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"EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON PERFORMANCE OF COMMERCIAL BANKS IN BUSIA COUNTY, KENYA"

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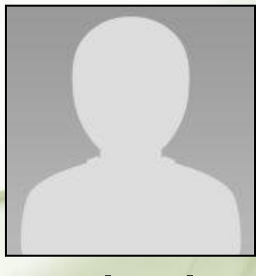

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1. Abstract

The purpose of this study was to investigate the effects of corporate social responsibility on the performance of commercial banks in Busia County, Kenya. The specific objective was to determine the effect of economic aspects of CSR on the performance of commercial banks, Busia County. The study was anchored on the Edward Freeman's Stakeholder Theory. The study employed a descriptive survey and correlational research designs. The target population was 40 employees comprising of Managers, Operational Managers, Financial Managers, marketing managers and Human Resource Managers. Census sampling technique was use to select the entire target population of 40 respondents. The questionnaires and the interview schedules were used to collect primary data. Validity was determined by use of content validity while reliability by use Cronbach alpha. Descriptive statistics and inferential statistics were used to analyse the data collected by use SPSS version 20. The results revealed that economic CSR aspects had significant positive effect of the performance of commercial banks in Busia (Economic=0.875**, P<0.01) and it accounted for 76.5% variance in performance. The study recommended that bank management should priorities CSR activities in their institutions and ensure enough resources and personnel are set aside to support the CSR activities.

Key words: Corporate social responsibility, Economic Aspect, Performance

2. Introduction

Banks, just like all other businesses globally, are under pressure to simultaneously improve the customer experience, meet compounding regulatory requirements and reduce operating costs (Nyamongo & Temesgen, 2013). Many of them seem to identify Social responsibility as an important strategy towards overcoming these challenges. It refers to the responsibility of an organization for the impacts of its decisions and activities on society and the environment through transparent and ethical behaviour that is consistent with sustainable development and the welfare of society. It takes into account the expectations of stakeholders, compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organization (Baron, 2001).

Mackey and Tyson (2007) argue that socially responsible corporate performance can be associated with a series of bottom-line benefits. But in many cases, it seems that the time frame of the costs and benefits can be out of alignment the costs are immediate, and the benefits are not often realized quarterly. Reputation is hard to quantify and measure; it is even harder to measure how much it increases a banks value. But since banks have developed methods to measure the benefits of their advertisement campaigns, similar methods can and should be able to be applied in the case of corporate reputation.

According to CBK, 2014, there are 76 commercial banks in Kenya, categorized as either public, private, local or foreign owned Large-sized banks constitute 46 percent of the industry while medium and small-size banks constitute 35 percent and 19 percent of the banking industry, respectively. The industry is governed by the Companies Act, the Banking Act, the Central Bank of Kenya (CBK, 2014).

Each of these banks has its own unique challenges but the common ones include: weak banking supervision, inadequate capital, political interferences, loss of employees, low profits and unsatisfied customers. Banks seek to address these challenges in various ways including education initiatives, customer awareness and community projects. One such project by Barclays Bank dubbed Barclays Banking on Change has already reached 40,000 people in rural and remote areas, teaching groups the importance of saving, (Kithinji and Waweru, 2000).

Notably, Equity Bank which was founded as Equity Building Society (EBS) in October 1984 and was originally a provider of mortgage financing for the majority of customers who fell into the low income population (Equity bank, 2014) The society's logo, a modest house with a brown roof, resonates with its target market and their determination to make small but steady gains toward a better life, seeking security and advancement of their dreams. The vast majority of Africans have historically been excluded from access to financial resources. (Equity bank, 2014).

Through its Equity Group Foundation, the bank has fully transformed the concept of philanthropy and corporate social responsibility. The foundation champions the socio-economic transformation of the people of Africa and seeks partnerships along six cluster thematic areas. These are: education and leadership development; financial literacy and access; entrepreneurship, agriculture, health, innovations and environment (Equity bank, 2015). For instance, the bank announced that its Wings to Fly Programme will offer 2,140 scholarships across the country to children from needy backgrounds who will attain 350 marks and above in the 2014 KCPE exam. This is part of their scholarship initiative to assist 10,000 deserving students to go through secondary school education. The programme is run through Equity Group and MasterCard Foundation with support from UKAID and USAID (Equity bank, 2015)

2.1 Statement of the Problem

There is little theoretical and empirical attention paid in understanding the motives why or why not corporations act in socially responsible ways (Galbreath, 2010; Rowley & Berman, 2000). Most of the theoretical and empirically oriented research on has shed light on relationships between corporate social responsibility (CSR) and corporate financial performance (Campbell, 2007; Rowley & Berman, 2000) and most emphasis there has been on determining the impact of corporate social responsibility (CSR) on financial performance rather to determine the effect of corporate social responsibility on the performance of commercial banks in Bungoma County.

The commercial banks in Kenya have wholly embraced CSR activities as part of their mission. However, despite the fast growth in the sector; it is not yet clear whether the performance of commercial banks are directly linked to the many CSR activities, that is, economic, social, legal and ecological aspects which they embrace. Therefore this study sought to assess effect of CSR activities on performance of commercial banks.

2.2 Research Hypothesis

$H_0 1$: There is no significant relationship between the economic aspects of Corporate Social Responsibility and performance of commercial banks in Busia County, Kenya.

2.3 Theoretical Framework

Stakeholder's Theory started to gain importance in 1980s. As advanced by Freeman, it advocates for attention to society more than profit maximization. Although organizations' are first to target its shareholders, they cannot forget the significance other stakeholders have on successes. According to Hawhins (2006) and Philips et al. (2003), stakeholder orientation makes more commercial sense and enables the organization to maximize shareholder wealth and enhancement of total firm value. The theory means focusing on employees and consumers, which should in turn bring about moderate attention to the community stakeholder. When employees are well taken care of they would keep on working in the organization for long and also if customers are treated well they would become loyal to the organization and as a result this leads to better organizational performance.

In the stakeholder theory, the purpose of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services according to Clarkson (1995) or to serve as a vehicle for coordinating stakeholder interests according to Evan and Freeman (1988). Accordingly, the corporation ought to be managed for the benefit of its stakeholders: its customers, suppliers, owners, employees and local communities and maintaining the survival of the firm. The decision-making structure is based on the discretion of the top management and corporate governance and frequently it is stated such governance should incorporate stakeholder representatives.

Stakeholder Theory of CSR is related to the belief than corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law or union contact according to Jones (1980). Thus, stakeholder theories takes into account individuals or groups with a stake in or claim on the company including shareholders, employees, customers, supplier and local community.

2.4 Conceptual Framework

This study therefore, was guided by the conceptual framework in Figure 1.1. This conceptual framework was divided into the following components: the independent variables which included economic, social, legal and ecological. The study sought to ascertain the individual effect of these variables on the performance of commercial banks in Busia County, which in this study was dependent variable. Therefore, the dependent variable was defined in term of profitability, customer base, transactional income and market share. The intervening variables on the relationship between CSR and performance of commercial Banks in Busia County were government regulation.

Figure 1:Conceptual Framework Showing Interaction of Key Variables of the Study

Independent Variables **Intervening variables** **Dependent Variables**

Economic Aspects
- Pricing
- Insurance cost
- Employee procurement

PERFORMANCE OF COMMERCIAL BANKS
- Profitability
- Customer base
- Transactional income
- Market share

3. Literature Review

3.1 Concept of Corporate Social Responsibility

According to Business for Social Responsibility (BSR), corporate social responsibility is defined as "achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment." describe CSR as "actions that appear to further some social good, beyond the interest of the firm and that which is required by law." A point worth noticing is that CSR is more than just following the law (McWilliams & Siegel, 2001).

Wood (1991) defines corporate social responsibility (CSR, also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business/ Responsible Business) as a form of corporate self-regulation integrated into a business model. CSR policy functions as a built-in, self-regulating mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms. CSR is a process with the aim to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere who may also be considered as stakeholders.

Corporate social responsibility (CSR) is also known by a number of other names. These include corporate responsibility, corporate accountability, corporate ethics, entrepreneurship, and triple corporate citizenship or stewardship and, or responsible bottom line. As CSR issues become increasingly integrated into modern business practices, there is a trend towards referring to it as responsible competitiveness or corporate sustainability (Mackey & Tyson, 2007).

3.2 Effect of Economic Aspects of CSR on Performance of Commercial Banks

The practices of philanthropy has been evolved from the day business existed in this world until today. The main reason for a company to exist is to create profit. Making profits are nothing wrong but the way used to derive such profits are of concerned. Before 1970, basically, corporate shared its profit with the community through philanthropic activity. In other word, CSR is after-profit obligation. If let say, companies are not profitable they do not have to behave responsibly. This impact is even worse during severe economic depression or when an organization is managed by unethical, short-term thinking managers that would lead to societies having no choice and accepting discrimination, child labour, pollution and dangerous working conditions. Another debate arises in this approach is if companies are just being good and donating a lot of money to social initiatives then they will be wasting shareholders' money. That is not sustainable in the long-run, and shareholders will quickly lose interest.

Thus, during 1970 to 1990, organization had shifted from sharing profits with the community as a soft approach of philanthropy to the hard approach by using philanthropy for the purpose of profit-making. CSR is perceived as a public relation tool in improving an organization image and performance. CSR is also performed for mitigating adverse impacts of an organization onto environment and society such as those in the oil and gas industry. While philanthropy does little or nothing to help companies make profits, CSR activities are linked to improving a company's bottom line. Therefore, during 1990 to 2001 period, embedding socially responsible principles in corporate management has become a corporate obligation.

CSR is increasingly being embedded into the corporate mission, strategy and actions of organizations. For a long term survival, CSR has been adopted as a corporate routine. Strategic CR is whereby an organization achieves sustainability in such a way that its CSR actions have become part and parcel of the way in which a company carries out its business. Its links to the bottom line of a company has been laid out clearly simply because, if it does not contribute to the bottom line, it will eventually be rejected by other stakeholders of the organization (Friedman, 1970).

Mackey and Tyson (2007) addressed the debate about whether firms should engage in socially responsible behaviour by proposing a theoretical model in which the supply and demand for socially responsible investment opportunities determine whether these activities will improve, reduce, or have no impact on a firm's market value. The theory shows that managers in publicly traded firms might fund socially responsible activities that do not maximize the present value of their firm's future cash flows yet still maximize the market value of the firm. Using a sample of non-financial Brazilian companies from 2005 to 2007, they analysed whether corporate social responsibility (CSR) has an impact on firm value.

Using companies' Tobin's Q as a proxy for their market value, the paper finds that firms that compose the Bovespa Corporate Sustainability Index (ISE) are traded at a premium compared to the other publicly traded firms. They also indicate that the positive impact of these policies is independent of the econometric method and period analyzed. The results confirm that the benefits of corporate social responsibility policies surpass the possible costs implied by the adoption of such policies, leading corporate social responsibility to exert a positive impact on firm value. Prior empirical research has reported mixed results.

McWilliams and Siegel (2001) have indicated how methodological issues can affect the findings and may be used to resolve some of the differences. The research studies reviewed so far have mostly highlighted on linkage of CSR with profit maximization, establishing brand loyalty to the organization, benefits of CSR, short term and long term impact of CSR etc. Therefore, it is clear that no in-depth study was conducted specially on the relationship between CSR investment and value of the firm as well as impact of CSR investment on value of the firm. Here, we find the gap on CSR, the most vital issue for the enterprises. Especially the service industries like banking.

Dean (1999) argues that the practice of CSR is subject to much debate and criticism. Proponents argue that there is a strong business case for CSR, in that corporations benefit in multiple ways by operating with a perspective broader and longer than their own immediate, short-term profits. Critics argue that CSR distracts from the fundamental economic role of businesses; others argue that it is nothing more than superficial window-dressing; others yet argue that it is an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations.

4. Methodology

This study was anchored on the descriptive and correlational research designs since the study focused on getting inferences from the findings on the effect of social corporate responsibility on a bank performance. The study covered all the eight (8) commercial banks in Busia County, Kenya. The study targeted eight (8) Managers, eight (8) Operational Managers, and eight (8) Financial Managers, eight (8) marketing managers and eight (8) Human Resource Managers of these commercial banks. In this study, all the 40 respondents were used since the number of the respondents is small, forming a census study. Stratified sampling techniques was used to categorize the eight (8) Managers, eight (8) Operational Managers, and eight (8) Financial Managers, eight (8) marketing managers and eight (8) Human Resource Managers. The questionnaires and the interview schedules were the main instruments for collecting of the primary data. Validity was determined by content validity while reliability was determined through Cronbach alpha with a measure of 0.713. Pearson Correlation analysis and linear regression enabled the researcher test the research hypothesis. A model was used to predict the bank performance based on CSR activities as illustrated below

$$P = \alpha + \beta_1 Ec + e$$

Where P = performance; Ec= economic; e = standard error

5. Findings

5.1 Descriptive Statistic: Economic Aspect

To determine economic aspect of CSR, a set of four statements were formulated. The respondents were asked to indicate the extent of agreement with each of the economic aspect statements. The pertinent results are presented in Table 1.

Table 1: Descriptive: Economic Aspect

Economic Aspect	D (%)	U (%)	A (%)	SA (%)	Mean
Efficient pricing of their products	1(2.63)	5(13.16)	10(26.32)	22(57.89)	4.3947
Reduced employee turnover, recruitment, and training costs	2(5.26)	8 (21.05)	19 (50.0)	9(23.69)	3.9211
Banks ensure insurance costs are fair	5(13.16)	11(28.95)	22(57.89)	0(0.0)	3.4474
Banks ensure there is less borrowing costs incurred	2(5.26)	4(10.53)	12(31.58)	20 (52.63)	4.3158
Banks ensure market share is upheld	0(0.0)	3(7.89)	9(23.68)	26 (68.42)	4.6053

SD-Strongly Disagree, D-Disagree, U-Undecided, A-Agree, SA-Strongly

The results in Table 1 reveal the result of economic aspect of CSR of banks in Busia County. The mean score for individual measure were rounded off the nearest whole number in line to the Likert scale used in the construction of research instrument. This assisted in the interpretation of the overall score of each statement.

In relation to efficient pricing of their products, the findings revealed that 22 (57.89%) of the respondents strongly agreed and further 10 (26.32%) agreed that banks ensure efficient pricing of their products. None of the respondents strongly disagree and only one of the respondents disagreed. With a mean score of 4 (agree), majority (84.21%) of the respondents confirmed that there is efficient of their products.

Similarly, the findings revealed that 9 (23.69%) of the respondents strongly agreed and further 19 (50%) agreed that banks practice CSR experience reduced employee turnover, recruitment, and training costs. None of the respondents strongly disagree and 2 (5.26%) of the respondents disagreed while 8 (21.05%) were undecided. With a mean score of 4 (agree), majority (73.68%) of the respondents confirmed that banks practice CSR experience reduced employee turnover, recruitment, and training costs.

On fairness of insurance costs, none of the respondents strongly disagree or strongly agree. However, 22 (57.89%) of the respondents agreed while 11 (28.95%) were undecided with a mean of 3 (undecided). Nonetheless, with mean of 5 (strongly agree), majority of the respondents strongly agreed (26, 68.42%) that banks that practice CSR to ensure market share is upheld and further 9 (23.68%) agreed. None of the respondents strongly disagree or disagree on the upholding of market share through practice of CSR by banks in Busia County.

Lastly, none of the respondents strongly disagreed that banks ensure there is less borrowing costs incurred while 2 (5.26%) disagreed. However, 20 (52.63%) strongly agree and additional 12 (31.58%) agree that banks ensure there is less borrowing costs incurred with a mean of 4 (agree). Majority of the respondents (84.21%) confirmed that banks ensure there is less borrowing costs incurred.

5.2 Correlation between Economic Aspect and performance

The Pearson correlation analysis was used investigate relationship between the economic aspects of Corporate Social Responsibility and performance of commercial banks in Busia County, Kenya. The objective was achieved as it determined the effect of economic aspects of CSR on the performance of commercial banks in Busia County. The results are as shown in are Table 2

Table 2: Correlational Analysis: CSR Economic Aspect

		Economic Aspect	Performance
Economic Aspect	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	38	
Performance	Pearson Correlation	0.875**	1
	Sig. (2-tailed)	0.000	
	N	38	38

**. Correlation is significant at the 0.01 level (2-tailed)

The results in Table 2 indicated that the relationship between economic aspect of CSR and performance of commercial banks in Busia County is strong, positive and statistically significant ($R = 0.875$, $p < .001$) with 99.0% confidence level. The study rejected the first null hypothesis since the significance level is less than 0.05 and confirms that there is significant relationship between the economic aspects of Corporate Social Responsibility and performance of commercial banks in Busia County, Kenya. This postulates that economic aspect of CSR has significant positive effect on the performance of commercial banks in Busia County, Kenya. An increase in economic aspect of CSR such as efficient pricing of products, less borrowing costs incurred and insurance costs are fair would result to increase in performance commercial banks in Busia County, Kenya

5.3 Regression analysis: Economic Aspect of CSR

Since correlation analysis indicated that economic aspect of CSR had positive significant relationship with performance of commercial banks in Busia County, linear regression was used to found coefficient of determination R square which is the variation in performance that is been accounted by economic aspect of CSR. The results are as shown in Table 3

Table 3: Regression results of Economic Aspect of CSR and Performance

R Square	Adjusted R Square		Df	F		Sig.
0.765	0.758		(1, 36)	117.168		<0.05
	Unstandardized Coefficients		**Standardized Coefficients**			
	B	**Std. Error**	**Beta**		**t**	**Sig.**
(Constant)	1.247	0.258			4.827	<0.05
Economic	0.659	0.061	0.875		10.824	<0.05

Dependent Variable: Performance

In establishing the effect of economic aspect of CSR on performance of commercial banks in Busia County, the study established a coefficient of correlation (R) as 0.875 and a coefficient of determination (R Square) equal 0.765. This reveals that economic aspect of CSR can significantly explain up to 76.5 % of the performance change of commercial banks in Busia County Kenya. The ANOVA results revealed that the percentage variation that is been accounted by economic aspect of CSR is statistically significant with F (1, 36) = 117.168, P<0.001. This implied that there is a positive and significant relationship between the predictor variable (economic aspect of CSR) and performance of commercial banks in Busia County further rejecting the null hypothesis as economic aspect of CSR has significant relationship with the performance of commercial banks in Busia County.

The unstandardized regression coefficient (β) value of economic aspect of CSR was 0.659 with a t-test of 4.827 and significance level of p< .001. This indicated that a unit change in economic aspect of CSR would result to change in performance of commercial banks in Busia County by 0.659 significantly.

The regression equation to estimate the performance was hence stated as:

Performance = 1.247 +0.659X Economic Aspect

The interview results revealed that, banks are keener on economic aspect of CSR as the main purpose of business entity is to provide good and service at a profit. Some of the economic activities of CSR were the provision of variety financial products that take care of each type of customer in the community. Some of the banks were found to decentralize their services to village level thereby saving their customers the cost of incurring a particular transaction. Similarly, the issue of mobile loans which can be acquired from phones without necessarily visiting banking hall has resulted to economic gain for both customers and bank. One of the respondents stated that:

> *There has been increase in loan uptake since introduction of mobile loan. Previously, the process of loan application was cumbersome and it took long time, but with mobile phone, more than 1000 loans are been awarded in a day at customer convenience (Interview, 2016)*

The research hypothesis was tested using the significance level of both the R and R2; the research aimed to test the hypothesis with an aim of accepting whether there was any relationship between economic aspect of CSR and performance of commercial banks in Busia County. The first research hypothesis posited HO1: There is no significant relationship between the economic aspects of Corporate Social Responsibility and performance of commercial banks in Busia County, Kenya. From the results, economic aspect of CSR had a positive and significant ($P<0.05$) effect on performance of commercial banks and accounted for 76.5% variance in commercial banks performance in Busia County, Kenya. Therefore, the first null hypothesis was rejected as economic aspect of CSR had positive and significant relationship on the performance of commercial banks in Busia County, Kenya.

Muthee (2015) revealed that CSR-economic aspect has a fair positive effect and influence the financial performance (ROA and ROE) for all aggregated commercial banks. The study also found out that small banks invest least in CSR and their ROA and ROE was minimal compared to large and medium banks as big banks are able to offer fair prices of their products. Ogolla (2013) revealed that there is a strong relationship between the corporate social responsibility such as cost of obtaining loans and the dependent variable financial performance of commercial banks in Kenya. Akanbi and Ofoegbu (2012) revealed that economic corporate social responsibility has a significant effect on the organization performance of banks and it was good predictors of organizational performance of banks in Nigeria.

6. Conclusions and Recommendations

Basing on the study hypothesis, the findings revealed that there is a positive and significant relationship between the economic aspects of corporate social responsibility and performance of commercial banks in Busia County, Kenya. This was as a result efficient product pricing, reduction in employee turnover and less borrowing cost incurred. Economic aspect had the highest relationship with performance as both the customer and the banks were interested in economic gain such as reduction in borrowing, insurance cost and low recruitment cost.

The study 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 up the organization performance.

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