmental management standards, and eco-labeling. However, some organizations overlook CSR in the supply chain by doing businesses that are not eco-friendly such as importing and retailing timber and sand that has been illegally harvested. Although some governments impose embargos and penalties on such organizations, the organizations can commit themselves to choose credible suppliers (Ramirez and Selsky, 2010).

1.1.1 Overview of banking industry in Kenya

The Companies Act, the Central Bank of Kenya (CBK) Act and the Banking Act are the main regulators and governors of banking Industry in Kenya. These Acts are used together with the prudential guidelines which Central bank of Kenya issues from time to time. In 1995 the exchange controls were lifted after the liberalization of the banking industry in Kenya. Central Bank of Kenya is tasked with formulating and implementation of monetary and fiscal policies. Central bank is the lender of last resort in Kenya and is the banker to all other banks. The CBK ensures the proper functioning of the Kenyan financial system, the liquidity in the country and the solvency of the Kenya shilling. The Ministry of finance is where CBK falls.

Currently,11 commercial banks that are listed in NSE: Barclays Bank Ltd, CFC

StanbicHoldingsLtd, I&M Holdings Ltd, Diamond Trust Bank Kenya Ltd, Housing Finance Co Ltd, Kenya Commercial Bank Ltd, National Bank of Kenya Ltd, NIC Bank Ltd, Standard Chartered Bank Ltd, Equity Bank Ltd and The Co-operative Bank of Kenya Ltd.

To address issues that affect the Banking industry in Kenya, banks have come together and formed a forum under the Kenya Bankers Association. Kenyan Banks have realised tremendous growth in the last five years and have expanded to the East African region. The banking industry in Kenya has also involved itself in automation, moving from the traditional banking to better meet the growing complex needs of their customer and globalization challenges. The banks have CSR programs that are run under own established foundations within the organization. Through the CSR programs, the bankshaveincreased the uptake of its products and services and their names have spread widely within and outside the East African region. Examples of the foundation include KCB Foundation which is under KCB, Equity Foundation under Equity Bank, Coop Foundation under Cooperative Bank of Kenya among others.

1.2 Statement of the problem

While a study by Serafeim (2010) on the impact of Corporate Social Responsibility on investment recommendations found that some CSR initiatives are costly and may affect the profit margins of the organization, another study by Bhattacharya and Sen (2001) cited that costly CSRactivities may actually be beneficial to organization's as they can have a positive effect on the decisions of socially/environmentally-minded individuals consuming products of theorganisation, investing in itor working for it. The relationship between corporate social responsibility and a firm's profitability has been studied in Kenya but results of these studies do not appear conclusive. Nkaiwatei (2011) for example, studied the relationship between social accounting practice and profitability in the oil industry in Kenya and found that profitability was one of the factors that determine CSR practice. Wanjala (2011) studied factors that influence corporate social responsibility in commercial banks in Kenya and found that profitability was one of the factors that influence CSR practice in banks. Mutuku (2005) established that there is no relationship between CSR and financial performance. Whereas many studies have been done on CSR, none of the studies has focused on the sole impact of CSR on organizations' financial performance. This has created a knowledge gap on whether CSR really drives the business to profit maximization or has a negative impact on the business. Hence, this study endeavored to assess the effects of corporate social responsibility programs on profitability in the banking industry.

1.3 Objectives of the study

1.3.1 The general objective

The general objective of this study was to assess the effects of corporate social responsibility programs on organizations' profitability in Kenya.

1.3.2 Specific objectives

1. To establish how CSR programs on health affects profitability within the banking industry in Kenya.
2. To establish how CSR programs on education affects profitability within the banking industry in Kenya.
3. To establish how CSR programs on environment affects profitability within the banking industry in Kenya.

4. To establish how CSR programs on sports affects profitability within the banking industry in Kenya.

1.4 Research questions

1. How do CSR programs on health affect profitability within the banking industry in Kenya?
2. How do CSR programs on education affect profitability within the banking industry in Kenya?
3. How do CSR programs on environment affect profitability within the banking industry in Kenya?
4. How do CSR programs on sports affect profitability within the banking industry in Kenya?

1.5 Research hypothesis

This study was guided by the following hypotheses

H1.There is a positive relationship between banks' CSR activities and their profitability.

H2. Banks' CSR activities significantly contribute to their profitability.

1.6 Significance of the study

This study aimed to assess the effects of Corporate Social Responsibility programs on organizations' profitability in Kenya. This will help both private and public companies to realize the need of establishing CSR for achievement of the competitive advantage and improved performance. It will further outline and discuss the benefits and pitfalls of Corporate Social Responsibility programs and effectively let the player(s) in this field have a grip of how they can be able to improve the implementation of Corporate Social Responsibility programs. To the 11 banks listed on NSE, the study will give recommendations for better implementation of CSR programs. And finally, the research will contribute to the existing literature on how to assess the effects of Corporate Social Responsibility.

1.7 Scope of the study

This research was carried out on commercial banks listed on Nairobi Stock Exchange (NSE). The target population were the Chief Finance Officers of the selected banks. The banks are Barclays Bank Ltd, CFC Stanbic Holdings Ltd, I&M Holdings Ltd, Diamond Trust Bank Kenya Ltd, Housing Finance Co Ltd, Kenya Commercial Bank Ltd, National Bank of Kenya Ltd, NIC Bank Ltd, Standard Chartered Bank Ltd, Equity Bank Ltd and The Co-operative Bank of Kenya Ltd. Data was collected between 1st November 2014 and 10thNovember 2014. The content of data was focused on how CSR contributes to profitability to the organization.

CHAPTER TWO

LITERATURE REVIEW

2.1 The concept of CSR

CSR is viewed as a social construction and, as such, it is not possible to develop an unbiased definition. Corporate social responsibility is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life. CSR is also the continuing commitment by business to behave ethically and contribute to economic developments while improving the quality of life of the workforce and their families as well as the local community and society at large. Corporate social responsibility as a construct encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time. CSR programs can provide a variety of benefits for companies. CSR helps to attract and retain high quality employees, generate a positive corporate image, and enhance product evaluation via an overall evaluation of the firm (Moon, Crane and Matten, 2005).

There are several benefits of CSR for companies among others: to maintain and boost the company's reputation and brand image, get a social license to operate, reduce the risk of the company's business, expand access to resources for business operations, opening up wider market opportunities, reduce costs associated environmental impacts, improving relationships with stakeholders, increase employee morale and productivity, and the chances of getting an award. Various reasons for the company in conducting a voluntary CSR disclosure is to comply with existing regulations, gain competitive advantage through the implementation of CSR, the loan contract provisions and meet public expectations, legitimizing the actions of firms, and attract investors (Owen and O'dwyer, 2008).

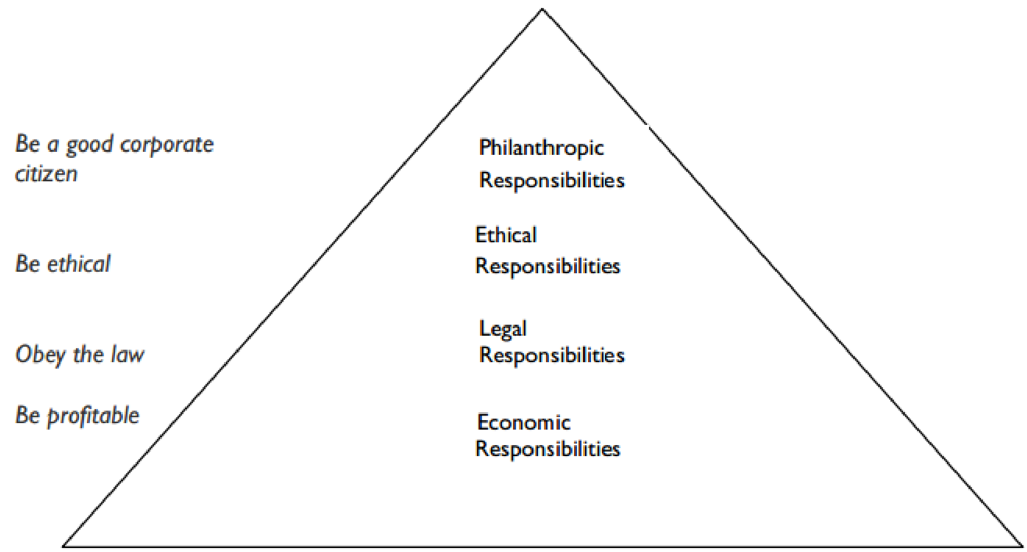
2.2 Theoretical review

2.2.1 Carroll´s Pyramid of Corporate Social Responsibility

The commonly used theoretical approach to CSR is Carroll´s (1991) Model or Pyramid of Corporate Social Responsibility. According to the proponent, Carroll, CSR constitutes four kinds of social responsibilities; economic, legal, ethical and philanthropic. Carroll considers CSR to be framed in such a way that the entire range of business responsibilities is embraced. Carroll suggests that CSR consists of four social responsibilities; economic, legal, ethical and philanthropic. These four responsibilities can be illustrated as a pyramid (Pandey, 1999).

The economic component is about the responsibility to profit and this responsibility serves as the basic block or base for the other components of the pyramid. With regard to the legal aspect, society expects organizations to comply with the laws and regulations. Ethical responsibilities are about how society expects organizations to embrace values and norms even if the values and norms constitute a higher standard of performance than required by law. This is doing what is right and to avoid harming stakeholders. Philanthropic responsibilities are those actions that society expect for a company to be a good corporate citizen. In this case is expected to contribute financial and human resources to the community and to improve the quality of life (Santiago, 2004).

Figure 2.1: The pyramid of Corporate Social Responsibility



Source: Carroll(1991).

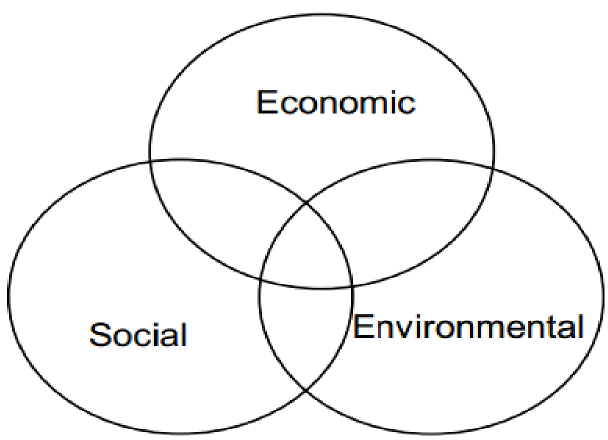
2.2.2 The triple bottom line model

Another theoretical approach to CSR is the three components of sustainability dubbed as the triple bottom line. The term Triple Bottom Line, coined by Elkington (1997), basically tries to encapsulate the three spheres of sustainability: the economic, the social and the environmental (Elkington, 1997; Edvardsson, Enquist and Hay, 2005).The triple bottom line is based on the assumption that companies do not only have profitability as their only objective but that they also have other objectives such as adding environmental and social value to society (Crane and Matten, 2004). However, Triple Bottom Line is also known as People, Planet and Profit, or the three P’s (Marrewijk, 2003).

The concept of sustainability is generally regarded as having emerged from the environmental perspective. From an environmental perspective, sustainability is about how to manage physical resources so that they are conserved for the future. On the other hand, economic sustainability is about the economic performance of the organization itself. In addition, the broader concept of economic sustainability includes the company´s impact on the economic framework in which it is embedded. However, due to competition and challenging business environments, the development of the social perspective has not developed as fast as the environmental and economic perspectives. The key issue in the social perspective on sustainability is that of social justice.

In spite of Triple Bottom Line's popularity, there are also critics. Norman and MacDonald (2004) refer to Triple Bottom Line as being nothing but a smokescreen behind which companies can avoid truly effective social and environmental reporting and performance. They refer to the model as a good old-fashioned Single Bottom Line plus vague commitments to social and environmental concerns (Norman and MacDonald, 2004).

Figure 2.2: Elements of the Triple Bottom Line



Source: Edvardsson and Hay (2005).

2.3 Empirical Literature

2.3.1 CSR and Financial Performance

Margolis and Walsh (2002) cite that one hundred twenty-two published studies between 1971 and 2001 empirically examined the relationship between corporate social responsibility and financial performance. CSR has emerged as a view that can add to the financial performance of a company and suggests that corporate decision-makers must take care of a range of social and environmental affairs in order to maximize long-term financial returns. Every firm differs in the way it implement CSR in strategic business practices, with its size, operating industry, stakeholder demands, historical CSR engagement, level of diversification, research and development and labor market conditions a few of the factors that determine this decision making. One side of the coin confirms the benefits colligated with good reputation, while the other indicates that a firm’s costs of adhering to ethical standards will translate into higher product prices, a competitive disadvantage and lower profitability (Handy, 2002).

Financial performance measurement can be done with the assessment of financial ratio analysis as a basis for assessing and analyzing the company's operating accomplishment or company performance. Gray (2010) stated that profitability is a factor that gives freedom and flexibility for management to disclose the social responsibility towards shareholders. This means that the higher level of company's social disclosure drives the greater profitability. Target stakeholders of the organization place numerous demands, in terms of ethical and socially responsible conduct, on retail firms. However, the most important question for many retailers that engage in corporate social responsibility remains whether CSR results in superior financial performance. Literature exists that highlights the link between a sustained positional advantage by a firm and superior organizational financial performance. Several authors such as Sims (2003), Kotler and Lee (2005) and Rantzien (2003), state that CSR leads to profitability in the long run. Superior financial performance may be indicated by increased profits, sales, market share or achievement of strategic goals. As the first responsibility an organization has is an economic one to its shareholders, managers and organizations may be hesitant to invest in CSR policies and practices if a proven link to financial performance is not established (McWilliams and Siegel 2000).

McWilliams and Siegel (2000) in their analysis of extant literature argue that there have been mixed results of the financial impact of such well-doing strategies on short-term and long-term profitability of the organization. Numerous other studies, however, suggest that, as a result of a firm engaging in socially responsible practices, overall profitability of the firm is enhanced (Berrone, 2007; McWilliams and Siegel 2000; Orlitzky, 2003). In a study by McGuire, Sundgren and Schneeweis (1988) on reputational and social responsibility index to examine aspects of the relationship between CSR and company financial performance the results showed that a company's previous financial performance is generally a better predictor of CSR than following performance.

However, Waddock and Graves (1997) assert that CSR and financial performance are interrelated. According to them, CSR is positively associated with future financial performance. However, they too believe that CSR is positively associated with prior financial performance. Waddock and Graves further exemplify the interrelation between CSR and financial performance in a study they did on Collins and Porras (1994) presentation of companies Built to Last. Collins and Porras show that companies with a clear vision and long-term goals are more successful.

Waddock and Graves (2000) find that these companies not only serve the shareholders financial goals better but also all of the organization’s stakeholders.

Whilst there is a lack of consensus in the literature with regard to the relationship between CSR development and organizational financial performance, it is proposed that CSR development has a direct relationship with organizational financial performance.

This study focuses on four attributes of CSR that can lead to financial performance: increased sales, costs reduction, reduced business risks and increased profit margins and growth of market share.

2.3.2 How CSR affects Financial Performance

For purposes of this study, financial performance was looked at through the following key performance indicators and how they are impacted by CSR activities: interest income, operating costs, profit before tax and share price.

2.3.2.1Interest income

Probably the most direct explanation of a positive effect of CSR and business performance is the view of CSR as a revenue generator – especially in the long run. Firms that enjoy favorable reputations for their CSR may be able to charge premiums for their products and services (Auger et al., 2003). Consumers may value social responsibility so highly that they are willing to pay more for products and services from socially responsible companies. In addition, by conveying important information about how products have been manufactured in a socially or environmentally responsible manner, companies may increase market share relative to competitors that are poor corporate citizens (Miller, 1997). Whether the effect is through increased prices or a larger customer base, CSR may help the business generate more sales revenues. In the banking industry , increased sales of loans translates to increased interest income. According to Katamba (2008), most executives believe intuitively, that CSR can increase sales. And almost no large private and public company would want to be seen engaged in CSR. That is clear admission of how important CSR might be to their bottom line, no matter how difficult it might be to outsource for more resources to top up the financial demands of their CSR programs.

In regard to increased sales, CSR acts as platform on which companies seek to advertise their services and products. The company and the public are in direct contact and hence more information about the products can be offered comprehensively. General Motors East Africa (GMEA), through CSR programs , has attracted more business women and men to buy more of its products such as Isuzu pickups, buses , Lorries etc. More information on repair and various sales agreements are explained to the potential buyers for free on the ground. Information about the products is received directly from the public and this facilitates inventions and innovations in the company hence winning public interest. In contrast other rivaling companies that do not take part in the CSR programs are forced to spend more on advertisements so as to increase their market share (Katamba, 2008). Within the banking sectors, sales are termed in numbers of account opened and the number of credit facilities offered.

2.3.2.2 Operating costs

The action that the firm performs its responsibility for suppliers can make full use of the commercial credit hence decreasing the cost of management which in turn improves the organization value (Turban and Greening 1997). Firm‘s responsibility for the suppliers mainly refers to not violating the commercial contract as well as returning the payable accounts timely. If the firm performs responsibility for suppliers, it can attract more suppliers on one hand since suppliers compete intensely to reduce the cost of raw materials. On the other hand, the supplier can accept more advantageous credit conditions to the enterprise, improve the efficiency of funds, and thus enhance the firm value. In addition, a company may become relatively more efficient not only by decreasing its own costs but also by raising competitors' costs. Thus a related resource-based argument focuses on the effects of CSR as a political strategy to increase rivals' costs (McWilliams et al., 2002).

In addition, other studies have contended that CSR initiatives aid businesses by reducing costs. Epstein and Roy (2001) report that CSR not only reduces various costs, it also promotes efficiency in the use of resources. Logsdon and Wood (2002) argue that engaging in CSR activities can reduce the waste and the associated treatment costs. Moreover, productivity can be enhanced by implementing energy conservation and other environmental friendly programs.

Socially responsible companies also have less risk of negative rare events which reduces the operating costs. Overlooking negative social and environmental externalities when valuing a company might be equal to ignoring significant tail risk. The risks related to CSR can be grouped into three categories: corporate governance, environmental aspects, and social aspects (Turban and Greening 1997). Companies that adopt the CSR principles are more transparent and have less risk of bribery and corruption. In addition, they may implement stricter and, thus, more costly quality and environmental controls, but they run less risk of having to recall defective product lines and pay heavy fines for excessive polluting. They also have less risk of negative social events which damage their reputation and cost millions of dollars in information and advertising campaigns. All these goes a long way in reducing the operating costs of the organisation (Logsdon and Wood, 2002).

2.3.2.3 Profit Before Tax

Katamba (2008) cites that although CSR may not directly contribute to profit increase, it creates an environment for growth of profits of a company. Marcela of the West Bohemia University ,Czech Republic, identifies attraction by investors , good reputation and strong market position, decreasing expenses on risk management, distinguishing from rivals and attraction for quality and talented potential employees. Siegel and Vitaliano (2007) in their works on the role of CSR in the mining industry cited that the nature of competition within the retail environment has shifted and this has made it difficult for organizations to differentiate themselves from other firms. According to them, about 82% of consumers are now looking for and evaluating organizations based on their ethical attributes rather than on more traditional offerings such as the location or the prices of the products it sells (Marcus, 1993).

A survey by Mori (2003) points out that 70% of consumers will pay a higher price for a product they think is ethically more superior, which will lead to profit maximisation. Profit-making motives thus revolve fundamentally around managerial beliefs that engaging in social initiatives can have a direct impact on profitability.

McWilliams and Siegal (2001) also mention that CSR can reduce social and environment costs so as to increase corporate profit. Good CSR motivates customers to buy the product (Meijer

&Schuyt, 2005). This is supported by Mohr and Webb (2005) who claims that a high level of CSR results in customers' intent of buying and that consumer are prepared to pay a significant percentage of the value of the product for specific ethical features. CSR is also attributed to customer loyalty which in the long run increases interests for the organization. Both Heskett (1994) and Hallowell (2000) state that customer loyalty drives profitability. Hallowell explains this by claiming that loyal customers reduce a company's marketing costs through repeated purchase and word of mouth advertising, reduce operating costs by being familiar with the company's operating system, and increase revenue by being less price sensitive.

However, Logsdon and Wood(2002) warn that a socially responsible corporation should take a step forward and adopt policies and business practices that go beyond the minimum legal requirements and contribute to the welfare of its key stakeholders. According to them, CSR is viewed as a comprehensive set of policies, practices, and programs that are integrated into business operations, supply chains, and decision-making processes throughout the company and usually include issues related to business ethics, community investment, environmental concerns, governance, human rights, the marketplace as well as the workplace.

Ofori and Hinson (2007) inferred that the strategic innovation of CSR has the propensity for producing outcomes such as financial performance and organisational effectiveness. Hahn and Scheermesser (2006) also revealed that the practice of CSR can yield positive financial results, either by generating new revenue or by protecting existing profit levels. Coelho, McClure and Spry (2003) note that a firm's interactions with its stakeholders are recognised as having a direct influence on profitability and that ethical executives should consider this as being part of their fiduciary duties to shareholders. Pearce and Robinson (2009) explain further that overlooking the enduring concerns of society (customers, suppliers, creditors, ecologists and regulatory agents) may produce profit in the short term but, overtime, the financial consequences are likely to be detrimental.

Although each company differs in how it implements corporate social responsibility, the differences depend on such factors as the specific company's size, the particular industry involved, the firm's business culture, stakeholder demands, and how historically progressive the company is in engaging CSR. Some companies focus on a single area, which is regarded as the most important for them or where they have the highest impact or vulnerability - human rights, for example, or the environment - while others aim to integrate CSR in all aspects of their operations. For successful implementation, Backhaus (2002) advises that it is crucial that the CSR principles are part of the corporations values and strategic planning, and that both management and employees are committed to them. Furthermore, it is important that the CSR strategy is aligned with the company's specific corporate objectives and core competencies (Katamba, 2008).

2.3.3.4 Share price

CSR activities are considered strategic in nature, with the understanding that firms can do well in the long run by doing good (Vogel 2005). This is evidenced in the global move from single-bottom line (economic) to the triple-bottom line (economic, environmental and social) approach (Global Reporting Initiative 2002), at times also referred to as the three 'Ps': people, planet and profit (Elkington 1997). The significance of this strategic measure is that companies are not only audited according to their economic or profit impact but are also penalised according to their non-performance with regard to environmental and social impact and this can affect their market share price. Subsequently, in some countries, share prices reflect positively the ethical dimensions of a company's operations where financial markets judge companies by their wider impact on society (Elkington 1997; Frankental 2001).

This triple-bottom line introduces the demand for strategic focus and the inclusion of CSR as essential to all core management functions. Consequently, CSR is now perceived to be about satisfying the needs of both firms and stakeholders, that is, maximizing profit whilst still meeting wider stakeholder demands. In some industries, firms consciously invest extra effort and resources in order to appear socially inclined in the hope of differentiating themselves from less-responsible colleagues (Barnett 2007; King, Lenox and Barnett 2002). According to Utama (2008), a company is motivated to practise CSR if the company's stakeholders (consumers, investors and other stakeholders) reward it (for instance with higher product and/or share price) for this practice.

Tudway and Pascal (2006) disclose that shareholder value or market share price can be maximised when companies pursue a visible social agenda. A study of Dutch managers showed that whilst respondents believe CSR can enhance reputation, strengthen employee commitment to the firm and improve overall profitability, they also express an equally-strong desire to make the world a more moral and better place (Graafland and Van de Ven 2006)

2.3.4Conceptual Frame work

The following conceptual frame work shows the relationship between the independent variables and profitability. Health, education, environment and sports are key ingredients of profitability in CSR. Most organizations have their CSR activities based on the four variables. Investment in health programs improves the general well being of the society and a healthy society leads to increased uptake of banks products and services. Education programs increases the societal literacy level and opens way for many to access banking facilities.

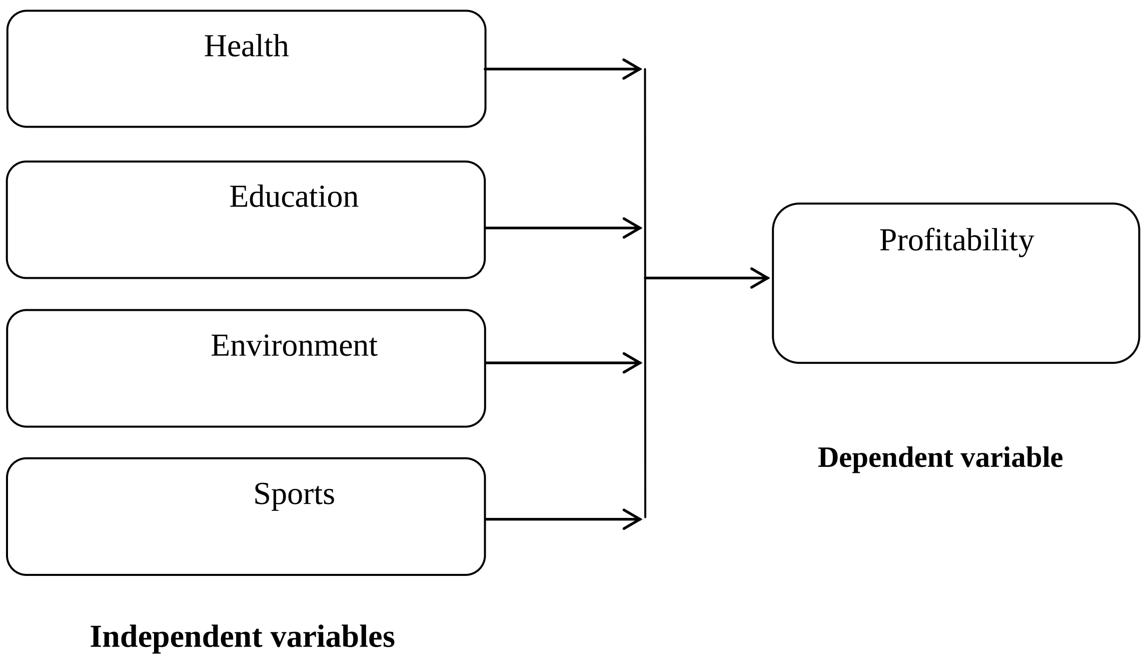


Figure 2.3: Conceptual framework

2.4 Literature overview and Research gaps

A literature study to analyze the relation between CSR and financial performance (FP) was performed by van Beurden and Gossling (2008), finding empirical evidence for a positive correlation. Of the included studies 68% found a significant positive relationship, 26% found no significant relationship, and 6% found a significant negative relationship. The authors admit CSR and FP are measured in different ways and take into account these differences to be able to compare the studies. Orlitzky (2003) also found empirical evidence, through a meta-analysis of 52 studies, to conclude that there is a positive relationship between CSR and FP, and that this relationship tends to be bidirectional and simultaneous.

Waddock and Graves (1997) and Scholtens (2008) also found a bidirectional relationship between CSR and FP, which makes it difficult to analyze the causality between corporate financial performance and corporate social performance. Scholtens (2008) identifies causation, suggesting that financial performance in general terms precedes social performance much more often than the other way around. Both studies suggest a virtuous cycle between CSR and financial performance. That is, CSR is found to be positively associated with prior financial performance.

The relation between corporate social responsibility (CSR) and firm performance has evoked much interest among researchers. While some studies reveal a positive relation between the two constructs, some others indicate a negative relation, and still others establish no relation between the two constructs. Though a positive relation between CSR and firm performance has prevailed in many studies, results still remain inconclusive. Such inconclusiveness creates knowledge gap on the actual CSR attributes that influence a firm’s financial performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research design

The research applied a descriptive design which involves the process of collecting information about each member of a given population. The use of census surveys is usually employed for statistical research, population count or business marketing purposes. (Orondo, 2002). According to Mugenda and Mugenda (1999), Census surveys are typically conducted via door to door visits. The researcher visits the homes of every member of the given population to ask a few questions whose answers are relevant to their field of study. In census surveys, the researchers visit individual households to interview the members of the population. The main objective of the researcherwho conducts census surveys is to make sure that all members of the population have been surveyed.

3.2 Study Population

The target population wasChief Finance Officers of Kenyan Commercial Banks listed in the Nairobi Stock Exchange (NSE). There are 11 commercial banks listed in NSE. The banks are Barclays Bank Ltd, CFC Stanbic Holdings Ltd, I&M Holdings Ltd, Diamond Trust Bank Kenya Ltd, Housing Finance Co Ltd, Kenya Commercial Bank Ltd, National Bank of Kenya Ltd, NIC Bank Ltd, Standard Chartered Bank Ltd, Equity Bank Ltd and The Co-operative Bank of Kenya Ltd.

3.4 Data Collection tools and techniques

The primary data collection method was the most suitable for this study and entailed the use of an interview guide. The interview guide had four sections: Health, education, environment and sports. This allowed the researcher to get first-hand information from the respondents. In this case, the researcher self-administered the interview guides.

3.5 Data collection procedures

To establish the validity of the research instruments the researcher sought the opinions of experts in the field of study especially the lecturers in the School of Business. This facilitated the necessary revision and modification of the research instrument thereby enhancing validity and reliability. The researcher then administered the interview guides to selected Chief Finance Officers through 'drop and pick later' method.

3.6Data analysis and presentation

This includes the process of packaging the collected information, putting it in order and structuring main components in a way that the findings can be easily and effectively communicated. After the distribution of the interview guides, they were adequately checked for clarifications and to ensure that all the questions had been answered. The data was then analyzed and the findings recorded by use of tables and figures. This involved tallying up responses, computing percentages of variations in response as well as describing and interpreting the data in line with the study objectives through use of SPSS.

A multivariate regression model was applied to determine the relative importance of each of the four variables. This was in an effort to establish the extent to which the independent variable affect the dependent variables as shown by the size of the beta coefficients. The regression model was as follows:

$Y=a+b_1x_1+ b_{2x2}+b_{3x3}+b_4x_4$

Where Y is the dependent variable (Profitability), a is the regression constant, b_1, b_2, b_3 and b_4 are the coefficients of dependent variables, X_1 is health, X_2 is education, X_3 is environment, and X_4 is sports.

In addition Correlation analysis was done to determine the strength of relationship between the variables, correlation analyses is the statistical tool that can be used to determine the level of association of two variables. Correlation analysis helped to detect any chance of multicollinearity among the study variable. Correlation value of 0 shows that there is no relationship between the dependent and the independent variables. On the other hand, a correlation of ±1.0 means there is a perfect positive or negative relationship. The values were interpreted between 0 (no relationship) and 1.0 (perfect relationship).

CHAPTER FOUR

RESEARCH FINDINGS AND INTERPRETATION

4.1 Introduction

This chapter presents the findings and results of the study in the order of the research objectives. The analysis is based on the findings on income interest, operating costs, profit before tax and market share price for six years compared to the amount used in CSR. The results are based on a response rate of 100% (n=11).

4.2 Year listed in Nairobi Stock Exchange (NSE)

Table 4.1: Year listed at Nairobi Stock Exchange (NSE)

Bank	Year listed in NSE
Barclays Bank Ltd	2003
The Co-operative Bank of Kenya Ltd.	2003
Equity Bank Ltd	2004
Standard Chartered Bank Ltd	2003
National Bank of Kenya Ltd	2003
Kenya Commercial Bank Ltd	2003
NIC Bank Ltd	2003
Housing Finance Co Ltd	2003
Diamond Trust Bank Kenya Ltd	2003
CFC StanbicHoldingsLtd	2003
I&M Holdings Ltd	2005

Table 4.1 above shows the year when the banks were listed at NSE. From the table, majority of the banks were listed in 2003 with Equity bank and I&M coming later in 2004 and 2005 respectively.

4.3 Health CSR Related Programs

Table 4.2 Amount spent on health for six years

Bank	**2008 Amount in Billions**		**2009 Amount in Billions**		**2010 Amount in Billions**		**2011 Amount in Billions**		**2012 Amount in Billions**		**2013 Amount in Billions**		**MEAN Amount in Billions**	
	P	**HTH**	**P**	**HTH**	**P**	**HTH**	**P**	**HTH**	**P**	**HTH**	**P**	**HTH**	**P**	**HTH**
Barclays Bank Ltd	11.61	0.01	10.44	0.006	13.22	0.02	12.39	0.03	14.14	0.09	15.62	0.1	12.90	0.04
The Co-operative Bank of Kenya Ltd.	16.14	0.09	21.22	0.091	20.14	0.095	23.094	0.10	23.24	0.11	24.53	0.16	21.54	0.13
Equity Bank Ltd	3.25	0.03	5.69	0.13	13.77	0.14	19.33	0.145	28.49	0.15	28.31	0.16	16.47	0.11
Standard Chartered Bank Ltd	2.32	0.02	4.11	0.03	5.34	0.04	6.94	0.06	7.22	0.09	6.81	0.1	5.46	0.06
National Bank of Kenya Ltd	4.72	0.01	6.94	0.03	7.57	0.05	7.96	0.06	8.43	0.08	8.16	0.15	7.30	0.06
Kenya Commercial Bank Ltd	11.8	0.05	14.5	0.09	19.6	0.13	23.9	0.15	30.6	0.17	44.5	0.24	24.15	0.14
NIC Bank Ltd	2.26	0.05	2.41	0.05	3.56	0.06	3.94	0.08	4.91	0.09	4.93	0.09	3.67	0.07
Housing Finance Co Ltd	0.19	0.012	1.23	0.014	1.95	0.016	2.31	0.07	4.00	0.08	4.14	0.09	2.30	0.05
Diamond Trust Bank Kenya Ltd	1.85	0.01	2.93	0.01	3.14	0.03	3.84	0.05	4.00	0.05	4.31	0.07	3.35	0.04
CFC StanbicHoldingsLtd	0.20	0.005	0.19	0.006	0.24	0.012	0.31	0.015	0.22	0.024	0.34	0.031	0.25	0.02
I&M Holdings Ltd	2.98	0.001	3.01	0.003	3.21	0.006	3.69	0.008	4.93	0.013	7.04	0.054	4.14	0.01

Table 4.2 shows the profitability for the banks under study for a period of six years compared to the amount spent on CSR. From the table, the amount spent on health for all banks in 2008 was the least compared to the following years. The amount spent on health increased each year and the profit increased as well. In 2008, the banks that spend the largest amount on health had the highest profit with the banks that spend the least amount on health related CSR programs having the least profit. The Cooperative Bank of Kenya spend KES 0.09B on health in 2008 and made profit of KES 16.14B in 2008 followed by KCB that spend KES 0.05B on health and made profit of KES 11.8B. In terms of average amount spent on health and average profit for the six years, KCB spend the highest amount in health (KES 0.14B) and made the highest average profit for the six years (KES24.15B). Though Barclays Bank of Kenya spend an average of KES 0.04B on health for the six years, the mean profit was higher at KES 12.90B compared to I&M Holdings Ltd which spend an average of the same amount and made profit of KES 4.14B.

Figure 4.1: Mean amount spent on health and profitability for six years

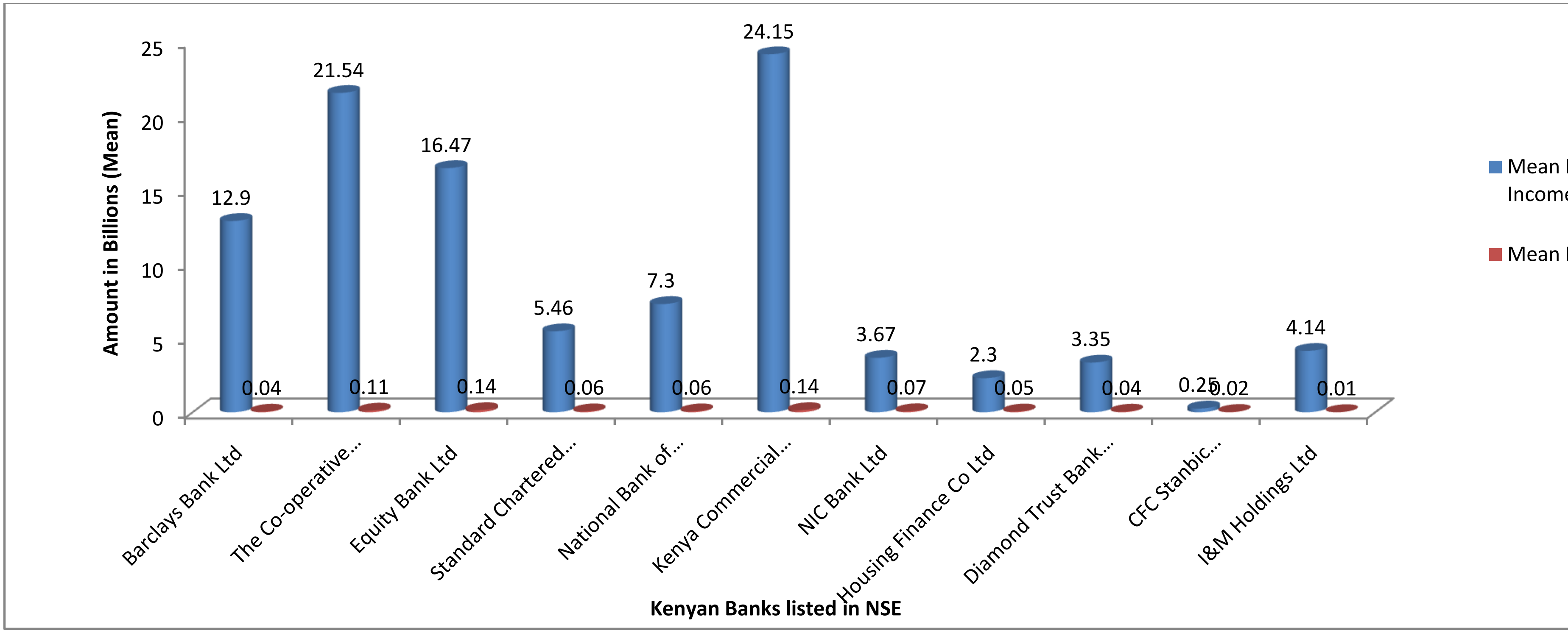


Figure4.2 shows that KCB spend an average of KES 0.14B on health related CSR Programs and made profit of KES 24.15B. Equity bank spend an average of same amount on health and made profit of KES 16.47B. The average of amount spend on health for all the banks was above KES 0.01B with the difference between the highest spender (KES 0.14B) and the least spender (KES 0.01B) being KES 0.13B.CFC Stanbic Holdings Ltd made the lowest average profit (KES 0.25B) and spend an average of KES 0.02B on health for the six years. Barclays Bank Ltd and Diamond Trust Bank Kenya Ltd spend an average of same amount of KES 0.04B on health for the six years and made profit of KES 12.9B and KES 3.5B respectively.

4.4 Education CSR Related Programs

Table 4.3: Amount spent on education CSR Programs for six years

Bank	2008 Amount in Billions		2009 Amount in Billions		2010 Amount in Billions		2011 Amount in Billions		2012 Amount in Billions		2013 Amount in Billions		MEAN Amount in Billions	
	P	**EDU**	**P**	**EDU**	**P**	**EDU**	**P**	**EDU**	**P**	**EDU**	**P**	**EDU**	**P**	**EDU**
Barclays Bank Ltd	11.61	0.005	10.44	0.007	13.22	0.01	12.39	0.04	14.14	0.08	15.62	0.09	12.90	0.039
The Co-operative Bank of Kenya Ltd.	16.14	0.08	21.22	0.081	20.14	0.085	23.094	0.09	23.24	0.01	24.53	0.06	21.54	0.056
Equity Bank Ltd	3.25	0.01	5.69	0.23	13.77	0.04	19.33	0.045	28.49	0.05	28.31	0.06	16.47	0.073
Standard Chartered Bank Ltd	2.32	0.02	4.11	0.02	5.34	0.03	6.94	0.05	7.22	0.08	6.81	0.09	5.46	0.048
National Bank of Kenya Ltd	4.72	0.01	6.94	0.02	7.57	0.04	7.96	0.05	8.43	0.07	8.16	0.15	7.30	0.057
Kenya Commercial Bank Ltd	11.8	0.05	14.5	0.08	19.6	0.03	23.9	0.05	30.6	0.07	44.5	0.24	24.15	0.087
NIC Bank Ltd	2.26	0.055	2.41	0.04	3.56	0.05	3.94	0.07	4.91	0.08	4.93	0.09	3.67	0.064
Housing Finance Co Ltd	0.19	0.012	1.23	0.004	1.95	0.006	2.31	0.06	4.00	0.07	4.14	0.09	2.30	0.040
Diamond Trust Bank Kenya Ltd	1.85	0.01	2.93	0.009	3.14	0.02	3.84	0.04	4.00	0.04	4.31	0.07	3.35	0.032
CFC StanbicHoldingsLtd	0.20	0.001	0.19	0.005	0.24	0.002	0.31	0.005	0.22	0.014	0.34	0.031	0.25	0.010
I&M Holdings Ltd	2.98	0.0001	3.01	0.002	3.21	0.005	3.69	0.007	4.93	0.003	7.04	0.054	4.14	0.012

Table 4.3 shows the profitability for the banks under study for a period of six years compared to the amount spent on education. From the table, the amount spent on education for all banks in 2008 was the least compared to the following years. The amount spent on education increased each year and the profit increased as well. In 2008, the banks that spend the largest amount on education had the highest profit with the banks that spend the least amount on education related CSR programs having the least profit. The Cooperative Bank of Kenya spend KES 0.08B on education in 2008 and made profit of KES 16.14B in 2008 followed by KCB that spend KES 0.05B on education and made profit of KES 11.8B. In terms of average amount spent on education and average profit for the six years, KCB spend the highest amount in education (KES 0.087B) and made the highest average profit for the six years (KES 24.15B). Though Barclays Bank of Kenya spend an average of KES 0.039B on education for the six years, the mean profit was higher at KES 12.90B compared to I&M Holdings Ltd which spend an average of the same amount and made profit of KES 4.14B.

Figure 4.2: Mean amount spent on education CSR Programs for six years

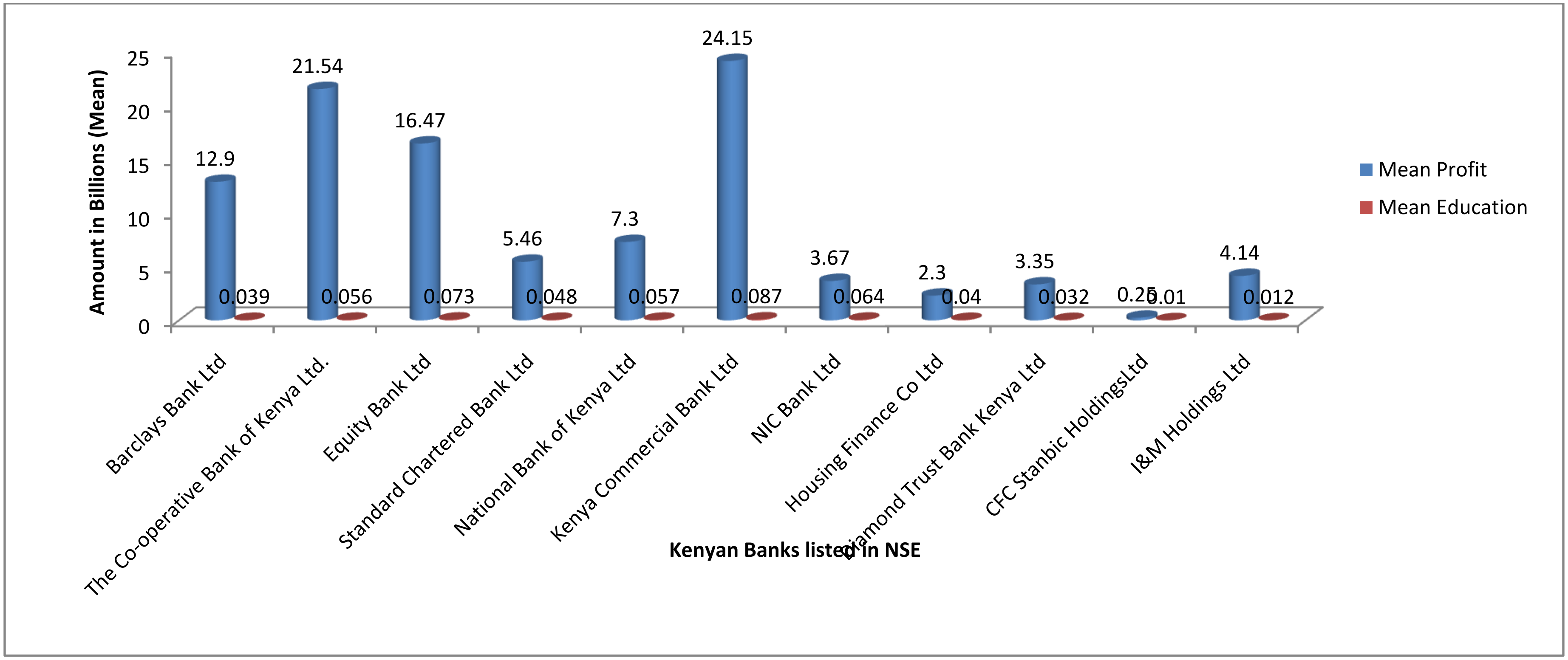


Figure4.2 shows that KCB spend an average of KES 0.087B on education related CSR Programs and made profit of KES 24.15B. Equity bank spend an average of same amount on health and made profit of KES 16.47B. The average of amount spend on health for all the banks was above KES 0.001B with the difference between the highest spender (KES 0.087B) and the least spender (KES 0.010B) being KES 0.077B. CFC Stanbic Holdings Ltd made the lowest average profit (KES 0.25B) and spend an average of KES 0.010B on education for the six years. Barclays Bank Ltd and Diamond Trust Bank Kenya Ltd spend an average of same amount of KES 0.032B on health for the six years and made profit of KES 12.9B and KES 3.5B respectively.

4.5Environment CSR Related Programs

Table 4.4: Amount spent on environment CSR Programs for six years

Bank	2008 Amount in Billions		2009 Amount in Billions		2010 Amount in Billions		2011 Amount in Billions		2012 Amount in Billions		2013 Amount in Billions		MEAN Amount in Billions	
	P	ENVM	P	ENVM	P	ENVM	P	ENVM	P	ENVM	P	ENVM	P	ENVM
Barclays Bank Ltd	11.61	0.001	10.44	0.007	13.22	0.002	12.39	0.03	14.14	0.09	15.62	0.08	12.90	0.04
The Co-operative Bank of Kenya Ltd.	16.14	0.02	21.22	0.081	20.14	0.0095	23.094	0.10	23.24	0.11	24.53	0.01	21.54	0.05
Equity Bank Ltd	3.25	0.01	5.69	0.23	13.77	0.014	19.33	0.145	28.49	0.15	28.31	0.05	16.47	0.10
Standard Chartered Bank Ltd	2.32	0.001	4.11	0.02	5.34	0.004	6.94	0.06	7.22	0.09	6.81	0.08	5.46	0.04
National Bank of Kenya Ltd	4.72	0.002	6.94	0.02	7.57	0.005	7.96	0.06	8.43	0.08	8.16	0.07	7.30	0.04
Kenya Commercial Bank Ltd	11.8	0.01	14.5	0.08	19.6	0.013	23.9	0.15	30.6	0.17	44.5	0.07	24.15	0.08
NIC Bank Ltd	2.26	0.009	2.41	0.04	3.56	0.006	3.94	0.08	4.91	0.09	4.93	0.08	3.67	0.05
Housing Finance Co Ltd	0.19	0.010	1.23	0.004	1.95	0.0016	2.31	0.07	4.00	0.08	4.14	0.07	2.30	0.04
Diamond Trust Bank Kenya Ltd	1.85	0.008	2.93	0.009	3.14	0.003	3.84	0.05	4.00	0.05	4.31	0.04	3.35	0.03

CFC	0.20	0.001	0.19	0.005	0.24	0.0012	0.31	0.015	0.22	0.024	0.34	0.014	0.25	0.01
StanbicHoldingsLtd														
I&M Holdings Ltd	2.98	0.001	3.01	0.002	3.21	0.0006	3.69	0.008	4.93	0.013	7.04	0.003	4.14	0.001

Table 4.4 shows the profitability for the banks under study for a period of six years compared to the amount spent on environment CSR related programs. From the table, the amount spent on environment for all banks in 2008 was the least compared to the following years. The amount spent on environment increased each year and the profit increased as well. In 2008, the banks that spend the largest amount on environment had the highest profit with the banks that spend the least amount on environment related CSR programs having the least profit. The Cooperative Bank of Kenya spend KES 0.02B on environment in 2008 and made profit of KES 16.14B followed by KCB that spend KES 0.02B on environment and made profit of KES 11.8B. In terms of average amount spent on environment and average profit for the six years, Equity Bank spend the highest amount in environment (KES 0.1B) and made the highest average profit for the six years (KES 16.47B). Though Barclays Bank of Kenya spend an average of KES 0.04B on environment for the six years, the mean profit was higher at KES 12.90B compared to I&M Holdings Ltd which spend an average of the same amount and made profit of KES 4.14B.

Figure 4.3: mean amount spent on environment CSR Programs for six years

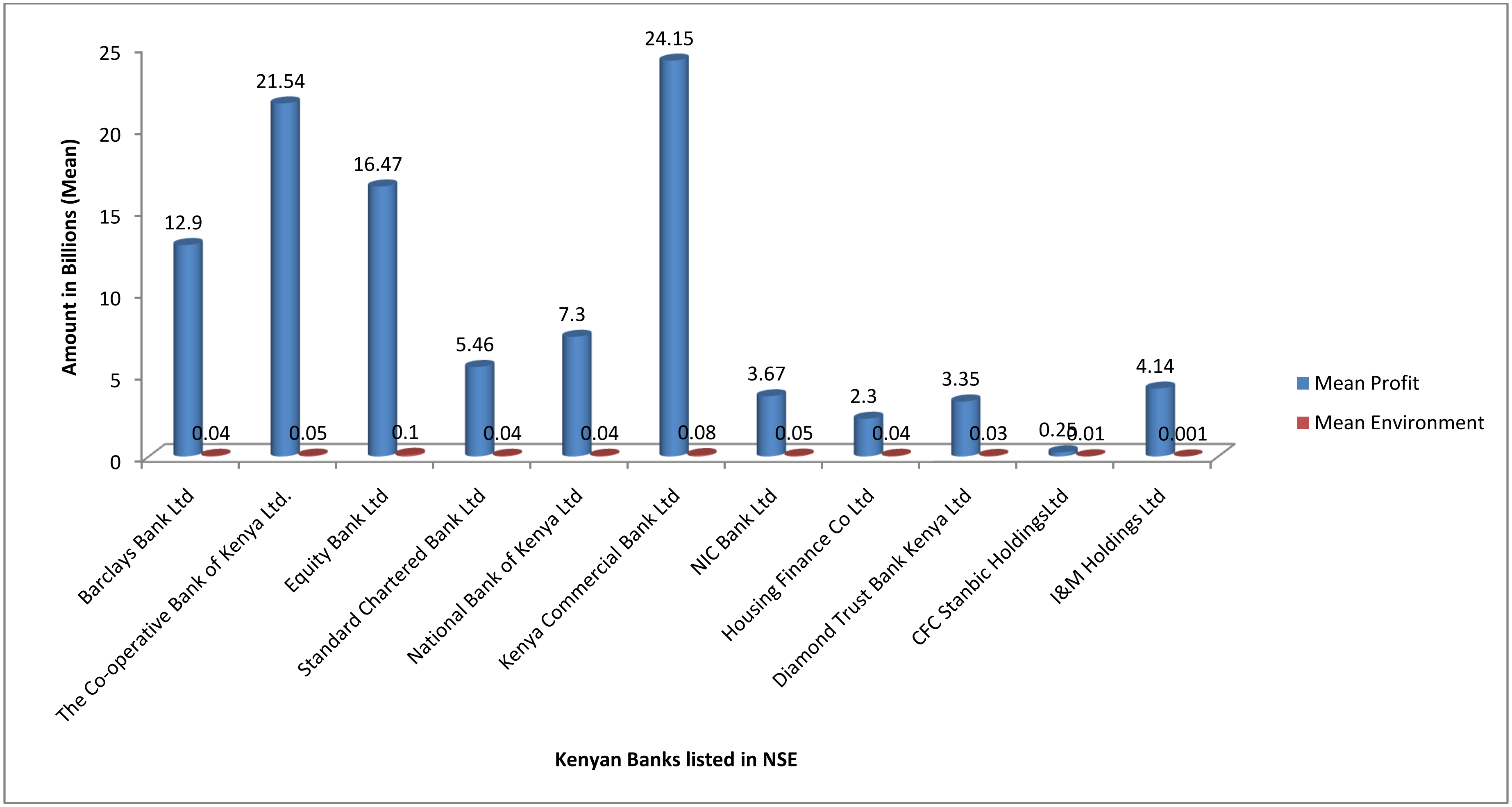


Figure 4.3 shows that KCB spend an average of KES 0.08B on environment related CSR Programs and made profit of KES 24.15B. Equity bank spend an average of 0.1Bon environment and made profit of KES 16.47B. The average of amount spend on environment for all the banks was above KES 0.01B with the difference between the highest spender (KES 0.1B) and the least spender (KES 0.01B) being KES 0.09B. CFC Stanbic Holdings Ltd made the lowest average profit (KES 0.25B) and spend an average of KES 0.010B on environment for the six years. Barclays Bank Ltd and Diamond Trust Bank Kenya Ltd spend an average of same amount of KES 0.03B on environment for the six years and made profit of KES 12.9B and KES 3.5B respectively.

4.6 Sports CSR Related Programs

Table 4.5: Amount spent on Sports CSR Programs for six years

Bank	2008 Amount in Billions		2009 Amount in Billions		2010 Amount in Billions		2011 Amount in Billions		2012 Amount in Billions		2013 Amount in Billions		MEAN Amount in Billions	
	P	**SPT**	**P**	**SPT**	**P**	**SPT**	**P**	**SPT**	**P**	**SPT**	**P**	**SPT**	**P**	**SPT**
Barclays Bank Ltd	11.61	0.0001	10.44	0.0006	13.22	0.002	12.39	0.003	14.14	0.009	15.62	0.01	12.90	0.004
The Co-operative Bank of Kenya Ltd.	16.14	0.0012	21.22	0.0091	20.14	0.0095	23.094	0.010	23.24	0.011	24.53	0.016	21.54	0.009
Equity Bank Ltd	3.25	0.004	5.69	0.013	13.77	0.014	19.33	0.0145	28.49	0.015	28.31	0.016	16.47	0.013
Standard Chartered Bank Ltd	2.32	0.002	4.11	0.003	5.34	0.004	6.94	0.006	7.22	0.009	6.81	0.01	5.46	0.006
National Bank of Kenya Ltd	4.72	0.001	6.94	0.003	7.57	0.005	7.96	0.006	8.43	0.008	8.16	0.015	7.30	0.006
Kenya Commercial Bank Ltd	11.8	0.005	14.5	0.009	19.6	0.013	23.9	0.015	30.6	0.017	44.5	0.024	24.15	0.014
NIC Bank Ltd	2.26	0.005	2.41	0.005	3.56	0.006	3.94	0.008	4.91	0.009	4.93	0.009	3.67	0.007
Housing Finance Co Ltd	0.19	0.0012	1.23	0.0014	1.95	0.0016	2.31	0.007	4.00	0.008	4.14	0.009	2.30	0.005
Diamond Trust Bank Kenya Ltd	1.85	0.001	2.93	0.001	3.14	0.003	3.84	0.005	4.00	0.005	4.31	0.007	3.35	0.004

CFC StanbicHoldingsLtd	0.20	0.0005	0.19	0.0006	0.24	0.0012	0.31	0.0015	0.22	0.0024	0.34	0.0031	0.25	0.002
I&M Holdings Ltd	2.98	0.0001	3.01	0.0003	3.21	0.0006	3.69	0.0008	4.93	0.0013	7.04	0.0054	4.14	0.001

Table 4.5 shows the profitability for the banks under study for a period of six years compared to the amount spent on sports CSR related programs. From the table, the amount spent on sports for all banks in 2008 was the least compared to the subsequent years. The amount spent on sports increased each year and the profit increased as well. In 2008, the banks that spend the largest amount on sports had the highest profit with the banks that spend the least amount on sports related CSR programs having the least profit. The KCB spend KES 0.005B on sports in 2008 and made profit of KES 11.8B followed by NIC Bank that spend same amount on sports and made profit of KES 2.26B. In terms of average amount spent on Sports and average profit for the six years, KCB spend the highest amount in sports (KES 0.014B) and made the highest average profit for the six years (KES24.15B). Though Barclays Bank of Kenya spend an average of KES 0.004B on sports for the six years, the mean profit was higher at KES 12.90B compared to I&M Holdings Ltd which spend an average of the same amount and made profit of KES 4.14B.

Figure 4.4: Mean Amount spent on Sports CSR Programs for six years

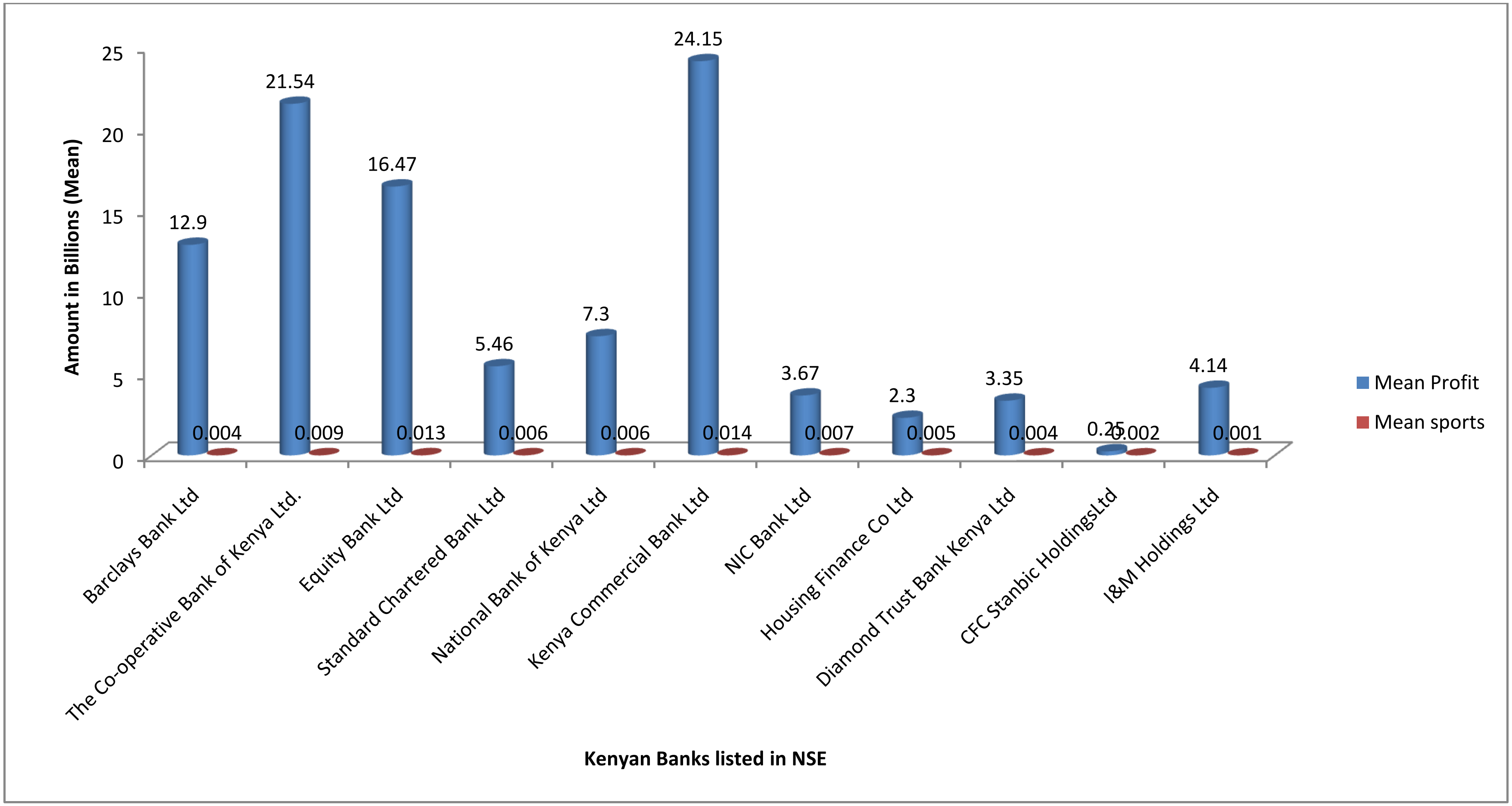


Figure 4.4 shows that KCB spend an average of KES 0.014B on sports related CSR Programs and made profit of KES 24.15B. Equity bank spend an average of 0.013Bon sports and made profit of KES 16.47B. The average of amount spend on sports for all the banks was above KES 0.001B with the difference between the highest spender (KES 0.024B) and the least spender (KES 0.001B) being KES 0.023B. CFC Stanbic Holdings Ltd made the lowest average profit (KES 0.25B) and spend an average of KES 0.002B on sports for the six years. Barclays Bank Ltd and Diamond Trust Bank Kenya Ltd spend an average of same amount of KES 0.001B on sports for the six years and made profit of KES 12.9B and KES 3.5B respectively.

Table 4.6: Mean Amount spent on CSR Programs for six years

Bank	Mean Health Billions	Mean Education in Billions	Mean PTB Environment Billions	Mean sports in Billions	MEAN PROFIT IN Billions
Barclays Bank Ltd	0.04	0.039	0.04	0.004	12.90
The Co-operative Bank of Kenya Ltd.	0.13	0.056	0.05	0.009	21.54
Equity Bank Ltd	0.11	0.073	0.10	0.013	16.47
Standard Chartered Bank Ltd	0.06	0.048	0.04	0.006	5.46
National Bank of Kenya Ltd	0.06	0.057	0.04	0.006	7.30
Kenya Commercial Bank Ltd	0.14	0.087	0.08	0.014	24.15
NIC Bank Ltd	0.07	0.064	0.05	0.007	3.67
Housing Finance Co Ltd	0.05	0.040	0.04	0.005	2.30
Diamond Trust Bank Kenya Ltd	0.04	0.032	0.03	0.004	3.35
CFC StanbicHoldingsLtd	0.02	0.010	0.01	0.002	0.25
I&M Holdings Ltd	0.01	0.012	0.001	0.001	4.14

Table 4.6 shows the average amounts spent on health,education,environment and sports against the profits posted by the banks for the period between 2008 and 2014.

4.7 Multivariate regression model and Correlation analysis

Table 4.7 Multivariate regression model and Correlation analysis

Regression Statistics	
Multiple R	0.884067387
R Square	0.781575145
Adjusted R Square	0.635958574
Standard Error	4.968202416
Observations	11

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	4	529.9299885	132.4824971	5.367350319	0.034855125
Residual	6	148.0982115	24.68303525		
Total	10	678.0282			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	-0.327382279	3.703054835	-0.088408704	0.932428853	-9.388431041	8.733666483	-9.388431041	8.733666483
Health	214.4157592	138.3057723	1.550302317	0.172047027	-124.0062741	552.8377925	-124.0062741	552.8377925
Education	-123.9965085	191.3454909	-0.648024199	0.540958693	-592.2020579	344.2090409	-592.2020579	344.2090409
Environment	38.17747316	230.3584611	0.165730718	0.873812216	-525.4893752	601.8443215	-525.4893752	601.8443215
Sports	-77.82355415	2574.892461	-0.030224002	0.976868677	-6378.358433	6222.711325	-6378.358433	6222.711325

This Multivariate regression model and Correlation analysis has three components: Regression statistics table, ANOVA table and Regression coefficient table. The ANOVA component shows that the variance tends towards zero with a P value of 0.035. This implies that the independent variables largely impact on the dependent variable. This can be summarized as $F(4, 6) = 5.37$, $P<0.05$.

The regression statistics table has the R square. This gives the overall goodness of fit measures:

$R^2 = 0.7815$

This means that 78.15% of the variation Y_i around Ybar (its mean) is explained by the regressors$X_1+X_2+X_3+X_4$

Our equation thus will be as follows

$Y=a+b_1x_1+ b_{2x2}+b_{3x3}+b_4x_4$

Whereby

Y = profitability (Dependent variable)

a = constant

X_1= Health

X_2= Education

X_3= Environment

X_4 = Sports

Fitting of the coefficients into the general multiple regression equation gave the below equation.

$$Y = -0.33+214.42X_1-123.99X_2+38.17X_3-77.82X_4$$

Hence, health and environment has a positive relationship with profitability. Increase in CSR on the two leads to increased profitability. Investment in health and environment programs improves the general well being of the society and a healthy society leads to increased uptake of banks products and services. Education and sports were found to be inversely related to CSR. This implies that increase in CSR on the two variablesleads to decreased profitability. This can be explained by the fact that huge sums of money are allocated to these activities which serve as a direct expense to the banks with no guaranteed positive returns in profitability.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings of the research, discusses the results, draws conclusions and makes recommendations for the study.

5.2 Summary of findings

The response rate was 100% (n=11). The banks under study were Barclays Bank Ltd, CFC Stanbic Holdings Ltd, I&M Holdings Ltd, Diamond Trust Bank Kenya Ltd, Housing Finance Co Ltd, Kenya Commercial Bank Ltd, National Bank of Kenya Ltd, NIC Bank Ltd, Standard Chartered Bank Ltd, Equity Bank Ltd and The Co-operative Bank of Kenya Ltd.

The amount spent on health for all banks in 2008 was the least compared to the following years. The amount spent on health increased each year and the profit increased as well. In 2008, the banks that spend the largest amount on health had the highest profit with the banks that spend the least amount on health related CSR programs having the least profit. The Cooperative Bank of Kenya spend KES 0.09B on health in 2008 and made profit of KES 16.14B in 2008 followed by KCB that spend KES 0.05B on health and made profit of KES 11.8B. In terms of average amount spent on health and average profit for the six years, KCB spend the highest amount in health (KES 0.14B) and made the highest average profit for the six years (KES 24.15B). Though Barclays Bank of Kenya spend an average of KES 0.04B on health for the six years, the mean profit was higher at KES 12.90B compared to I&M Holdings Ltd which spend an average of the same amount and made profit of KES 4.14B.

The amount spent on education for all banks in 2008 was the least compared to the following years. The amount spent on education increased each year and the profit increased as well. In 2008, the banks that spend the largest amount on education had the highest profit with the banks that spend the least amount on education related CSR programs having the least profit. The Cooperative Bank of Kenya spend KES 0.08B on education in 2008 and made profit of KES 16.14B in 2008 followed by KCB that spend KES 0.05B on education and made profit of KES 11.8B. In terms of average amount spent on education and average profit for the six years, KCB spend the highest amount in education (KES 0.087B) and made the highest average profit for the six years (KES 24.15B). Though Barclays Bank of Kenya spend an average of KES 0.039B on education for the six years, the mean profit was higher at KES 12.90B compared to I&M Holdings Ltd which spend an average of the same amount and made profit of KES 4.14B.

The amount spent on environment for all banks in 2008 was the least compared to the following years. The amount spent on environment increased each year and the profit increased as well. In 2008, the banks that spend the largest amount on environment had the highest profit with the banks that spend the least amount on environment related CSR programs having the least profit. The Cooperative Bank of Kenya spend KES 0.02B on environment in 2008 and made profit of KES 16.14B followed by KCB that spend KES 0.02B on environment and made profit of KES 11.8B. In terms of average amount spent on environment and average profit for the six years, Equity Bank spend the highest amount in environment (KES 0.1B) and made the highest average profit for the six years (KES 16.47B). Though Barclays Bank of Kenya spend an average of KES 0.04B on environment for the six years, the mean profit was higher at KES 12.90B compared to I&M Holdings Ltd which spend an average of the same amount and made profit of KES 4.14B.

The amount spent on sports for all banks in 2008 was the least compared to the following years. The amount spent on sports increased each year and the profit increased as well. In 2008, the banks that spend the largest amount on sports had the highest profit with the banks that spend the least amount on sports related CSR programs having the least profit. The KCB spend KES 0.005B on sports in 2008 and made profit of KES 11.8B followed by NIC Bank that spend same amount on sports and made profit of KES 2.26B. In terms of average amount spent on Sports and average profit for the six years, KCB spend the highest amount in sports (KES 0.014B) and made the highest average profit for the six years (KES 24.15B). Though Barclays Bank of Kenya spend an average of KES 0.004B on sports for the six years, the mean profit was higher at KES 12.90B compared to I&M Holdings Ltd which spend an average of the same amount and made profit of KES 4.14B.

5.3 Discussion

5.3.1 Health

The study sought to find out the effects of corporate social responsibility health related programs profitability. From the regression equation, health programs were found to be positively related to profitability. This shows that the amount spent on health related programs has a positive impact on profitability. In the banking industry, profitability may be as a result of increased interest income which is realized from increased sales of loans and other products by the bank. Spending on health may not contribute to profitability directly but the fact that health related programs improves the wellness of the society, this can improve the banking trends of the involved communities.

5.3.2 Education

The study sought to find out the effects of corporate social responsibility education related programs on the banks profitability. The regression equation found out thatthere is an inverse relationship between amounts spends on education programs and profitability. In the banking industry, education programs include purchase of textbooks to schools, desks donation, secondary school scholarships among others which serve as direct expenditure to the banks.

5.3.3 Environment

The study sought to find out the effects of corporate social responsibility environment related programs on the banks profitability. The study found out that the amount spent on environmenthas a positive relationship with profitability. In the banking industry, environment programs include supporting waste management initiatives, fight against global warming, tree planting among others. Environmental benefits of CSR include greater material recyclability, integration of environmental management tools into business plans, including life-cycle assessment and costing, environmental management standards, and eco-labeling.

5.3.4 Sports

The study sought to find out the effects of corporate social responsibility sports related programs on the banks profitability. The study found out that that the amount spent on sports related programs has a negative impact on profitability. In the banking industry, sports programs include supporting athletes and teams. In 2012, KCB was an official sponsor of Olympic athletes from Kenya. This may have served as direct expense to the bank when compared with the business that was realized by the end of the season.

5.3.5 Amount spent on CSR

The study has established that the amount spend on CSR differed significantly from one bank to the other. Although the study did not establish how the banks determine the amount to be spend on CSR, the amount set aside for CSR by each bank may be attributed to the fact that each bank differs in how it implements corporate social responsibility and that the differences depend on such factors as the specific bank's size, the bank's business culture, stakeholder demands, and how historically progressive the bank is in engaging CSR. Some banks focus on a single area, which is regarded as the most important for them or where they have the highest impact or vulnerability - human rights, for example, or the environment - while others aim to integrate CSR in all aspects of their operations. However, for successful implementation, it is crucial that the CSR principles are part of the banks values and strategic planning, and that both management and employees are committed to them. Furthermore, it is important that the CSR strategy is aligned with the bank's specific corporate objectives and core competencies.

5.3.6 Testing the study hypotheses

The study sought to test below hypotheses:

H1.There is a positive relationship between banks' CSR activities and their profitability

H2. Banks' CSR activities significantly contribute to their profitability.

From the Multivariate regression model and Correlation analysis which found a positive relationship between CSR and banks profitability, the above hypotheses were found to be true with exception of education and sports.

5.4 Conclusion

The concept of corporate social responsibility has prevailed since time immemorial and has for a long time paved way for organizations' to have moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law. For a long time, corporate social responsibility has raised issues on who actually benefits from the CSR initiatives. Business analysts have documented that CSR benefits the organization by pushing the business to the next level while at the same time benefiting the society. For a long time, CSR has been associated with profitability for organizations though the area has not been well researched.

The study has revealed that CSR actually has a positive impact on a bank's financial performance, particularly the profits. Probably the most direct explanation of a positive effect of CSR and bank performance is the view of CSR as a revenue generator – especially in the long run as evident from the banks under study for the six year period.

Linking this study with the current banking situation where competition is a key challenge, the bank's profit-making motives may revolve fundamentally around managerial beliefs that engaging in social initiatives can have a direct impact on the banks profitability hence the reason why the banks seen to increase the amount spent on CSR each year.

Hence, this study concludes that CSR has a positive impact on organizationsprofitability.

5.5 Recommendations

The study has established that CSR has a positive effect on banks financial performance. The banks that have spend more funds on CSR posted the highest Profit before tax. This means that the increase on the amount spent on CSR enabled the bank to reach most of its customers and the public at large through CSR projects. Although the study did not go into details of the CSR initiatives carried out by individual bank, some of the CSR intiatives by the banks have not been realized by majority of its customers and society at large. From the study, only three banks were found to have an organized CSR department within its departments namely KCB Foundation, Equity Bank Foundation and Cooperative Bank Foundation. Hence, this study recommends that the banks should have a well-planned and effective CSR approachesin order to enhancebrand and company reputation as well as improve efficiency, reduce the risk of business disruptions, and open up new opportunities driving innovation.

5.6Suggestions for further research

From the findings of this study, it is suggested that further research be carried out on the stakeholder and customer perception of CSR initiatives within the banking industry. There is a need to establish whether the CSR initiatives meet their goal and benefit their beneficiaries as well as establish their sustainability. In addition, there is a need to establish whether the customers bank where they bank as a result of the banks CSR initiatives or as a result of product diversity, quality customer service among others.

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Appendix One: Letter of transmittal of data collection instruments

ANTHONY MBITHI

P. O. BOX 100-70101

<u>HOLA</u>

Tel: 0710214770

Dear Respondent,

RE: <u>RESEARCH ON EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON ORGANISATIONS' PROFITABILITY OF THE BANKS LISTED ON NAIROBI STOCK EXCHANGE</u>

I am a final year Master of Business Administration at SEKU, specializing in Strategic Management. As part of my course, I am required to carry out a research on the above topic.

I will be grateful if you could spare sometime from your busy schedule and fill in the questionnaire. All the information provided will be purely used for academic purposes and your identity will be treated with utmost confidentiality.

Thank you for your cooperation.

Kindly do not write your name anywhere on the questionnaire.

Yours faithfully,

ANTHONY MBITHI

Appendix Two : Interview guide

EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY PROGRAMMES ON ORGANISATIONS' PROFITABILITY

A CASE STUDY OF KENYAN COMMERCIAL BANKSLISTED IN NAIROBI STOCK EXCHANGE (NSE)

This research is meant for academic purpose. You're kindly requested to provide answers to these questions honestly and precisely as possible. Responses will be treated with utmost confidentiality. Please tick [√] appropriate or fill in the required information on the spaces provided.

SECTION A: HEALTH

1. Kindly provide below data on health.

Year	Amount set for Health	Profit
2013		
2012		
2011		
2010		
2009		
2008		

SECTION B: EDUCATION

2. Kindly provide below data on education.

Year	Amount set for education	Profit
2013		
2012		
2011		
2010		
2009		
2008		

SECTION C: ENVIRONMENT

3. Kindly provide below data on Environment.

Year	Amount set for environment	Profit
2013		
2012		
2011		
2010		
2009		
2008		

SECTION D: SPORTS

5. Kindly provide below data on sports.

Year	Amount set for sports	Profit
2013		
2012		
2011		
2010		
2009		
2008		

Thank you for your participation in this study.