EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON ORGANISATION PERFORMANCE: A CASE OF BANKING INDUSTRY IN HOMABAY COUNTY, KENYA

BY

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DECLARATION

This research project is my original work and has not been submitted in any other institution of higher learning for award of degree in any program.

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DEDICATION

I dedicate this research project to my lovely wife Jullie Awour and my son Kylan Kirimi.

ABSTRACT

Sustainable development and reduction of poverty are the key issues that need to be addressed by the governments, mostly in the developing world which include Kenya. Corporate social responsibility (CSR) becomes an element that addresses these issues and therefore it becomes more vital in the daily operations of financial institution in the banking industry who is a key player in sustainable development. According to commercial banking crisis in Kenya survey report (2013),banking industry has been experiencing several challenges including non-performing loans and low credit services among many other challenges. Banks in Homabay County have not been left out of these challenges and despite several strategies being employed to curb the same, the problems continues to exist. CSR can be used to rectify this problem but studies before have not addressed effect of CSR on banks performance. Therefore there is little knowledge on the effect of CSR on banks performance particularly in Homabay County. The main objective of this study was to determine the effect of corporate social responsibility on performance in banking industry within Homabay county. The specific objectives of this study was to investigate the level of influence of philanthropic CSR activities on banks performance, to establish the extent of environmental focused CSR activities on banks performance and to investigate the effect of ethical CSR on performance of these banks. This study used correlation survey design. A population of 150bank employees and bank management was used. Both primary and secondary data were used. The questionnaires were the main instrument of data collection. Experts and surveyors were used to validate research tools. Reliability was tested by analyzing pilot data obtained by pilot testing. Data was analyzed using multiple regressions. The results were then presented in forms of tables and charts. Results of the study would be useful to the government and policy makers for making some critical decisions and implementing the right policy based on the outcome of this study. The study findings are that $\beta_1 = 0.299$,meaning that an increase in one unit of bank philanthropic responsibility will result to a significant increase in bank performance by 0.212 and $\beta_2 = 0.479$ suggesting that , an increase in one unit of bank ethical responsibility would result to a significant increase in bank performance by 0.412. $\beta_3 = 0.108$ indicating that an increase in unit of environment focused activities would result to an increase of 0.108 in performance of the bank. The study therefore concluded that financial institutions should operate outside their normal business activities to support the community. Improving the livelihood of a community attracts volunteers, investors and sponsors who will help a commercial institution achieve its objectives towards community needs. Finally, the researcher recommends that shareholders views be considered regarding how much the firm should invest on social course annually and the nature of CSR activities to be undertaken.

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ABBRIVIATIONS AND ACRONYMES

CSR - Corporate Social Responsibilities

WBCSD -World Business Council for Sustainable Development

ICT - Information and Communication Technology

GDP – Gross Domestic product

UN HABITAT – United Nation Agency for Human Habitat

CHAPTER ONE

INTRODUCTION

This chapter includes the background of the study, statement of the problem, purpose for the study, specific objectives of the study, significance of the study, assumptions of the study and scope of the study.

1.1Background to the Study

It's now recognized that sustainable development and reduction of poverty are the key issues that need to be addressed by the governments, mostly in the developing world which include Kenya. However, the government cannot meet this alone without the help of the private sector. Policy makers are paying much attention to the potential contribution of the private sector to such policy objectives. As the issue of sustainable development becomes more important, Corporate Social Responsibility (CSR) becomes an element that addresses these issues and therefore it becomes more vital in the daily operations of financial institution in the banking industry.

According to Pollack (2011), the World Business Council for Sustainable Development (WBCSD) describes CSR as a contribution to sustainable economic development ;It is said that there is no way to avoid paying serious attention to corporate social responsibility: the costs of failing are simply too high. There are countless win opportunities waiting to be discovered: every activity in a firm's value chain overlaps in some way with social factors, everything from how you buy or procure to how you do your research, yet very few companies have thought about this. The goal is to leverage your company's unique capabilities in supporting social causes, and improve your competitive context at the same time. The job of today's leaders is to stop being defensive and start thinking systematically about corporate responsibility according to Michael and Einwiller (2015) who says successful executive or leaders know that CSR is inevitable and their long term success is based on continued good relationship with the society.

Corporate social responsibility is applicable to almost all organization but the banks are keener to these programs as they have to do extra in order to satisfy their multiplicity of stakeholders.

According to McDonald and Rundle-Thiele (2013) he points the advantages of CSR as, maximizing profit to shareholders who are the real owners of the business, maintaining optimal liquidity for depositors, Complying with regulators demand, satisfying the deficit sector demand for credits, contributing to the development of the economy and satisfying the needs of the immediate community in which they operate. CSR is being used today to establish good rapport with the public, Rahim Jalaludin and Tajuddin(2011). It is also used as pre-emption strategy by the corporations to save their skin from unforeseen risks and corporate scandals, possible environmental accidents, governmental rules and regulations, protect eye-catching profits, brand differentiation, and better relationship with employees based on volunteerism terms. Corporations today are much conscious to publish their CSR activities on their websites, sustainability reports and their advertising campaigns in order to get the sympathy of the customer. CSR is also practiced because customers as well as governments today are demanding more ethical behaviors from organizations. In response, corporations are volunteering themselves to incorporate CSR as part of their business strategies, mission statement and values in multiple domains, respecting labor and environmental laws, while taking care of the contradictory interest of various stake holders,Darmawan (2011).

Another justification in favor of CSR actions by the leading corporations today is to gain competitive advantage which may not be enjoyed by the peer corporations. CSR actions in this respect also help corporations to attract and retain not only customers but also motivated employees, which in turn ensure long-term survival of the corporation. Malhotra and Mukherjee (2014) supported that companies with sound CSR actions developed positive social identity and enjoyed increased loyalty from both customers and employees. CSR actions are also often associated with better financial performance of the organizations. Loureiro, Sardinha, and Reijnders(2012), has found significant positive relationship between CSR and corporate financial performance. Research has shown that companies that care for the environment and exhibit good CSR practices experience increased consumer purchase preference in addition to increased investment appeal according to Hasouneh, and Allafi(2012). Banks cannot do this alone without involving the community who are the customers. For them to produce relevant services and

products, they must carry out a study to get information from their customer on their perceptions towards their business operations particularly their quality of services rendered to increase customer satisfaction and ultimately their loyalty by offering a variety of products according to customers expectation.

Prior to 2015, Kenya's banking sector was observed as a vibrant, highly profitable sector, with industry averaging north of 20%. Sector loan book grew at an impressive margin of 16% between 2011 to 2015 on the back ofhigh economic growth and low financial inclusion. As at 2015, Kenya's private sector credit to GDP was 35%, lower than Sub-Saharan Africa's average of 46% and the global average of 129%. The sector was also characterized by increased adoption of technology and usage of alternative channels which enabled aggressive banks to tap into the unbanked population efficiently, thereby boosting margins and overall profitability.

Considering low rates of financial inclusion, the sector's potential to grow remains high. However, following various developments in the banking sector over the past two years, expectations on the future outlook of the sector have also changed much. Following the changes In Central Bank leadership mid-2015, the sector has seen 3 banks collapse which resulted to low consumer confidence in the sector and overall strength of the sector. This deteriorated further after the introduction of the interest rate cap in August 2016, which is expected to lower interest margins and result in slower credit growth. Non-performing loans have also increased across the sector from an industry average of 5.2% before 2015 to an average of 7.9% as at September 2016, mainly attributed to a challenging business environment and enhanced supervision by the Central Bank.

1.2 Statement of the problem

With the new competent and competitive players, the Kenyan banking system is now driven by advanced competition brought about by globalization, deregulation of financial services and the development in Information and Communication Technology (ICT), among others, to render services according to cost-benefit criteria. This has affected bank customer's habits as well, while the increasing demands for clear and hard facts about the social and environmental

performance of banks by an increasingly well-informed breed of stakeholders have made corporate social responsibility (CSR). Organizations in Kenya perceive and practice corporate social responsibility as a corporate philanthropy aimed at addressing socio-economic development challenges. But then what impact does this have on the performance of banks?In spite of the existing of some literature about the role of corporate social responsibility in the aspects of environment and society, there is a significance gap about how corporate social responsibility improves organization performance due to lack of documented evidence of the benefits, hence the researcher's focus will be to find out the effect of CSR on organization performance based on selected commercial banks to find out whether these institutions realize any benefits from the much they spend. It also seeks to find out the policies set by the government concerning the CSR activities since CSR has been used by business institutions to evade tax in terms of paying less towards tax as tax is free of CSR activities organization indulge in. It is against this background that, there is the need to find out the effects of CSR on organizations performance: A case of banking industries in Homa Bay Country.

1.3Objective of the Study

The main objective of this study was to determine the effect of corporate social responsibility on organization performance in the banking industry within Homabay County.

1.3.1 Specific Objectives

The specific objectives of this study sought to;

i. To investigate the level of influence of Philanthropic CSR activities on organizational performance
ii. To establish the extent of influence of Ethical CSR activities on organizational performance.
iii. To determine the effect of Environmental focused CSR activities on organizational performance.

1.4Research hypothesis

H_{o1}Philanthropic CSR activities has no significant influence on organizational performance.

H_o2 Ethical CSR activities has no significant influence on organizational performance.

H_o3 Environmental focused CSR has no significant effects on organization performance.

1.5 Significance of the study

The contribution of this study would not only contribute to the organizations interested in the performance but also draw attention to the in depth knowledge or the issue affecting the business in general. The outcome will then be useful to the government for making some critical decision regarding the importance of the research, policy makers will benefit from the research in that they will be able to make and implement the right policy based on the outcome. The public would also benefit from the study since they would come to understand the impact and benefit of the research and the researchers would also use the study as a reference to guide them to carry out future related studies and other stakeholder to adjust positively towards making banking more effective, which will then translate to improved productivity.

1.6 Scope of the study

The study based its focus only in Homa Bay County. It will look at the performance of the banks in one calendar year between 1st January 2016 and 1st January 2017 and it will duel on identifying the effect of CSR on organizational performance in Homa Bay; investigating the effect of Philanthropic CSR activities on organizational performance; the effect of Ethical CSR activities on organizational performance; the effect of Environmental focused CSR activities on organizational performance and the effect of government policy and priority on organization performance.

1.7 Conceptual framework

The conceptual framework of this study examines how the CSR affects the performance of organizations. The key aspect that can be applied is the effect of CSR on organizational performance. In this the effect of Philanthropic CSR activities on organizational performance; the effect of Ethical CSR activities onorganizational performance; the effect of Environmental focused CSR activities on organizational performance which include faster service, expanding investment and customer retention and then establishing how government policy can intervene.

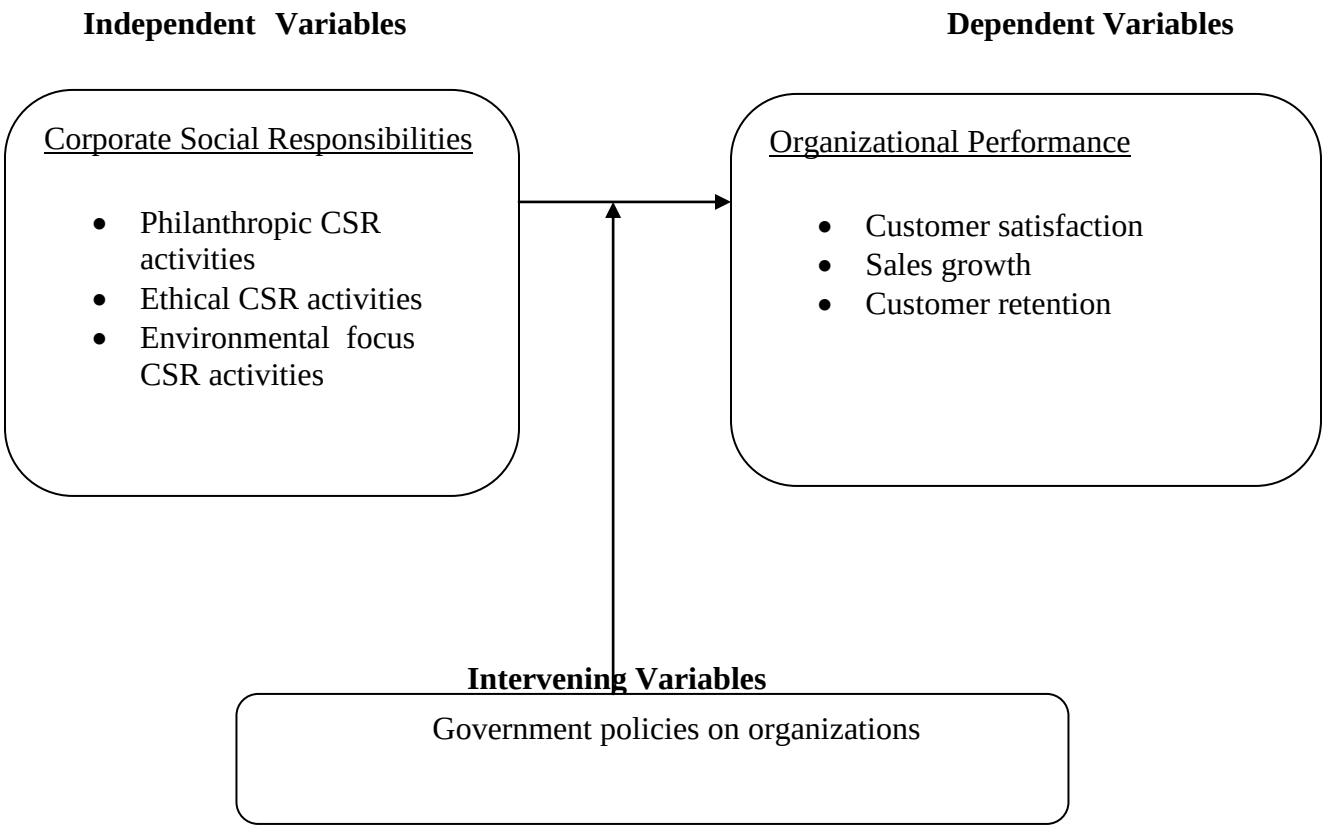

Figure 1.1 CSR on the organizational performance (Source: Adopted from Renny 2011)

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will review literature relevant to the study; specifically it looked at theories and empirical studies. These theories include instrumental or descriptive theories and normative or prescriptive theories, while the empirical literature will be on corporate social responsibility, organization performance, organization reputation, corporate image, quality of services and customer retention.

2.1Theorical Review

Many researchers have shown how CSR initiatives can reap benefits for a company. Companies that have engaged in CSR all over the world have elicited favourable responses from their key stakeholders. These CSR activities have also acted as a source of competitive advantage. According to Sen and Bhattacharya (2001), CSR initiatives can lead to positive perceptions of the consumers about the organization and the product or service produced and marketed by the organization. Positive consumer perceptions have been shown to lead to customer loyalty and customer satisfaction. According to Oloko (2012), customer loyalty and satisfaction are key predictors of the overall performance of banking institutions in Kenya. Companies with CSR policies have been shown to attract high quality employees (Greening and Turban, 2000; Turban and Greening, 1997). Having high quality employees can be a source of customer retention in an organization. Investors are attracted to make investments in public companies with CSR Policies (Domini, 1992; Sen et al, 2006). Such investments can ensure long-term survival of the organization and also act as a source of improved performance.

2.1.1 Concepts of Corporate Social Responsibility

The European Commission (2006) affirms, the CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Corporate social responsibility understanding is limited due to the vast and absence of consensual definitions of the concept. Weber (2008) says a universally

accepted definition of CSR is yet to emerge. Indeed Amaeshi and Adi (2005) argue that there are as many definition of CSR as there are writers on the topic. It has been described as an ambiguous, vague, subjective, unclear, amorphous and fuzzy. CSR refers to the responsibility of the stake holders and the community that influence corporate policies and practices according to Khanifar*et al., (2012*). CSR is also considered to be influenced by the institutional environment in which companies operate (Gilbert, 2008). That is the surrounding where the firm is situated forces the firm into becoming more responsible by handling issues that are currently affecting the environment. For example in the banking industry they are need to allure and retain customers in order to compete favorably with other banks. Corporate social responsibility has become the buzz word in business literature now-days.

Regard to the fact that CSR is an abstract concept in a certain extent; no one could accurately define its borders yet. It does not exist any uniform definition. It is because the fact that companies does it voluntarily on its own beliefs or visions of profit. Socially responsible approach is not statutory. Individual forms of CSR concept is created always by a given company with its own stakeholders. CSR concept includes economic, legal, ethical and philanthropic expectations that a society has in relation to a company (Classon and Dahlstrőm, 2006).

According to Rendtorff and Mattson (2012), companies are perceived as human communities that use social practices in order to achieve common goals. These objectives are realized through bond of trust and authentic relationships with customers. The most important ethical principles that promote “good life of customers” are: customer’s autonomy, dignity, honesty, customer’s vulnerability that represents basic presumption for decent access to customers.

Yeung (2011) defines key element of CSR in the banking sector such as: understanding of financial services complexity, risk management, strengthen ethics in the banking business, strategy implementation for financial crisis, protection of customers’ rights and channels settings for customer complaints.

Macdonald and Rundle-Thiele (2008) examined a relationship between CSR and customers' satisfaction in the bank. According to the conclusion of their study, customers' satisfaction is more affected by pro-client oriented events than CSR activities. And if the bank decides to develop CSR activities, focus of these activities has to be properly chosen.

Soana (2011) examined a correlation between social and financial performance of banks. This analysis showed that Italian banks haven't shown any significant correlation between social and financial performance. According to this study, any negative correlation between social and financial performance has not been revealed. On the other hand, results of this study provide evidence that banks' investment in CSR does not lead to economic benefits for the bank.

According to Graafland and Van de Ven (2011), focus on a social responsibility of the bank requires increased professionalism of those who are working in the financial sector; a stronger focus on compliance with Code of Ethics; verification of employees' capabilities and other approaches such as transparency, focus on stakeholders' interests and cooperation with social institutions.

Robin (2008) states that society would like to have an economic system that creates opportunities for the growth of economic welfare and a happy life of people. The mission of ethics is to minimize the abuse of companies' power in the bilateral exchange relations and to reduce a negative impact on a people's daily live. A fundamental issue of business ethics is how to make capitalism more ethical. According to Sigurthorsson (2012), risk of CSR consists in the fact that it tends to become an excuse for soft law and corporate self-regulation. Icelandic banks implement their CSR concept through a financial support of charitable activities and they did not pay attention to a formation of socially responsible practices but reduced CSR tools only for public communication. Corporate social responsible practices should focus more on processes that make socially responsible profit and not on its distribution. Fassin and Gosselin (2011) reported that large institutions such as Fortis, Arthur Andersen & Co. and AIG had a strong CSR and ethical culture but they have gone bankrupt anyway. These cases show a discrepancy between official pronouncements and procedures of senior management. According to Palomino

and Martinez (2011), the effectiveness of ethics programs is different in banks. Some programs are primarily aimed at achieving a favourable image in relation to socioeconomic institutions (government, media, society, customers) and they have not significant effect on the ethics of employees.

According to Gibbons (2011), many banks in United Kingdom do not act transparently. A scope of provided information is no sufficient, quality information absent for people who have financial difficulties etc. Tea, Paulišič, Krstinič-Nižič (2011) indicate that honesty, awareness, responsibility, creativity, objectivity and professionalism absent in the banking culture.

According to study of Pérez and Del Bosque (2012) which focused on Spanish banking institutions, banks tend to promote only those activities through CSR from which generally the greatest benefit have. In the banking sector, there are three basic groups: customers whom banks try to meet their financial needs; employees whom banks try to create a perfect working conditions to achieve their satisfaction and at last community (bank's surrounding) where banks contribute to a sustainable growth. In the area of CSR activities, Pérez and Del Bosque (2012) accuse banks of short-term improvement of bank's image and profit increase. According to authors, it is necessary to incorporate a social responsibility into organization's image and into a long-term strategy to reduce scepticism. Authors report that banking sector suffered large scratches on its image and credibility because of its integral participation in economic crisis. CSR concept is perceived as the most effective tool to improve reputation.

Watkins (2011) states that banking system is a typical capitalist activity which aims to a profit. Policy of laissez-faire believes that individuals and companies may seek to increase their financial wealth without any restrictions. Financial market presents unlimited opportunities for growth in financial wealth.

Based on results of empirical research, Chih, Chih and Chen (2010) indicate that larger companies are more oriented on CSR and the fact that financial performance and CSR are not together mutually related. Higher financial performance means that a company has a lot more

available funds for CSR activities. There is a direct correlation between the overall health of the economy and a level of CSR in the company. If the economy is in a bad condition for example inflation is high, productivity growth or consumer confidence has a low level, companies do not have a vision to achieve profit in the near future and therefore they do not behave as socially responsible as in the area of economic optimism. The relationship between competition and CSR level is not linear. This means that the competition that is too low or too intense has a negative effect on CSR in the company. In a highly competitive environment, companies are trying to save resources because of their low profit margins. Conversely in the area where the competition does not exist, the environment does not force companies to build competitive advantage because trading partners does not have a choice among many alternatives. According to authors, companies made more socially responsible activities to gain competitive advantage in the area of more intense competition on the market. A higher level of self-regulation in the financial sector has a significantly positive effect on CSR. Companies behave more socially responsible in countries where relationships between employees and employers are characterized by cooperation where the management schools and macroeconomic environment are better.

Goss and Roberts (2011) investigated the relationship between CSR and a cost of banks' loans. Actually, banks meet a supervisory role over companies. Within credit approval process and subsequent verification, banks gain much more information about the company than other interested parties on the market. Therefore they are best placed to assess the level of socially responsible activities undertaken by the company. Authors found that companies that have problems with CSR pay for loans of 7-18 basis points more than social responsible companies. Companies' investments to CSR reduced their volatility and thereby increased their attractiveness as a potential borrower.

Lenders are more sensitive to CSR activities of debtor in the area of less secure environment. Also less creditworthy borrowers who engage voluntarily in CSR activities have higher credit spreads and shorter maturity of loans. In this case, banks consider CSR investments as an

unnecessary dispersion of corporate resources which increases a risk of the company. Result of increased risk is translated to higher borrowing costs.

According to Chatterjee and Lefcovitch (2009) managers' dilemma lies in the fact that which of CSR concepts are more important for the company than corporate responsibility (profit maximization).Principal responsibility of managers is in relation to shareholders. Managers may be satisfied if a minimal and law required level of CSR is achieved. Banks are dominantly oriented to maximize profits and totally ruthless in their activities in relation to interest of depositors, investors and general public. Banks violate the law, regulatory rules and code of ethics in order to maximize their own profit. According to Fassina (2011) the more bankers spoke about the social responsibility, the more they focused on increasing of shareholder value and their own personal bonuses and the height of "golden parachutes".

The concept of CSR is under discussion since 1953 when New Jersey Supreme Court permitted Standard Oil Company to provide financial assistance to Princeton University as a philanthropic action. Court decision was given against the suit filed by one of the shareholders of Standard Oil, believing that it would lessen the shareholder's wealth. The CSR definition of Brundtland (1987) "Paths of progress which meet the needs and aspirations of the present generation without compromising the ability of future generations to meet their needs." Wood (1991) described CSR as "a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships." Deetz (2003) stated CSR actions as being reactive to theneeds of the community. However the essence of these definitions is identical that the organizations are taking responsibility for CSR activities to better environment, create value for society, treating employees fairly and philanthropic.

Researchers like Stanwick and Stanwick (1998); Maignan and Ferrel (2000); and Kashyap, Mir, and Iyer (2006) has suggested that corporations should perform CSR activities and to communicate these activities to their customers, public, government. Corporate social responsibility increases employee commitment level with the organization because CSR

activities include welfare of the employees and their families (Ali et al., 2010). Dawkins (2004) stated that when an organization contributes towards social welfare, it enhance commitment level of existing customers and attracts the motivated potential employees. Brammer, Millington and Rayton (2007) stated when a company has CSR initiatives; employees are more proud of and committed to the organization.

Arsoy et al., (2012) proved by their search in Turkish organizations that reciprocal positive relationship between CSR and financial performance and mutual influence; the existence of a variable can lead to the other. To put it simply, to make the relationship between CSR and financial performance.

2.1.2 Concepts of Organizational Performance

Corporate Social Performance (CSP) theory has evolved from several previous notions and approaches. Its root can be found in Howard R. Bowen (1953), who explained that social responsibility of businessmen was to pursue those policies, to make decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society. In 1979, Carroll introduced the concept of corporate social performance, making a synthesis of basic principle of social responsibility, concrete issues for which social responsibility exists and the specific philosophy of response to social issues. War tick and Cochran (1985) extended the Carroll approach suggesting that corporate social involvement rests on the principles of social responsibility, the process of social responsiveness and the policy of issues management

2.1.3 Stakeholder Theory

Normative theory of stakeholder is used to interpret the function of the corporation and identify moral or philosophical guideline for corporation operations. It tries to stipulate what should happen based on moral value. One of the architects of deontological theory believed that individuals have the right to be treated as ends in themselves and not merely as a means to an end (shank man 1999; Metcalfe, 1998).

2.2 Empirical Review

Previous studies on the relationship between CSR (Corporate Social Responsibilities) and organizational responsibility did not provide conclusive evidence; others revealed that there is significant relationship between CSR and organizational profitability while others has contrary view. For instance, Lee, (2008) opined that keeping abreast of global trends and remaining committed to financial obligations to deliver both private and public benefits have forced organizations to reshape their frameworks, rules, and business models. To understand and enhance current efforts, the most socially responsible organizations continue to revise their short- and long-term agendas, to stay ahead of rapidly changing challenges. McGuire (1988) also argued that companies who do not take into account CSR, may not survive since they may fail to innovate. They conjectured that design may form the basis of constructing the link between innovation and CSR. In the same way, Lee, (2008) maintained that corporate social responsibility initiatives can lead to innovations through Corporate Social Responsibility in any nation would proactively promote the public interest by encouraging community growth and development and voluntarily eliminating practices that harm the public sphere, regardless of legality(Abefe-Balogun, 2011).

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2.2.1 Philanthropic CSR and Organizational Performance

Philanthropy involve the following activities in an organization;-Donation of sales, unrestricted cash donations, donation of products, employee volunteerism, collection of customer donations, charity events, promotion of public service announcements to mention but a few. According to Noam (2011) corporate philanthropy is a potential source of other-oriented, extrinsic value since it entails the ethical benefit of supporting others in need, it's also means of gaining social status and, as such, can be a source of self-oriented, extrinsic value. "A discretionary responsibility of a firm that involves choosing how it will voluntarily allocate resources to charitable or social service activities in order to reach marketing and other business-related objectives of which there are no clear social expectations as to how the firm should perform" Ricks (2005).

Shehu (2013) examined the influence of CSR on profit after tax of some selected deposit money banks in Nigeria. He found that CSR has significant effect on profitability. Richard and Okoye, (2013) also investigated the impact of corporate social responsibility deposit money of bank in Nigeria. They discovered that social responsibility has a great impact on the society by adding to the infrastructures and development of the society. The result of Babalola, (2013) who investigated the impact of social audits on corporate performance among Nigerian manufacturing firms agreed with others researchers (Sehu, 2013; Richard and Okoye, 2013; Lee, 2008 and Abefe-Balogun, 2011) who affirmed that CSR has a positive and significant relationship with the organizational performance.

Akindele (2011) also examined the extent and role of the retail banking industries in corporate social responsibilities practices to help achieve sustainable growth and development in the local communities. It was found that there is a significant relationship between bank profitability and CSR practices. In the same way, Olayinka and Temitope (2011) used qualitative research method to examine the relationship between corporate social responsibility and financial performance in Developing Economies. The result showed that CSR has a positive and significant relationship with the financial performance measures. Amole *et al*. (2012) also used ordinary least square (OLS) model of regression in testing the relationship between CSR and firms financial performance.

However, Moore, (2001) and Amaeshi et al.(2006) found that CSR has negative relationship with profitability, while Barnett and Salomon, (2006) discovered that there was no relationship between CSR and profitability because its relationship is complex to understand. Chapple and Moon, (2005) asserted that corporate social responsibility referred to as "corporate citizenship" and can involve incurring short-term costs that do not provide an immediate financial benefit to the company, but instead promote positive social and environmental change. Amaeshi et al. (2006) used a two pronged and two stage approach in carried out a research on Corporate Social Responsibility (CSR) in Nigeria: Western mimicry or indigenous practices? The results/analysis showed that the understanding and practice of CSR in Nigeria is still largely philanthropic and

altruistic. There finding differs from the understanding and practice of CSR in Western economies where CSR have advanced beyond philanthropy. Moore, (2001) also investigated the relationship between CSR and corporate financial performance and the study reported that negative relationship exists between CSR and CFP. The result of Wright and Ferris (1997) is in line with Moore, (2001) who found negative relationships

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 share 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, organisation 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 organisation image and performance. CSR is also performed for mitigating adverse impacts of an organisation 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 organisations.

For a long term survival, CSR has been adopted as a corporate routine. Strategic CR is whereby an organisation 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 organisation.

2.2.2 Ethical CSR and Organizational Performance

Ethical principles adopted in individual banks and their communications towards key stakeholders are the most intertwined in criteria of the third pillar of social responsibility. Human rights in an organizational environment are mainly linked to an employment legal relationships and working conditions. Banks largely base their businesses on ethical principles because bank-client relationship is the alpha and omega of their economic performance.

Within the criterion of Code of Ethics, only existence of this key document in the bank has been evaluated not document's quality or compliance. A compliance of the Code of Ethics should represent an essential precondition for socially responsible behaviour of banks but information about compliance or non-compliance with ethical standards are not available and banks can also rely on subjective opinions and individual cases of dissatisfied clients or employees. GE Money Banks is committed to the Code of Ethics issued by the Czech Banking Association without publishing any internal code of ethics. A highly discussed topic in the Czech Republic and abroad is related to equal opportunities where the issue of employment conditions for men and women is most commonly stated. However in the Czech banking sector, this question may not be considered as a problematic one. There is varied opinion in academic literature on the relationship between customer satisfaction and customer loyalty.

Some researchers have concluded that the relationship is non-linear (Auh and Johnson, 1996). There are some who have concluded that the relationship is asymmetrical (Anderson and Mittal, 2000). However, some have shown a direct link (Grace and O'Cass, 2004) by concluding that more satisfied customers are likely to make a repeat purchase that leads to the generation of more favourable evaluations and attitudes and ultimate consumer loyalty. This can be a source of competitive advantage.

One of the reasons why clients switch banks is dissatisfaction (Manrai and Manrai, 2007) which is caused mainly by unfavourable tariffs (Colgate and Hedge, 2001; Santonen, 2007). According to Richardson and Robinson (1986), customers close their accounts in banks because of dissatisfaction caused by among other reasons poor service as perceived by the customers, employees who are rude or unhelpful to the clients and their personal nature of the banking institutions. The most important factors that determine bank customer retention and acquisition are quality service and customer satisfaction (Jamal, 2004; Armstrong and Seng,2000).

According to Mylonakis (2009), banks in the 21stcentury banking environment must continuously strive to improve on customer perceptions through the marketing concept and through closer interactions with the customers in order to achieve customer loyalty and gain a competitive advantage. Taking measures to build customer loyalty and restore confidence is critical to the success of the financial institutions (Matute-Vallejo etal, 2011).

According to Brown and Dacin (1997), CSR record provides a general evaluation criterion for customer satisfaction. CSR influences positive client evaluation in three ways. Firstly, according to Daub and Ergenzinger (2005), social programmes make consumers feel that they belong to a community or social group when consuming a service. Secondly, CSR strengthens a sense of positive feeling towards the organization thereby creating a connection between the client and the organization (Sen and Bhattacharya, 2001) and thirdly, clients view such organizations as providing more value to them when compared to the non-socially responsive organizations (Mohr and Web, 2005).

Banking institutions should endeavour to create positive evaluations in the mind of a customer through aligning their corporate image with their actions on the societies in which they operate (Kay, 2006) as the perceived customer positive image evaluations about a service organization depends on the organization's configuration of its social programmes and strategies.

Ethical norms can be interpreted through individual conscience and the expectations of external stakeholders. The motto of the London Stock Exchange "My word is my bond" embodies the

basic ethical principles of honesty and sincerity, which together with trust, are traditionally linked to the financial sector (Decker − Sale, 2009).The codes of ethics that embody voluntary constraints also include the basic principles of integrity, fair conduct, respect and transparency in the financial sector. The ethical values and expectations of stakeholders are most apparent in the stakeholder dialogue, which puts communicative ethics into practice. Deckerand Sale (2009) draw attention to the fact hat the compliance approach, which is aimed at compliance with statutes, often does not favour the establishment of ethical business practices and business culture.

From a social aspect, there has been a new development in recent years, namely helping the poor. One example is the micro-loan programme through low-income banking (Tzu-Kuan Chiu, 2013). The backdrop to this is the UN's Principles for Responsible Investment, which stresses the importance of 'inclusive finance" for vulnerable groups which otherwise could not afford financial products and services(PRIs 2011).

According to Chatterjee and Lefcovitch (2009), the importance of ethical standards for a financial market consists in the fact that financial markets works with money of other owners and the risk can bring profit but also losses. Too high risk has to be minimized for two reasons. First, it must be maintained a confidence in an investment. Second, undertaken risk may not mean a dangerous investment.

In the context of financial crisis, discussion about a moral aspect of banking industry is still more intense. Banking sector is often considered to be an amoral area (Icke, Caliscan, Ayturk, Icke, 2011), which is primarily focused on a risk and revenues.

Paulet (2011) states that a banking area is not situated in ethically free area. According to the author, financial crisis shows that aggressive capitalism has demonstrated its limits. Regulations system must be supplemented by a transparency and moral aspects. To create a sustainable strategy means to define capitalism by new way through efficiency criteria which focus not only

on a financial performance but also on economic and social conditions that guarantee better distribution of welfare to people.

2.3 Effects of Environmental Focused CSR on Organizational Performance

An environmental policy and issues related to an environmental protection are considered as an important part of CSR concept by commercial banks. Banks as well as companies from other sectors of the economy have to adopt environmental policies and principles for a functioning of socially responsible organizations in regard to a sustainable growth and pressures from public.

An environmental policy does not play an important role due to an economic performance of commercial banks but banks still give quite a lot of financial resources in an environmental matter especially in a form of financing of environmentally focused projects.

According to Stawiski et al. (2010) organization should involve their employees in decision making regarding which actions should be undertaken relating to community, environment and employees themselves so that organization can get maximum benefits of CSR. Employees will be motivated by organization's CSR activities and ultimately organizational performance will increase.

It cannot be interpreted through external expectations; it is a voluntary activity, however, it has become common practice among banks, contributing to the better reputation of the financial sector (Decker – Sale, 2009). In the years following the crisis, there was an apparent shift in social expectations towards the general domains of CSR in the banking sector and its preferences. There is a need for the endorsement of social expectations in CSR that are more directly linked to the bank' s business activities and clientele. (Lentner, 2011)

As far as stakeholders are concerned, the key expectations of clients include secure products and appropriate information provision. Employees want a safe workplace that is free from discrimination, and the respect of human dignity, while competitors expect fair competition. Banks not only need to watch the direct environmental impacts of their own operations, but also the impacts of their lending activities (Thompson and Cowton, 2004).

Klassen and McLaughlin (1996) after carrying out there research they conclude that environmental management can play a positive role in improving corporate organization performance. Cheruiyot (2010) carried out a research to establish the relationship between corporate social responsibility and financial performance of firms. His conclusion was that there was a statistically significant relationship between CSR and organization performance. Li X., (2009) measured different corporations in China on an assessment index system and found that organization with higher scores have high financial performance. Obusubiri (2006) in a study on CSR and portfolio performance also found a positive relationship between CSR and portfolio performance. He attributed this positive relationship to good corporate image that comes with CSR making investors prefer such companies. The good CSR behavior has a reputational benefit for the company.

Customer satisfaction is a communal outcome of the customer's perception, evaluation, and psychological reaction to consumption experience with product or service. According to a research carried out by McDonald and Rundle (2013), Customer satisfaction is a post purchase attitude formed through mental comparison of the quality a customer expects to receive from an exchange, and the level of quality the customer perceives actually receiving. Customer satisfaction results in behavioral outcomes such as customer retention, commitment, creation of a mutually rewarding bond between the user and the service provider, increased customer tolerance for services and products failures, positive word-of-mouth advertising about the organization, increased future customer spending, and it might result in more selling, attracting new customers, lowering costs, and greater profitability.

Greening and Turban (2010), studied the 500 companies and concluded a direct positive relationship between CSR and customer satisfaction. Marketing studies focused on customer satisfaction with physical products and services delivered through channels according Brammer, Millington, and Rayton (2007), Customer satisfaction leads to faster market penetration and in turn, to accelerated cash flows and likely acts as underlying mechanism by which customers' satisfaction affects shareholder value in any industry according to Beurden, and Gossling (2008).

Communication is vital to any organization in that good communication leads to no deficit or gap between the company and the public there by creating a positive image, this leads customer retention.

Many studies explained that customer satisfaction can lead to brand loyalty and repurchase intention. Alafi and AlSufy,(2012), investigated that customer satisfaction that has a positive result on brand loyalty. Accordingly, Amin and Isa (2008), related that customer satisfaction positively influences brand loyalty. Satisfaction occurs as a result of performance of a product or services meets purchaser expectation. Armstrong and Seng (2009) proposed that satisfaction is a positive affective reaction to an outcome of a prior experience.

CHAPTER THREE

RESEARCH METHODOLOGY

This chapter describes the methodology used in the study. It outlined the research design, research site, target population, sample design, sample size determination, sample procedures, data collection, research instruments, validity and reliability of research instruments, administration of research instruments, scoring of research instruments, data analysis and ethical issues that was included in the study.

3.1 Research design

This study used descriptive design and multiple regression analysis**.** This design measured two variables: independent variable and dependent variable. The independent variable was corporate social responsibility which was measured by three sub-variables (ethical, environmental and philanthropic) and the dependent variable was organizational performance which was measured by customer satisfaction, sales growth and customer retention.

3.2 Study Area

Homabay County was the area of the study. Its located in Nyanza region of Kenya along the shore of lake Victoria, Homabay County is bordering Kisii to the East, Migori County to the south. Homa Bay County is located 130km south of the city of Kisumu and about 400km from the city of Nairobi. Homa Bay county is situated on latitude 3400 46E and longitude 0000 40's and it covers an area of 29km^2 of which 9km^2 falls within the central business district (CBD) while the rest consists of peri-urban settlements. The CBD is under leasehold tenure while land in the peri-urban areas is under freehold. (UN HABITAT 2014)

3.3 Target population

The population consisted of 150bank employees including bank managers of four major banks in Homabay county which included Barclays bank, Kenya commercial bank, Cooperative bank, and Equity bank. A census study was done hence all members of the population were contacted.

3.4 Data collection methods

3.4.1 Instruments of Data Collection

The questionnaires was the main instrument of data collection. The questions were divided into variables of interest. Likert scale with point 5 will be used with 1- Very low, 2-Low, 3-Medium, 4-High and 5-Very high. The variable under study included philanthropic, ethical and environment focused CSR activities. All these three variables related to Corporate Social Responsibility of a bank in the area under study. The dependent variables were increased sales, customer satisfaction and customer retention of the bank as a measure of bank performance. The respondents responded to the questions in each variables based on strength of 1 to 5.

3.5.2 Validity and Reliability of Research Instruments

According to Trochim (2005) Reliability has to do with the quality of measurement. In its everyday sense, reliability is the "consistency" or "repeatability of your measures Cooper and Schindler,(2011 defines validity in one or three ways, agreement between theoretical definition and operational indicators, absence of systematic mistakes and that we measure that we say we measure. The questionnaires were pre tested by conducting a pilot survey. The study used the internal consistency technique by employing Cronbach Coefficient Alpha test for testing the research tools. Internal consistency of data was determined by correlating the scores obtained from one time with scores obtained from other times in the research instrument. The result of correlation is Cronbach Alpha where the coefficient is usually a decimal value which falls within the range of -1.0 to +1.0.

3.6 Sources of type of data

The main source of data was primary source, that is the respondents from the questionnaires used in getting the views of different bank employees on the variable under study which included Philanthropic, Ethical and Environment. All these three variables related to corporate social responsibility of a bank in the area under study. Secondary data was also sought from journals, magazines, books and internet related to the study

3.7 Data Collection procedures

In the study, questionnaire was designed in such a manner that it related to the main variables. The questionnaire was used to collect data**.** The study entailed both qualitative and quantitative data. The qualitative data was analyzed and interpreted while the quantitative data was analyzed through mean, standard deviation and simple regression hence drawing the findings that can be interpreted so as to come up with conclusion about the study being carried out.

3.8 Data processing and analysis

Primary data was analysed using multiple regression. The data collected from the respondent will be coded and entered in SPSS V21 for data analysis. Before the analysis is done, test for normality will be done so as to ascertain whether to use parametric or non-parametric test in subsequent analysis. Descriptive statistics will be done to identify characteristics of demographic data of respondents while inference statistics will be done for the purpose of Correlation. Thus identify the relationship between CSR activities and organization performance of the bank and Multiple Regression will be done to find out the variance in the dependent variable (organization performance) that will be explained or accounted by the independent variables (Philanthropic, Ethical, and Environment). The model illustrated below was used to predict the bank performance based on CSR activities.

Independent variable and dependent variable

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e} \qquad \textbf{Model 3.1}$$

Where,

Y= Organizational performance

X_1 = Philanthropic CSR activities

X_2= Ethical CSR activities

X_3= Environmental focus CSR activities

e = Error term

3.9 Ethical Issues

The researcher applied every effort to ensure that the respondents' rights to privacy were respected all the way from the informal interviews to the survey period. All respondents were made aware of informed consent and voluntary participation while an assurance of confidentiality of information will be given. Similarly, the researcher did not make any citations that may compromise the respondents' confidentiality.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

This chapter discusses the results of the findings of the data analyzed from the 147questionnaires. The data was analyzed based on the research objectives and questionnaire items using a statistical tool, to generate frequency distribution tables, means, charts, graphs and the results of analysis presented.

4.2 Descriptive analysis

The Table 4.1 below shows the results when the respondents were asked about their gender. 64.6% (95) were male and 35.4% (52) female.

Table 4.1 Gender

	Frequency	Percent	Cumulative Percent
male	95	64.6	64.6
female	52	35.4	100.0
Total	147	100.0	

The Figure 4.1 below shows the distribution of respondents per bank where 29.3% (43) of them were from Equity bank, 15% (22) were from Coop bank, 32.7% (48) came from Barclays bank and 23.1% (34) of them were from KCB bank

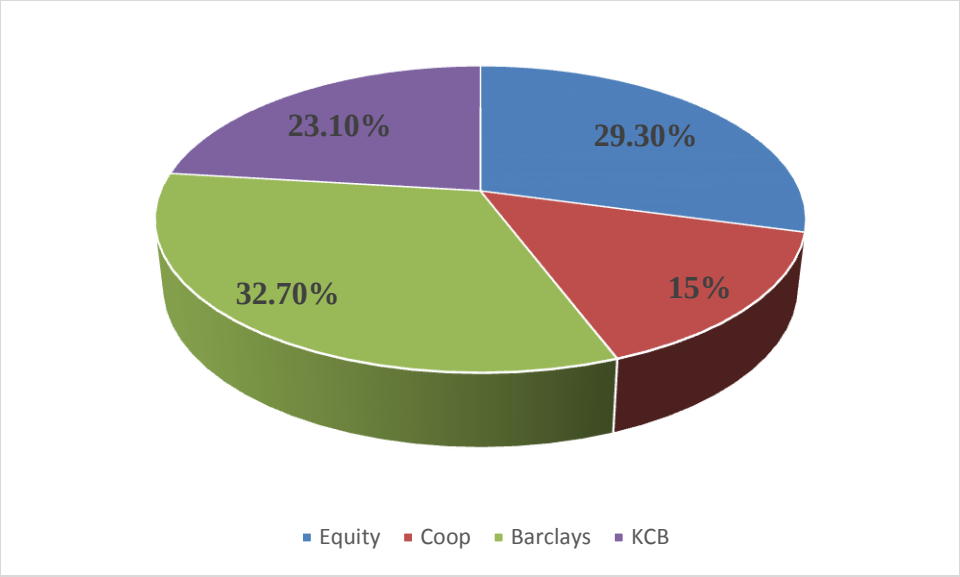

Figure 4.1Banks

In the Table 4.2 below shows the type of respondent, it was found that 29.3% (43) of them were from the management and 70.7% (104) of them were ordinary employees.

Table 4.2 Types of respondent

	Frequency	Percent	Cumulative Percent
Management	43	29.3	29.3
Bank employee	104	70.7	100.0
Total	147	100.0	

In the Figure 4.3 below shows the results when the respondents were asked the level of education they had, 0.7% (1) of the respondents had primary education, 3.4% (5) of them had secondary education, and 22.4% (33) of them had college certificate, 62.6% (92) of them had 1st degree while 10.9% (16) of them had 2nd university degrees

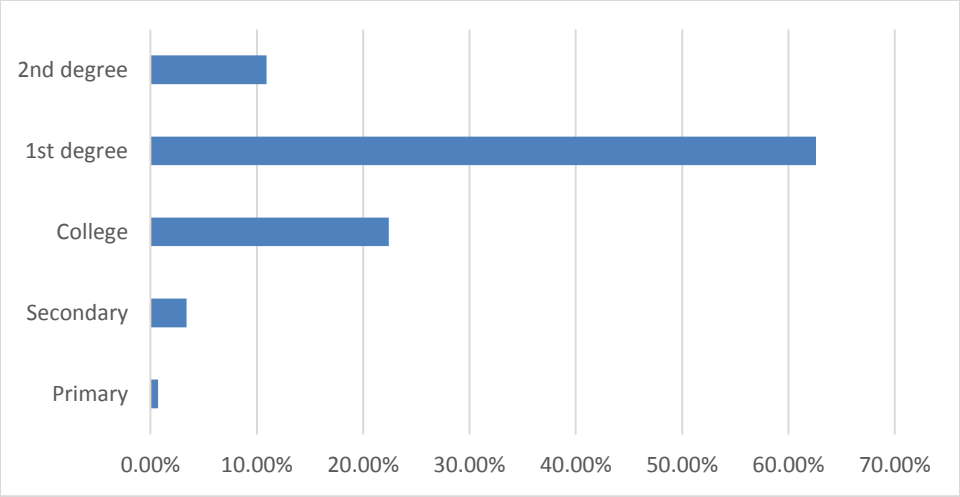

Figure 4.3Levelofeducation

In the Figure 4.4 belowshows the results when the respondents were asked their occupation, 33.3% (49) of the respondents were marketers, 48.3% (71) of them were accountants, and 18.4% (27) of them were managers.

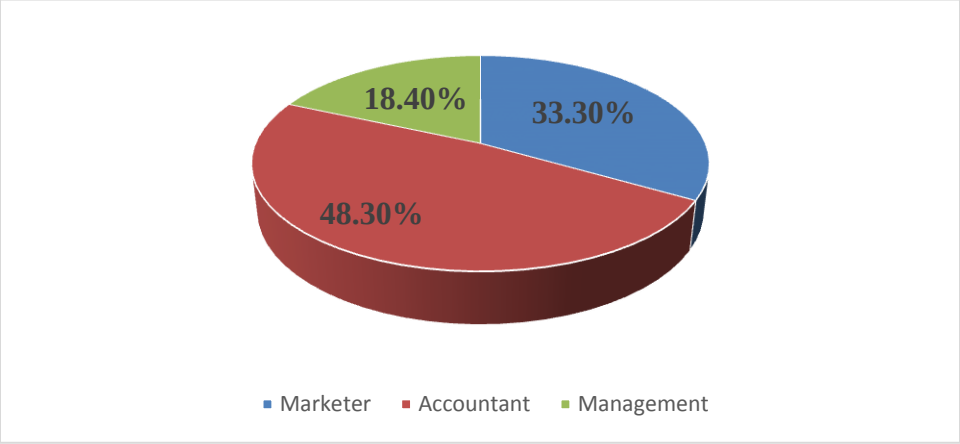

Figure 4.3Occupationofrespondent

The Table 4.3 below shows the results when the respondents were asked to what extent their banks are participating in community support activities 15%(22) of the commented to a very low extent, 6.8%(10) commented to low extent,15.5% (23)commented medium, 35.4% (52) commented high and 27.2% (40) of them commented very high.

Table 4.3Participation in Community support activities

	Frequency	Percent	Cumulative Percent
Very low	22	15.0	15.0
Low	10	6.8	21.8
Medium	23	15.6	37.4
High	52	35.4	72.8
Very high	40	27.2	100.0
Total	147	100.0	

The Table 4.4 below shows the results when the respondents were asked to what extent their banks are participating in community support activities 29.3% (43) of the commented to a very low extent, 17.7%(26) commented to low extent,21.1% (31)commented medium,17.7%(26) commented high and 14.3%(21) of them commented very high

Table 4.4 Participation in Government support activities

	Frequency	Percent	Cumulative Percent
Very low	43	29.3	29.3
Low	26	17.7	46.9
Medium	31	21.1	68.0
High	26	17.7	85.7
Very high	21	14.3	100.0
Total	147	100.0	

The Table 4.5 below shows the results when the respondents were asked to what extent their banks are participating in giveaways activities e.g. giving Umbrellas to customers, 29.3% (43) of the commented to a very low extent, 15%(22) commented to low extent,29.9% (44)commented medium, 15.6% (23) commented high and 10.2%(15) of them commented very high.

Table 4.5 Participating in giveaways

	Frequency	Percent	Cumulative Percent
Very low	43	29.3	29.3
Low	22	15.0	44.2
Medium	44	29.9	74.1
High	23	15.6	89.8
Very high	15	10.2	100.0
Total	147	100.0	

The Table 4.6 below shows the results when the respondents were asked to what extent their banks are participating in recycling activities e.g. giving Umbrellas to customers, 35.4% (52) of the commented to a very low extent, 21.1%(31) commented to low extent,21.8% (32)commented medium, 12.9% (19) commented high and 8.8% (13) of them commented very high.

Table 4.6 Participating in recycling

	Frequency	Percent	Cumulative Percent
Very low	52	35.4	35.4
Low	31	21.1	56.5
Medium	32	21.8	78.2
High	19	12.9	91.2
Very high	13	8.8	100.0
Total	147	100.0	

The Table 4.7 below shows the results when the respondents were asked to what extent their banks are participating in environmental awareness activities, 17.7% (26) of the commented to a very low extent, 10.9%(16) commented to low extent, 25.9% (38)commented medium,17% (25) commented high and 28.6% (42) of them commented very high.

Table 4.7 Participating in environmental Awareness activities

	Frequency	Percent	Cumulative Percent
Very low	26	17.7	17.7
Low	16	10.9	28.6
Medium	38	25.9	54.4
High	25	17.0	71.4
Very high	42	28.6	100.0
Total	147	100.0	

The Table 4.8 below shows the results when the respondents were asked to what extent their banks are participating in afforestation activities, 15.6% (23) of the commented to a very low extent, 23.1%(34) commented to low extent,15% (22)commented medium, 20.4% (30) commented high and 25.9% (38) of them commented very high.

Table 4.8 Participating in afforestation activities

	Frequency	Percent	Cumulative Percent
Very low	23	15.6	15.6
Low	34	23.1	38.8
Medium	22	15.0	53.7
High	30	20.4	74.1
Very high	38	25.9	100.0
Total	147	100.0	

The Table 4.9 below shows the results when the respondents were asked to what extent their banks adhere to the code of conduct, 2.7% (4) of the commented to a very low extent, 1.4%(2)

commented to low extent,11.6% (17)commented medium, 21.8% (32) commented high and 62.6% (92) of them commented very high.

Table 4.9 Adherence to codes of conduct

	Frequency	Percent	Cumulative Percent
Very low	4	2.7	2.7
Low	2	1.4	4.1
Medium	17	11.6	15.6
High	32	21.8	37.4
Very high	92	62.6	100.0
Total	147	100.0	

The Table 4.10 below shows the results when the respondents were asked to what extent their banks are participating in organization that preserve culture, 2.7% (4) of them commented to a very low extent, 10.9%(16) commented to low extent,12.2% (18)commented medium, 34.7% (51) commented high and 39.5% (58) of them commented very high.

Table 4.10 Participating in organizations that preserve culture

	Frequency	Percent	Cumulative Percent
Very low	4	2.7	2.7
Low	16	10.9	13.6
Medium	18	12.2	25.9
High	51	34.7	60.5
Very high	58	39.5	100.0
Total	147	100.0	

The Table 4.11 below shows the results when the respondents were asked to what extent their banks respect the laws governing business conduct, 4.1% (6) of the commented to a very low extent, 9.5% (14)commented medium 24.5% (36) commented high and 61.9% (91) of them commented very high.

Table 4.11 Respect to the laws governing business conduct

	Frequency	Percent	Cumulative Percent
Very low	6	4.1	4.1
Medium	14	9.5	13.6
High	36	24.5	38.1
Very high	91	61.9	100.0
Total	147	100.0	

The Table 4.12 below shows the results when the respondents were asked to what extent their banks realized increase in customers in the last one year,2.7% (4) of the commented to a very low extent,5.4%(8) commented to low extent,17% (25)commented medium,42.9% (63) commented high and 32% (47) of them commented very high.

Table 4.12 Increase in customers

	Frequency	Percent	Cumulative Percent
Very low	4	2.7	2.7
Low	8	5.4	8.2
Medium	25	17.0	25.2
High	63	42.9	68.0
Very high	47	32.0	100.0
Total	147	100.0	

The Table 4.13 below shows the results when the respondents were asked to what extent their banks realized increase in deposits in the last one year , 2.7% (4) of the commented to a very low extent, 9.5%(14) commented to low extent,23.8% (35)commented medium, 31.3% (46) commented high and 32.7% (48) of them commented very high.

Table 4.13 Increase in deposits

	Frequency	Percent	Cumulative Percent
Very low	4	2.7	2.7
Low	14	9.5	12.2
Medium	35	23.8	36.1
High	46	31.3	67.3
Very high	48	32.7	100.0
Total	147	100.0	

The Table 4.14 below shows the results when the respondents were asked to what extent their banks realized decrease in the number of the existing customers in the last one year, 19.7% (29) of the commented to a very low extent,21.1%(31) commented to low extent,27.2% (40)commented medium,18.4% (27) commented high and 13.6% (27) of them commented very high.

Table 4.14 Decrease in customers

	Frequency	Percent	Cumulative Percent
Very low	29	19.7	19.7
Low	31	21.1	40.8
Medium	40	27.2	68.0
High	27	18.4	86.4
Very high	20	13.6	100.0
Total	147	100.0	

The Table 4.15 below shows the results when the respondents were asked to what extent their banks realized increase in account opening in the last one year , 3.4% (5) of the commented to a very low extent, 2%(3) commented to low extent,37.4% (55)commented medium, 28.6% (42) commented high and 28.6% (42) of them commented very high.

Table 4.15 Increase in account opening

	Frequency	Percent	Cumulative Percent
Very low	5	3.4	3.4
Low	3	2.0	5.4
Medium	55	37.4	42.9
High	42	28.6	71.4
Very high	42	28.6	100.0
Total	147	100.0	

The Table 4.16 below shows the results when the respondents were asked to what extent their banks realized decrease in customer's complaints in the last one year , 5.4% (8) of the commented to a very low extent,8.8%(13) commented to low extent,29.3% (43)commented medium,21.8% (32) commented high and 34.7% (51) of them commented very high.

Table 4.16 Decrease in customer's complaint

	Frequency	Percent	Cumulative Percent
Very low	8	5.4	5.4
Low	13	8.8	14.3
Medium	43	29.3	43.5
High	32	21.8	65.3
Very high	51	34.7	100.0
Total	147	100.0	

The Table 4.17 below shows the results when the respondents were asked to what extent their banks realized increase in uptake of credit facilities e.g. loans in the last one year, 8.8% (13) of the commented to a very low extent, 18.4%(27) commented to medium extent,21.8% (32)commented high, while 51% (75) of them commented very high.

Table 4.17 Increase in credit uptake

	Frequency	Percent	Cumulative Percent
Low	13	8.8	8.8
Medium	27	18.4	27.2
High	32	21.8	49.0
Very high	75	51.0	100.0
Total	147	100.0	

4.3. Multiple regression analysis and hypothesis testing

Coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) and P-value were used to determine the overall significance of the model.

Table 4.18 Multiple regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.938	.401		12.301	.000
	Philanthropic activities	.212	.092	.222	3.162	.033
	Ethical activities	.108	.076	.518	5.437	000
	Environmental focused activities	.412	.082	.115	1.317	.195

a. Dependent Variable: Organizational performance

4.3.1 The level of influence of Philanthropic CSR activities on organizational performance

Objective one sought to investigate the level of influence of philanthropic CSR activities on organizational performance. The partial correlation coefficient of Philanthropic activities is 0.212; this implies that if other explanatory variables that include both independent are held constant, an increase in one unit of bank philanthropic responsibility will result to a significant increase in bank performance by 0.212.The above result in Table 4.18 shows that philanthropic

activities (B1) is better predicator of organization performance since there P<0.01. The constant B_0 is also statistically Significant with P<0.01.

4.3.2 The extent of Ethical CSR activities on organizational performance.

Objective two of this study sought to establish the extent of ethical CSR activities on organizational performance. The partial correlation coefficient of ethical is 0.412; this implies that if other explanatory variables that include both independent and intervening are held constant, an increase in one unit of bank ethical responsibility will result to a significant increase in bank performance by 0.412. In the ethical activities unstandardized the coefficient (B_2) is equal to 0.479 as shown in the table 4.18 above this indicates that an increase in one unit of ethical activities will result to an increase of 0.479 in performance of the bank. Since the P value is less than 0.01 this result is statistically significant.

4.3.3 The effect of Environmental focused CSR activities on organizational performance.

Objective three of this study sought to determine the effect of environmental focused CSR activities. The partial correlation coefficient of environment is 0.108; this implies that if other explanatory variables that include independent variable are held constant, an increase in one unit of bank environmental activities will result to an increase in bank performance by 0.108. The value is not significant since p=0.196 therefore p>0.05. On the environment focus CSR activities, the unstandardized coefficient (B_3) is equal to 0.108 as shown in the table 4.18 this indicates that an increase in unit of environment focused activities will result to an increase of 0.108 in performance of the bank. Since the P value is more than 0.01 this result is statistically insignificant.

Table 4: 19 Model summary with Organizational Performance as the dependent Variable

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	.822[a]	.676	.647	.373443

Regression analysis was used to determine the degree in which the dependent variable (Bank performance) can be predicated or explained from the independent variables (philanthropic activities, Ethical activities and Environmental focused activities).The Table 4.19 above shows the R value is 0.822 which shows there exist strong relationship between performance and the independent variables with priority as an intervening variable. The R Square shows that a variance of 67.6% of the performance of the bank can be accounted by the independent variables.

This study shows that increase in performance of banks is affected by firms engaging in social course, ethical issues and environmental issues. If P-value is found to be less than the level of significance, a correlation exists between the response and predictor variables, suggesting that there is a significant relationship between the dependent and independent variables used in the study. This clearly indicates that CSR determines financial performance of banks in Homa Bay.

4.4 Discussion of Research Findings

The study found that CSR is good for the financial performance of commercial banks in Kenya. The study findings are that $\beta_1 = 0.299$ and $\beta_2 = 0.479$ suggesting that CSR has a positive and direct effect on firm's financial performance. $\beta_3 = 0.108$ indicating that an increase in unit of environment focused activities will result to an increase of 0.108 in performance of the bank but since the P value is more than 0.01 this result is statistically insignificant.

The regression coefficients illustrate that if a bank does not invest or engage in CSR, it would incur losses. The model also shows that, for every unit increase in CSR investment, firm's financial performance increases by 0.299 units and by 0.479 for every unit increase in investment

on income generating activities. Therefore, a model of two predictor variables (CSR and investments) can be used in forecasting financial performance of a bank in Homa Bay.

The findings of this study agree with those of Setiawan (2011) only that this study reveals that CSR improves financial performance of all commercial banks irrespective of their size. The study fully supports the findings of Hasouneh (2012) and those of Malhotra (2014). CSR enables a firm to penetrate the market, remain competitive in a stiff and volatile market and generate profits for a foreseeable future.

This study's findings deviate from the findings of McDonald and Rundle-Thiele (2013). The slight variation is mainly brought about by methodology used to measure CSR and location of the study.

Setiawan -(2011) defined CSR as a continuous commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the local community and the society at large. Bowen (1953) specifically stated that companies practice CSR to satisfy their primary needs of improving their financial performance while presenting themselves as legitimate members of the society

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter provides a summary of the study, conclusion and recommendations of the study and suggestions for further research.

5.1 Summary of the Findings

The study used a descriptive research design and multiple regression in the analysis of data. Performance was measured by use of increase of customers, increase in deposits, and increase in account opening, customer retention and decrease in customer's complaints. The studyrevealed that CSR has a positive and significant effect on organization's financial performance.

Instrumental theories recommend that firms should engage in CSR activities since it helps them enter new markets, attract cheap and competitive labour, build their brand name and grow revenues. This in return maximizes shareholder value in terms of earnings per share, performance of company shares in the market and overall organization growth. When an organization recruits the unemployed and inexperienced youth in a society, there is usually a relationship that develops between the organization and the society. The satisfaction of society's social interests contributes to maximizing shareholder value.

The concept of CSR in which case, as revealed by this study, educating a poor bright child, setting up a health facility where there is none, starting an irrigation plant in arid areas and donating food to the starving will add more value than collecting garbage, planting trees or maintaining a garden. A CSR activity that affects the majority in the society has a higher effect than those that favours few individuals. Therefore, a firm can strategically choose a CSR activity that will help it build a strong relationship with its customers.

5.3. Conclusion

The study intended to determine the effect of corporate social responsibility on organization performance in the banking industry within Homabay County.The researcher used descriptive research design and a multiple regression model and found that CSR has a positive and

significant effect on financial performance. This study concludes that CSR for the success of a bank since it helps to improve financial performance. It is, therefore, a noble practice for banks to engage in CSR as part of their operating activities and set aside funds annually towards a social course. CSR should therefore be considered as part of daily operating activities and that for a firm to grow and realize its dreams, it has to engage itself morally and commit itself at improving the society's social and living standards.

The study reveals that highly profitable institutions have heavily invested in CSR activities for many years while those that have always reported losses have been considering CSR as unnecessary expenses. Therefore, financial institutions should operate outside their normal business activities to support the community. Improving the livelihood of a community attracts volunteers, investors and sponsors who will help a commercial institution achieve its objectives towards community needs. In return, the financial institution will spend less on CSR while at the same time achieve high returns from being a good corporate citizen. Being a good corporate citizen attracts new and unexpected customers, new capital, tax exemptions, government favours and in the end achieving greater profitability. This study justifies the reason why successful Kenyan banks have been aggressive towards investing on CSR activities than towards marketing.

5.4. Recommendations

The study found that CSR is good for the financial performance of all commercial institution. In agreement with the argument ofRoss (1973), that the social responsibility of business is to grow its profits, it is in the interest of shareholders, for commercial banks to engage in CSR activities as doing so improves their financial performance. The researcher recommends that institutions should partner with other institutions that offer varying services to jointly invest in common CSR activities as doing so leads to cost reduction while achieving similar goals. Financial institutions can partner with telecommunication industries, manufacturing industries, commercial academic institutions or hospitals to spearhead similar CSR objectives.

This study recommends that the Institute of Certified Public Accountants of Kenya, being a professional accounting body, designs a uniform reporting framework for all institutions to use

while reporting their CSR involvement. This will not only make it easy for future researchers to collect research data, but will also enable shareholders to evaluate the extent to which the firm has invested in promoting their company's corporate citizenship.

Finally, the researcher recommends that shareholders views be considered regarding how much the firm should invest on social course annually and the nature of CSR activities to be undertaken. Shareholders, being spread all over the country, have vital information on what the society needs and what will make them associate with a brand name. Management should also carry out a cost benefit analysis for projects they intend to initiate so as to determine if the firm will fully achieve its objectives without constraining finances for other core activities of the organization. This will help ensure that in as much as the firm is socially responsible; shareholders' funds are not run down meeting the interests of the society.

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APPENDICES

Appendix A: Questionnaire

INTRODUCTORY REMARKS

I am a Master's student from Maseno University. As part of my study, am carrying out a research on *the effects of corporate social responsibility on organization performance: A case of banking industry in Homa Bay County,Kenya*. I will appreciate if you answer the following questions as honestly as possible. It takes only 5-10 minutes and please be assured that your response are for academic purposes only.

THURANIRA EZRA MUTWIRI

1. Gender

   Male ☐ Female ☐

2. Bank

   Equity ☐ Co op Bank ☐ Barclays ☐ KCB ☐

3. Type of respondent

   Management ☐ Bank employee ☐

4. Level of Education

   Primary ☐ Secondary ☐ College ☐

   1st Degree ☐ 2nd Degree ☐

5. Occupation of the respondents

Marketer ☐ Accountant ☐ Manager ☐

SECTION B

To what extent does your organization practice the following CSR activities?

Use the scale of

1= Very low, 2= low 3= Medium, 4= High, 5= Very high

Philanthropic CSR	1	2	3	4	5
1. Participating in community support activities out of choice					
2. Participating in government support activities out choice					
3. Regularly participating in giveaways e.g giving umbrellas to customers					
Environmental CSR					
4. Participating in recycling and reuse of wastes activities					
5. Awareness activities on environmental conservations					
6. Participating in afforestation activities					
Ethical CSR					
7. Adherence to organizational codes of conduct					
8. Participating in organisations that preserve culture					
9. Respect to the laws governing business conduct					

SECTION C

To what extent are the following measures of performance realized in your bank for the last one year?

Use the scale of

1=Very low, 2= low 3= Medium, 4= High, 5= Very high

Growth of sales	1	2	3	4	5
1. Increase in number of customers					
2. Increase in deposits made in the bank					
Customer retention					
3. Decrease in number of customers exiting the bank					
4. Increase in number of new bank accounts opened by Customers					
Customer satisfaction					
6.Decrease in number of complaints by customers					
7.Increase in uptake of credit facilities					