

INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN MERU TOWN, KENYA

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Abstract

There has been an increased and continued expenditure by a number of corporate organizations on activities that relate to corporate social responsibility (CSR) over the years globally. It is now accepted and expected that a profit-making organization must engage in socially responsive activities. The study examined education support activities and its influence on financial performance of commercial banks in Meru town, Meru County. The study employed descriptive and correlational research design. Questionnaires for the top and middle level managers were the primary method of data collection. The instruments were piloted from the commercial banks in Makutano which were not included in the study sample. The data was collected and analysed using Statistical Package for the Social Sciences. The findings indicated that education support activities had a significant influence on financial performance with great influence and still remain constituent with earlier studies.

Keywords: Corporate Social Responsibility, Activities, Financial Performance, Commercial Banks

INTRODUCTION

Throughout the globe, banking sector is under massive pressure from its stakeholders, investors, media, NGOs as well as its customers to carry out business in a responsible and ethical manner (Frenz, 2005). A study by Visser (2005) revealed that only 12 of Africa's 53 countries have had any research published in core CSR journals, with 57% of these articles focusing on South Africa and 16% on Nigeria. Thus the applicability of the standards, principles and practices designed in the developed world is questionable in an African setting. Muthuri & Gilbert (2011) advocates the development of an 'Africanised' CSR agenda as echoed by Blowfield & Frynas (2005) who urged that it is a necessity to have a critical CSR research agenda focusing on developing countries. In Kenya a survey by the CBK indicates that there is an increased focus on CSR by financial institutions and further suggests that an institution operating environment had a significant determinant to the institution's long term sustainability. In recognition of the existing mutual relationships, institutions are obliged to exercise CSR in order to ensure that their businesses remain sustainable and viable both socially and in environmental context (CBK, 2005).

This study sought to bridge the gap by examining the expenditure on environmental conservation activities and its influence on financial performance in commercial banks in Meru town, Meru County.

Statement to the Problem

According to Chapple & Moon (2005), CSR activities are predominately considered as western phenomenon due to strong institutions' standards and systems which are weak in developing countries. The nature and characteristics of CSR in developing countries rely on policies and practices of multinational corporations without linking it with financial performance (Sood & Arora, 2006).

The banking sector in Kenya is affected by various concerns about CSR practices. These concerns are all part of the component of CSR activities which include responsibility to environment, human resource, community involvement, consumers and products. This study sought to examine how CSR activities influence financial performance of commercial banks in Meru town, Meru County.

The Purpose of the Study

The study established the contribution of various CSR activities on financial performance in commercial banks in Meru town.

Hypothesis

This study strived to respond to the following hypothesis:

H₀₂: The expenditure on environmental conservation activities has no significant influence on commercial banks financial performance.

LITERATURE REVIEW

Theoretical Framework: Stakeholder Theory

It is not enough to focus on what the firms are responsible for in CSR, but also to whom they are responsible. According to Bowen (1953), who has terminologically formalized the CSR concept, CSR is a social obligation and follows the objectives and values of society. The societal approach of CSR argues that firms have not only economic and legal obligations, but also responsible to society as a whole (Leitao & Silva, 2007). Clarkson specified that corporate responsibility resides in stakeholder groups instead of society as a whole (Clarkson 1995). (Maignan, 2001) made it clear that individual businesses can be deemed responsible only to stakeholders. However, stakeholder theory defines the objective of the firms as being to satisfy both economic and non-economic demands from various stakeholders (Pirsch, 2007). Firm's existence is not only to maximize shareholders wealth but also to serve the shareholders interest. Managers in decision making consider the impact of their decisions to its stakeholders and strive to maximize benefit and minimize losses in order to achieve the balance of interest among parties (Marcouz, 2000; Freeman & Philip, 2002)

The implication of stakeholder theory was that companies implement CSR voluntarily since it is part of its role to the stakeholders.

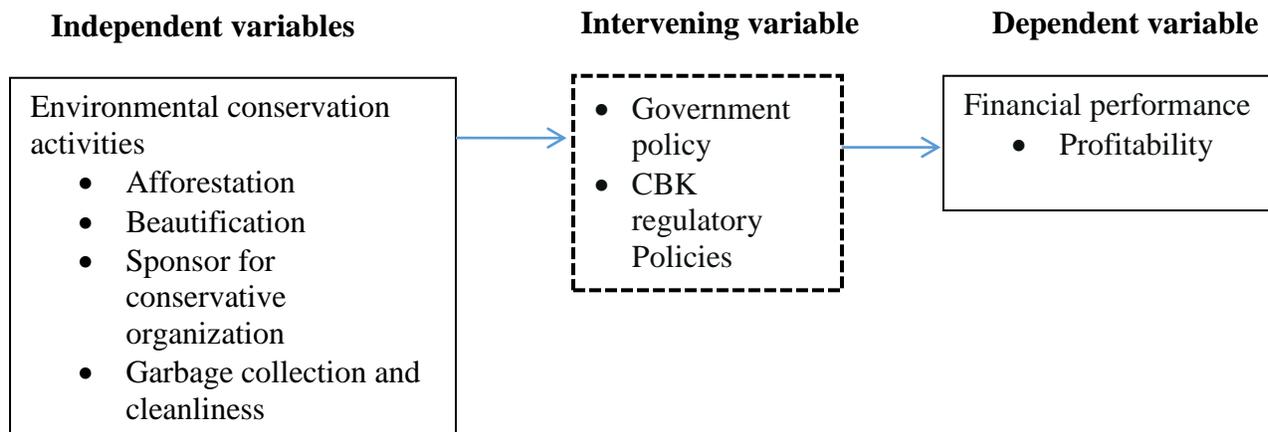
Empirical Review: Environmental Conservation and Financial Performance

In the recent years there has been global pressure on enactment and adoption of stringent legislations pertaining to environment protection in and around the globe. Companies have been taking proactive initiatives for emission reduction in anticipation of future policy with respect to environment. With the increasing importance of environmental friendly products and services, firms are realizing the need for adopting environmental standards for their sustainability in the long run. This has facilitated the development of green resources and capabilities and compliance with international standards such as ISO 14000, OHSAS 18000, and environmental legislations. According to Chrisman (2000) research on environmental activities has not been conclusive. Studies link environmental commitment with enhanced financial performance, particularly in high growth industries (Russo & Fouts, 1997). Evidence reveal that practical

environment management enhances firm's market value, reputation and financial performance (Alvarez, 2001).

According to Grant (1991) a re-organization and a specific differentiation of firm's core competencies towards environmental results drive financial performance of a firm. Russo & Fouts (1997) suggested and related financial performance to resource-based view of the firm. Environmental policy plays a major role in generating broader organizational advantage that allows a firm to capture premium profits (Russo & Fouts, 1997). It addresses the fit between what a firm has the ability to do and what it has the opportunity to do. The study investigated whether investment by commercial bank in environmental conservation as a CSR activity to attract customers influence bank financial performance.

Figure 1: Conceptual Framework



METHODOLOGY

Correlation research design was used in combination with qualitative designs to generate both qualitative and quantitative data from stated objectives. Questionnaires were administered to banking operation staff to gather study data in regard to the research objectives. Data collected was used to deduce the relationship between expenditure incurred on CSR activities and bank financial performance. 212 banking operation staff from 17 commercial banks, 17 operational managers and 17 branch managers were the main target population. The customers found in the bank premise during the time of administering the questionnaires were treated as another population and were interviewed face to face. The 17 operational managers and 17 branch managers were included in the actual sample in the study. The actual number of respondent to be subjected to the study constituted of 166 bank operation staff, 17 operational managers and 17 branch managers a total of 200 respondents. The primary data collecting instrument was a

questionnaire for bank staff. Data was analysed using statistical package for social science, (SPSS) version 20.0. Correlation analysis was used describe the causal relationship between the independent variables and the dependent variable. The null hypothesis were tested as per the study objectives.

ANALYSIS AND FINDINGS

Findings on Expenditure on Environmental Conservation and Financial Performance

The study analysed the extent to which the expenditure on environmental conservation activities influenced commercial banks financial performance. The quantitative analyses result on categories of environmental conservation as a CSR activity carried out by the banks revealed that about 22% did not support sponsor for conservative organisation. Results further showed that banks support environmental conservation activities like afforestation, street beautification, garbage collection and sponsor to conservative organisation. Qualitative analyses from document review revealed that the banks mostly supported beautification and afforestation as the main CSR activities. This is supported by qualitative data noted in the document review in the banks. The results relates to Alvarez (2001) who argued that practical environment management enhances firm's market value, reputation and financial performance.

Table 1: Approximated Expenditure on Environmental Conservation

Approximate expenditure on Environmental Conservation	Frequency	Percentage
5m and above	4	23.53%
1m - 5m	8	47.06%
Less 1m	5	29.41%

According to the results in table 1 12(70.59%) spent more than one million in environment conservation annually. Approximately 30% of the banks spent less than a million in environmental conservation. This is in line with stakeholders theory as argued by (Maignan, 2001) who made it clear that individual businesses can be deemed responsible not only to stakeholders but also to the society. Stakeholder theory defines the objective of the firms as being to satisfy both economic and non-economic demands from various stakeholders which can be vividly seen through the amount spent on environmental conservation (Pirsch, 2007).He further noted that firm's existence is not only to maximize shareholders wealth but also to serve the shareholders interest which cannot be achievable without spending some portion of their profits.

Table 2: Measure of Expenditure on Environmental Conservation on Bank Profitability in the years 2009 to 2013 in percentages

Factor	Options	2009	2010	2011	2012	2013
ROA	Less than 5%	15(88.2%)	14(82.3)	14(82.3)	15(88.2%)	16(94.1%)
	5% and above	2(11.8%)	3(17.7%)	3(17.7%)	2(11.8%)	1(5.9%)
ROE	Less than 5%	12(70.6%)	13(76.5%)	13(76.5%)	14(82.3)	14(82.3)
	5% and above	5(29.4%)	4(23.5%)	4(23.5%)	3(17.7%)	3(17.7%)
ROCE	Less than 5%	16(94.1%)	15(88.2%)	16(94.1%)	16(94.1%)	15(88.2%)
	5% and above	1(5.9%)	2(11.8%)	1(5.9%)	1(5.9%)	2(11.8%)

Results in table 2 indicated that across the banks, expenditure on environmental conservation had a marginal contribution on banks profitability. The trends demonstrated that about 95% of the banks had a growth rate of less than 5% in profit in all the five years while about 5% of the banks had a growth rate of over 5% as a result of environmental conservation. This supports the work of (Grant, 1991) who noted that a re-organization and a specific differentiation of firm's core competencies towards environmental results drive financial performance of a firm. This was also affirmed by (Russo & Fouts, 1997) when they suggested and related financial performance to resource-based view of the firm by arguing that environmental policy plays a major role in generating broader organizational advantage that allows a firm to capture premium profits.

Table 3: Opinion on whether expenditure on Environmental Conservation influences banks profitability

Opinion on whether expenditure on environmental conservation influence banks profitability	Frequency	Percentage
Agree	30	16.57%
Disagree	38	20.99%
Uncertain	113	62.43%
Total	181	100%

Results from interview schedule on clients revealed that about 30% of the customers interviewed learnt about the bank of concern during an environmental activity carried out by the bank in town. The fact aligns with the results that about 80% of the respondents were of the opinion that banks profitability could not be attributed to environmental conservation. This stresses the logic of managerial theory that emphasizes corporate management in which CSR is approached by the firm internally since everything external to the firm is taken into account for organizational decision making by considering social and economic factors and environmental

activity cannot be ignored (Secchi ,2007). The theory was based on the assumption that business depends on society for its growth and sustainability and therefore an environmental activity is inevitable for financial performance.

Hypothesis Testing

Table 4: Correlation Coefficients of the independent variables at 95% confidence interval

Variable	Unstandardized coefficient	Standardized coefficient	t	Sig.
Constant	0.678			
Environmental conservation	0.301	0.289	1.512	0.544

Correlation is significant at the 0.05 (one tailed)

Results in table above indicated that environmental conservation activity investigated had a positive perfect relationship with financial performance in commercial banks at 95% confidence level. Environmental conservation activity had an influence with a significance of 0.301 (0.544).The outcome from the statistics is consistent with earlier studies that indicated environmental conservation influenced financial performance.

The study measured the statistical significance between the environmental conservation activities against financial performance by testing the null hypothesis. Student t values were used to test the significance of the variable. The significance was tested at 176 degrees of freedom. The task were as follows; H_{02} : the expenditure on environmental conservation activities has no significant influence commercial banks financial performance.

Results in table 4 indicate that t_{calc} for the variable the expenditure on environmental conservation activities equal to 1.512 and from tables at 5% significance, one tailed at 176 degrees of freedom the t value (t_{crit}) = 1.66. The study sought to accept the alternative hypothesis. This relates to (Keffas & Olulu-Briggs, 2011) who examined the financial performance of CSR and Non-CSR banks and found that there is positive relationship between corporate social responsibility and financial performance. They noted that banks with a higher visibility among consumers exhibit a high degree of participation in CSR activities in order to enhance their corporate image and an environmental activity cannot be ignored.

CONCLUSION

The study implies that commercial banks need to indulge more on environmental conservation activity since it has an influence and contributes to improved financial performance. The results were able to relate CSR activities and profitability index. Majority of the customers in the

commercial banks were attracted to the bank by a CSR environmental conservation activity. All the commercial banks investigated under the study indicated that this practice was carried out on their own volition. Environmental conservation activity had significance influence on financial performance with the outcome from the statistics consistent with earlier studies that indicated environmental conservation influenced financial performance. The study realised that the time frame for cost and benefits can be out of alignment since the cost are immediate and the benefits are not realised immediately.

RECOMMENDATIONS

The commercial banks should support environmental activities which incur less cost to the bank. For instance they can participate in beautification which is just an obligation for them to maintain their surrounding and not necessarily attracting any customer. On the other hand, activities like planting of tree and sponsor of conservative activities which contributes less in financial performance should be done in a way that there is enough support from other organizations in order to avoid overall cost burden.

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