Effect of Economic Activities on the Financial Performance of Listed Commercial Banks in Kenya

Carol Muriithi¹, Mary Maina², Pius Odunga³

¹Department of Business Studies, School of Business, Kirinyaga University, Kenya.
²Department of Business Studies, School of Business, Kirinyaga University, Kenya.
³Department of Business Studies, School of Business, Kirinyaga University, Kenya.

Abstract:

Background: Over the years, corporate social responsibility has grown from an activity embraced by a small number of companies into a worldwide movement. Today, corporate social responsibility has been viewed as a company's obligation to the various stakeholders, investors and the community. As a result, the corporate social responsibility field has attracted numerous scholars who have tried to determine its impact on various operations and performances. This study sought to determine the effect of economic activities on the financial performance of listed commercial banks in Kenya. The study was guided by the Triple Bottom Line Theory and the Stakeholder Theory.

Materials and Methods: The study used a longitudinal research design covering the periods 2016-2020, to explain how investing in CSR activities affect financial performance of banks, the study adopted a correlational research design. Stratified random sampling technique was used to select the study participants from the total population of 42 commercial banks in Kenya. The participants comprised of 11 banks listed at the NSE. A questionnaire was the primary data gathering instrument in the study. The questionnaire was prepared based on the independent variable and the dependent variable (financial performance). Data was analyzed using SPSS version 23.0 software. Inferential statistics in the form of linear regression and paired t-tests was used to analyze the data. The results were presented in the form of tables, pie charts and graphs.

Results: Findings of the study revealed that economic activities had a positive and significant effect on the financial performance of commercial banks in Kenya.

Conclusion: Based on the findings of the study, the study concluded that economic activities had a positive and significant effect on financial performance of commercial banks in Kenya.

Key Words: Economic activities; financial performance; corporate social responsibility

Date of Submission: 08-01-2023
Date of Acceptance: 23-01-2023

I. Introduction

Corporate social responsibility has grown from being a nice undertaking that organizations engaged in into a necessity for business survival. Corporate Social Responsibility (CSR) programs have found its roots in corporate philanthropy. In the 1940s, most organizations did not engage in any form of CSR (Agudelo, Johannsdottir&Davidsdotir, 2019). Globally, Cho, Chung and Young  (2019) state that the importance of CSR across the globe is increasing at an alarming rate as there is a rapid and advent spread of environmental management.

The modern global society is one whereby it requires companies not only to focus on maximizing profits but also play a more desirable role in the community. For those firms that do not implement various CSR efforts in the US, society is bound to criticize them, leading to a loss of public trust. In recent years, firms in Europe and Asia have begun recognizing CSR as a natural obligation and a vital business strategy. In the 2000s, the UN Global Compact tried to come up with CSR standardization efforts at a global level (Cho, Chung & Young 2019).

According to a study Gangi, Mustilli&Varrone (2019), banking institutions in Europe have suffered from various setbacks, including financial crisis, management crisis, and increased non-performing loans. This has forced the institutions to come up with various means to remain competitive and increase revenues. Gangi, Mustilli and Varrone (2019) state that CSR is a means through which banking institutions have tried to participate to ensure they can make positive revenues. In a study involving 72 Asian banking institutions, the researchers found out that CSR implementation by the banking institutions plays a vital role in improving the institutions’ knowledge management. For these institutions to create social benefits, the banking industry must remain competitive and sound.
The adoption of CSR and its impacts on organizations has also been a critical area of study in African based companies. Choongo (2017) carried out a study to ascertain how companies in Sub-Saharan Africa are using CSR as a core business strategy aimed at increasing revenue. Choongo (2017) notes that most studies related to CSR have been focused on developed nations and large corporations, while in Africa, they have focused more on Nigeria and South Africa. The study by Choongo (2017) aimed at filling a gap in the literature to ascertain the impact of CSR on companies located in Sub-Saharan Africa, majorly focusing on Zambia. In the study, the researchers found out that a majority of the companies in Zambia engage in CSR to improve their financial performance.

According to Cheruiyot and Tarus (2017), CSR adoption in Kenya based organizations has been marred by contestations and operational gaps. This is because most people do not fully understand what CSR involves, which has left it subject to various interpretations. Cheruiyot&Tarus state that the role of CSR in most developing nations has been neglected by scholars, a view that is also shared by Choongo (2017). However, the increased study on the impact of CSR on an organization has grown globally in most developed nations following the collapse of large companies in the USA and Europe.

Corporate Social Responsibility is majorly grouped into four main branches philanthropic, ethical, legal, and economical. This means that CSR ensures an organization can minimize the negative effects on its shareholder interest and maximize the good. Nonetheless, there have been various reasons outlined as to why a majority of organizations engage in CSR. This study majorly focuses on the economic aspect of CSR on the financial performance of organizations.

Developing nations face a wide range of environmental, legal, economic, political and social issues. CSR aims to solve some of these issues as it is founded on the premise of a company’s ability to interact with legal, environmental, cultural, social, and economic systems. In Kenya, the role of CSR on these systems is not easily understood by most scholars, politicians and the public. Most of the studies have focused on an institutional analysis of CSR, unlike in other countries such as Nigeria and South Africa. A majority of the studies have focused on industries marred by social irresponsibility such as tourists’ hotels and the horticultural sector (Cheruiyot&Tarus, 2017). Therefore, just like other developing nations, CSR research in Kenya is still underdeveloped and focuses on multinational firms and case studies.

CSR has been able to evolve over the years, and currently, it determines the relationship an organization has with the society. This allows an organization to have the interests of the society at the forefront by taking responsibility for what its activities might have on the environment, other stakeholders, communities, shareholders, employees, suppliers, and customers. Additionally, CSR has continued to grow and spread across the globe and industries. One industry that has now begun embracing CSR is the banking sector. Wafula (2012) states that increased social development and globalization have made organizations implement CSR as part of their corporate strategy.

Profitability is majorly defined from two dimensions; the shareholders and the management. The management views profitability as being the process whereby an organization has used its assets to generate positive revenues. The shareholders regard profitability as being the rate at which their investments increase at the end of each financial period. In the banking sector following a global financial crisis, public scrutiny and regulatory pressures have continued to increase. In addition, malpractices in these financial institutions have put them on the customers’ spotlight. The banking institutions have been forced to come up with strategies that enable them to gain public trust and, at the same time, make profits. There are various means through which a bank’s financial performance is measured, including ROA, ROE, and ROS, which make up the most common profitability ratios.

Within the banking sector, financial performance is determined based on macroeconomic and bank-specific factors (Al-Tamimi, 2010). The Board of Directors and management are responsible for bank-specific factors basing on the various decisions made. The national government or Central bank majorly formulates the macroeconomic factors.

In the last few years, Kenyan commercial banks have taken a keen interest in CSR. This is very evident from the banks’ websites and annual reports where they list their CSR involvement reports. The various activities the banks have engaged in include educational support, as seen in the case of Equity Bank. Other banking institutions that have continued to engage in CSR include Co-operative Bank and KCB. These institutions have supported various initiatives including business ethics, humanitarian intervention, environmental sustainability, agriculture, leadership development, and corporate governance.

**II. Problem Statement**

The modern corporate organization has begun adopting CSR as a basis for survival. Nonetheless, a majority of corporations, do not care about the impact their operations might have on the society or the environment. The justification of CSR efforts in business over the long run is at times varying as they focus mostly on the firm’s reputation. Over the past few years the banking sector reported a decline in return on assets...
and equity ratios. For example, in 2010, the Central Bank of Kenya recorded in its bank supervision annual report that the ROA for all banks was at 3.6% while ROE was at 28.2% which decreased to 2.9% and 23.9% respectively in 2015. In 2019, ROA was at 2.6% while ROE was at 22.1% which decreased to 1.7% and 14.2% respectively in 2020 (Central Bank Supervision Annual Report, 2016; 2019; 2020). This steady decrease in performance of investments prompted the researcher to seek to understand the effect of CSR as one of the investments made by banks on their financial performance.

According to Njagi (2020) in recent years (2009-2019), a majority of banks in Kenya have improved their CSR activities. This drastic increase in CSR activities indicates that the banks have been able to find a significant benefit in supporting their high CSR expenditures and activities. However, the financial performance of the banks has continued to vary. While some banks have continued to receive very high returns, others have continued to face serious liquidation issues. Njagi (2020) notes that a perfect example of highly performing banks includes Co-operative Bank, KCB and Equity bank that have all reported positive financial performance over the past ten years. On the other hand, Chase Bank was placed under receivership in 2016 and Dubai Bank under liquidation. This means that there is a need to try and determine why some banks are performing well and others poorly yet they are engaging in CSR activities.

There is an indication that some of the information provided might have been biased and thus the study did not provide valid results. It is a clear indication that the relationship between economic activities and financial performance is one marred by controversies. Some studies mentioned above seem to indicate that there is a positive relationship between CSR and an organization's financial performance. However, the results are not very conclusive, as the findings are rather mixed. This study, therefore, aimed at filling this gap and providing conclusive results.

III. Literature Review

This study was guided by the triple bottom line theory and the stakeholder theory. The triple bottom-line theory posits that an organization only survives if it is economically viable, socially responsible and environmentally sustainable. Elkington (2002) states that the Triple Bottom Line Theory is focused on showing how responsible companies are defined. This is based on their ability to ensure that their activities lead to positive environmental, social, and economic impacts. According to this theory, all firms should commit to focusing as much on social and environmental concerns as they do on profits (Elkington, 2002).

Triple Bottom Line theory has added environmental and social justice as part of the bottom line, and this has made it have four pillars referred to as the quadruple bottom line. Through the Triple Bottom Line, it means that an organization should have a futurist point of view that allow for more sustainable development, unlike the previously economic, environmental, and social concerns. Therefore, this theory is vital for the study as it enable one to determine the relationship between the firm's social and environmental responsibility and its financial performance.

On the other hand, the stakeholder theory posits that the essence of business primarily lies in building relationships and creating value for all its stakeholders. The theory is based on the notion that businesses are obligated to the various groups forming a society beyond what is required of them by the union contract and law (Jones, 1980). According to Freeman (1984), this theory aimed to showcase that managers were required to support CSR activities and thus had to ensure their strategic plans support corporate social responsibility undertakings.

Most literature on stakeholders has focused on four core issues (Donaldson & Preston 1995). The first issue is that the corporation is made up of stakeholders. The second issues are that all corporation activities are highly dependent on fulfilling the stakeholder's interests. The third issue is that stakeholder management forms the structures, attitudes, and practices observed in a company. Lastly, the literature has also focused on determining the relationship between attaining various firm performance goals. The Stakeholder theory has argued that other stakeholder constituents that have been left out by stakeholder literature includes associated companies, communities, political groups, and government bodies (Deegan, 2002).

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

The conceptual framework outlines the relationship between the dependent and independent variables. The figure below outlines the study's dependent and independent variables relationships:

![Conceptual Framework Diagram]

The first and most crucial activity for any business is its economic responsibility, which is supported by maximizing its profits. This is an indication that a company that fails in making money can no longer continue its operations. This is catastrophic as employees lose jobs and customers forced to look for alternative firms producing a similar service or product. Therefore, for a firm to become an excellent corporate citizen, its main focus is on making profits. For most managers, leading their companies into becoming good corporate citizens has not always been an essential issue. Khan, Muttakin & Siddiqui (2013) note that it is a manager who can ensure that a business engages in CSR, leading to a healthy profit base.

A study involving Standard Chartered Bank was carried out to determine the various factors, including CSR implementation, within the bank (Nzovah, 2012). According to Nzovah (2012), there has been an increase in CSR adoption by most firms. This indicates that CSR has become a core issue within various company's boardroom meetings and is being implemented as part of strategic plans. This also shows that present-day firms have begun seeking CSR efforts to give back to society. The Standard Chartered Bank has various CSR initiatives, including the Youth Empowerment Project. This aims to support multiple youths from society, which has played a vital role in maximizing its profits. This shows that through the various investments done on Youth Empowerment, the bank has been able to have improved financial performance.

In another study involving Safaricom carried out by Nyakundi (2009) to determine whether an investment in economic activities impacts the firm's financial performance, the researcher found out that there was a relationship between the two variables. The study involved 100 participants in the firm's CSR program from Mukuru Kwa Njenga slums as part of Mukuru Slums Development Project. Structured questionnaires were used in gathering data from the participants, and from the data, CSR information was majorly accessed through newspapers, television, and radio. Despite the Safaricom CSR efforts, there was no significant improvement in poverty levels in the slums. Nonetheless, it was evident that through the socially responsible investment done in the slums by the firm, it was able to gain a lot through improved financial performance.

The studies above have been able to present conflicting outcomes as others have found a positive and robust relationship between economic activities and financial performance. In contrast, others have found an insignificant and negative affiliation between CSR and financial performance. This is an indication that there is still a massive gap as to whether economic activities have a positive association with financial performance. Therefore, this research aims at bringing out the relationship between economic activities and financial performance more clearly. It focused on economic activities associated with CSR activities and how they would affect the commercial banks financial performance.

V. Material And Methods

This study was carried out in Kenya among different commercial banks, and involved the 42 registered commercial banks, which formed the population of the study.

Study Design: The study used a longitudinal research design. The study covered the periods 2016-2020. The study period was chosen because 2020 is the latest financial year meaning that the study results were most recent it was also wise to investigate 5 years back to 2016 so as to give a comprehensive and conclusive basis upon which a concrete conclusion about the relationship between CSR and financial performance can be made. To address the research objectives, the study adopted a longitudinal research design to explain how investing in CSR activities such as economic activities affect the financial performance of commercial banks, with ROE as the measurement value.

Study Location: this was the commercial banks in Kenya

Study Duration: The study covered the periods 2016-2020.

Sample size: 95 respondents.

Sample size calculation: The researcher purposefully selected banks listed with NSE from each stratum. After the application of the stratified random sampling technique in the study, a total of 11 banks were selected for the
study. This sampling method ensures that every item from the population has an equal chance of being included in the sample.

Procedure methodology
The study relied on primary and secondary data. Secondary data was gathered from the CBK Annual Reports, KBA Website and individual banks CSR and financial reports for period 2016-2020. A structured questionnaire was used to capture information on total expenditure on each CSR activity. The questionnaire was sent to the respondents’ email addresses. Questionnaires are the most commonly used data gathering instrument as they allow a researcher to obtain large amounts of data from a given population within the specified time frame. Additionally, administering a questionnaire is simpler and more cost-effective.

A questionnaire was the primary data gathering instrument in the study. The questionnaire was prepared based on the independent variable and the dependent variable (financial performance). The questionnaire was subjected to validity and reliability tests to ensure it can gather the required data. The drop off and pick up method was used in administration of the questionnaire. After selecting the sample, the researcher dropped off the questionnaires to the participants.

In the study, data on the various corporate social responsibility undertakings associated with the banks was gathered from the annually published reports on their respective websites. On the other hand, the data on the return on equity was collected from the supervision reports published by the Central Bank of Kenya for year 2016-2020 for each commercial bank listed in the study and captured in a data collection template.

Statistical analysis
SPSS computer package version 23 was used to analyze the gathered data. Descriptive statistics were used to calculate measures of central tendency, dispersion and standard deviation for each variable. Inferential statistics entailed correlation and regression analysis. Correlational analysis involved establishing the degree of relationship among the variables while regression analysis involved determining the cause and effect between the variables. A multiple linear regression analysis was used in determining the relationship between the dependent variable and the independent variables.

The following regression equation was adopted in the analysis:

\[ F = \alpha + \beta_1X_1 + \beta_2X_4 + \varepsilon \]

Where:
- \( F \) = Financial Performance
- \( X_1 \) = Economic activities
- \( \varepsilon \) = Error Term
- \( \alpha \) = Regression Constant
- \( \beta \) = Regression coefficient

VI. Results
Descriptive Statistics Analysis
This section presents the descriptive statistics on the four variables of the study. Descriptive statistics such as mean scores, standard deviations and percentages were used to generate the summary measures suitable for describing the variables of the study.

Descriptive Statistics for Economic Activities
Respondents were requested to indicate their views as to how the following statements relating to economic activities of CSR influence performance, and the findings presented in table 1 below.

<table>
<thead>
<tr>
<th>Description</th>
<th>SA%</th>
<th>A%</th>
<th>N%</th>
<th>D%</th>
<th>SD%</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our employees earn sufficient salaries to ensure their financial safety</td>
<td>30.4</td>
<td>55.3</td>
<td>4.1</td>
<td>7.1</td>
<td>3.2</td>
<td>4.6322</td>
<td>0.9026</td>
</tr>
<tr>
<td>The bank uses strategic CSR activities to maximize profits</td>
<td>45.6</td>
<td>6.0</td>
<td>11.3</td>
<td>6.6</td>
<td>1.388</td>
<td>1.2369</td>
<td></td>
</tr>
<tr>
<td>The bank makes donations or privately provide public goods to improve</td>
<td>43.2</td>
<td>4.3</td>
<td>11.3</td>
<td>4.6</td>
<td>4.496</td>
<td>1.0162</td>
<td></td>
</tr>
<tr>
<td>The bank participates in initiatives that involve improving the firm’s</td>
<td>58.8</td>
<td>3.3</td>
<td>6.7</td>
<td>1.0</td>
<td>4.3269</td>
<td>1.1286</td>
<td></td>
</tr>
<tr>
<td>The bank emphasizes on efficient use of available</td>
<td>41.2</td>
<td>40.6</td>
<td>4.0</td>
<td>10.5</td>
<td>3.7</td>
<td>4.0522</td>
<td>1.4486</td>
</tr>
</tbody>
</table>

DOI: 10.9790/5933-1401015362 www.iosrjournals.org 57 | Page
resources in order to maintain its profitability over time.
The bank offers products and services that are needed by the customers at a reasonable price.
The bank makes financial decisions that prioritize doing good, not just making more money.

The study sought to evaluate whether bank employees earn sufficient salaries to ensure their financial safety. Findings revealed that majority of the respondents with 85.7% (mean=4.6322, SD=0.9026) agreed with the statement, 4.1% of the respondents were neutral to the statement, whereas 10.3% of the respondents were not in agreement with the statement. This implies that bank employees were well compensated in terms of salaries to ensure their financial safety.

The study sought to investigate whether the bank uses strategic CSR activities to maximize profits. Majority of the respondents with 79.1% (mean=4.1388, SD=1.2369) agreed with the statement, 6.0% were neutral to the statement, and 17.9% of the respondents were neutral to the statement. This implies that banks were well versed with the use of strategic CSR activities and how its implementation would assist them in maximizing profits.

The study also sought to investigate whether the bank makes donations or privately provide public goods to improve performance, and findings indicated that majority of the respondents with 79.8% (mean=4.4966, SD=1.0162) agreed with the statement, 4.3% were neutral to the statement, and 15.9% of the respondents were not in agreement with the statement. This implies that bank makes donations or privately provide public goods to disadvantaged members of the society to benefit through improved performance.

As to whether the bank takes part in initiatives that involve improving the firm’s business operation while participating in sustainable practices, majority of the respondents with 89% (mean=4.3269, SD=1.1286) agreed with the statement, 3.3% were neutral to the statement, whereas 7.7% of the respondents were not in agreement with the statement. This implies that banks take part in initiatives that involve improving the firm’s business operation through their participation in sustainable practices.

The study sought to investigate whether the bank emphasizes on efficient use of available resources in order to maintain its profitability over time. Findings revealed that majority of the respondents with 81.8% (mean=4.0522, SD=1.4486) agreed with the statement and only 14.2% of the respondents were not in agreement with the statement. This implies that bank emphasizes on efficient use of available resources in the environment, through cutting costs in order to maintain its profitability over time.

The study sought to investigate whether the bank offers products and services that are needed by the customers at a reasonable price. Findings revealed that majority of the respondents with 79.3% (mean=4.6879, SD=0.6984) agreed with the statement, 4.0% were neutral to the statement, and 16.7% of the respondents were not in agreement with the statement. This implies that bank offers products and services required by their customers at reasonable prices.

Finally, the study sought to investigate whether the bank makes financial decisions that prioritize doing good, not just making more money. Findings from the respondents indicated that 82% (mean=4.3226, SD=1.1186) agreed with the statement, 3.7% were neutral to the statement, and 14.3% of the respondents were not in agreement with the statement. This implies that bank makes financial decisions that prioritize doing good, not just making more money.

These findings were consistent with those of (Nzovah, 2012) whose study findings indicated that the economic aspect of CSR has become a core issue within various company’s boardroom meetings and is being implemented as part of strategic plans. Investment in community economic activities plays avital role in maximizing the profits of organizations that invests in them.

Descriptive Statistics for Economic Activities- Banks Perspective

The study sought to establish the relationship that exists between investment in economic activities and performance of commercial banks in Kenya, a bank perspective, and the results indicated in table 2 below:

| Table 2: Banks Economic Activities Data as a Percentage of Return on Equity |
|---|---|---|---|---|---|
| Cooperative | 0.32 | 0.34 | 0.35 | 0.42 | 0.28 |
| KCB    | 0.35 | 0.38 | 0.39 | 0.42 | 0.45 |
| STAN CHART | 0.03 | 0.01 | 0.01 | 0.01 | 0.01 |
| NCBA   | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |

DOI: 10.9790/5933-1401015362 www.iosrjournals.org 58 | Page
It was observed that economic activities contribution to return on equity was positive. This meant that investment in economic activities has generally been on an increasing trend. The standard deviation was below one, meaning that investment in economic activities didn’t change much in the five-year period. The Findings revealed that commercial banks had been allocating a considerable quantity of resources towards economic activities as part of their corporate social responsibility over the five years period as part of their support to the communities through economic initiatives. The study finds that there was a positive and significant relationship between economic activities and return on equity as a measure of performance of commercial banks in Kenya.

### Descriptive Statistics for Financial Performance

Respondents were requested to indicate their views as to how the following statements relating to financial performance, and the findings presented in table 3 below.

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA%</th>
<th>A%</th>
<th>N%</th>
<th>D%</th>
<th>SD%</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our sales growth has improved over the last financial year</td>
<td>39.1</td>
<td>41.3</td>
<td>7.3</td>
<td>12.3</td>
<td>0.0</td>
<td>4.2841</td>
<td>1.2261</td>
</tr>
<tr>
<td>Our market share has gone up averagely over 20% in the last financial year</td>
<td>31.3</td>
<td>34.5</td>
<td>12.2</td>
<td>19.7</td>
<td>2.3</td>
<td>4.4281</td>
<td>1.3469</td>
</tr>
<tr>
<td>Our profitability has improved in the last financial year</td>
<td>26.5</td>
<td>38.7</td>
<td>13.8</td>
<td>15.5</td>
<td>5.5</td>
<td>4.1276</td>
<td>1.2196</td>
</tr>
</tbody>
</table>

Generally, our performance has grown significantly

<table>
<thead>
<tr>
<th>SA%</th>
<th>A%</th>
<th>N%</th>
<th>D%</th>
<th>SD%</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>37.2</td>
<td>42.6</td>
<td>6.3</td>
<td>9.4</td>
<td>4.5</td>
<td>4.0976</td>
<td>1.3676</td>
</tr>
</tbody>
</table>

As presented in table 3 above, the study sought to investigate whether the bank sales growth had improved over the last financial year. Findings revealed that majority of the respondents with 80.4 (mean=4.2841, SD=1.2261) agreed with the statement, 7.3% were neutral to the statement, and 12.3 were not in agreement with the statement. This implies that the sales of the banks had grown over the last financial year.

As to whether the market share had gone up averagely over 20% in the last financial year, findings revealed that majority of respondents with 65.8% (mean=4.4281, SD=1.2469) agreed with the statement, 12.2% of the respondents were neutral, whereas 22.0% of the respondents were not in agreement with the statement. This implies that the market share of these banks had gone up averaging 20% in the last financial year.

The study also sought to investigate whether the bank’s profitability had improved in the last financial year. Findings revealed that majority of respondents with 65.2% (mean=4.1276, SD=1.2196) agreed with the statement, 13.8% were neutral to the statement, whereas 21.0% were not in agreement with the statement. This implies that generally the profitability of banks had improved in the last financial year.

The study sought to investigate whether the banks performance had grown significantly. Findings from respondents revealed that majority with 79.8% (mean=4.0976, SD=1.3676) agreed with the statement, 6.3% were neutral to the statement, and 13.9 were not in agreement with the statement. This implies that generally the overall performance of banks had grown significantly over the last financial year.

### Inferential Analysis

#### 1. Correlation Analysis

Correlation analysis is the statistical tool that is used to determine the level of association between two variables (Cooper & Schindler, 2012). This analysis can be seen as the initial step in statistical modelling to determine the relationship between the dependent and independent variables. Prior to carrying out a multiple regression analysis, a correlation matrix was developed to analyze the relationships between the independent variables.
variables to assist in developing a prediction multiple model which revealed no relationship in cases where the value of the correlation is 0. Table 4 below presents the results of the correlation analysis. Correlation analysis showed a positive and a significant relationship between economic activities and financial performance ($r=0.321$, $p=0.018$).

<table>
<thead>
<tr>
<th>Financial Performance</th>
<th>Economic Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td>Economic Activities</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.018</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

II. Regression Analysis

Regression analysis was conducted to determine the relationship between economic activities and financial performance in the listed commercial banks in Kenya, and findings presented in table 5 below.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>2.685</td>
<td>0.709</td>
<td>3.787</td>
</tr>
<tr>
<td></td>
<td>Economic Activities</td>
<td>0.043</td>
<td>0.072</td>
<td>0.122</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial Performance

The model shows that keeping the economic activities constant, financial performance will be 2.685. The findings further show that economic activities were positively related to financial performance of listed commercial banks in Kenya as the coefficient is positive. Holding all the other variables constant, a unit increase in economic activities would result in a 0.043 increase in financial performance. This relationship was significant as shown by the $p$-value of 0.038 which was less than 0.05.

Further, multiple regression analysis was conducted to empirically determine the linear relationship between the independent variable’s and the dependent variable. The results for the multiple regression are shown in table 4.17 below.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.613a</td>
<td>0.376</td>
<td>0.325</td>
<td>0.4055</td>
</tr>
</tbody>
</table>

a Predictors: (Constant) economic

The results presented in table 6 present the fitness of model used of the regression model in explaining the study phenomena. Economic activities as the independent variable was found to be a satisfactory variable in explaining financial performance. This is supported by coefficient of determination also known as the $R$ squared of 37.6%. This means the independent variables explain 37.6% of the variations in the dependent variable which is financial performance in the listed commercial banking sector. The $R$ squared is used to determine the level of variations of the dependent variable that is caused by the independent variables. This results further means that the model applied to link the relationship of the variables was satisfactory.
Table 7: Analysis of Variance

<table>
<thead>
<tr>
<th>ANOVA Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>4.774</td>
<td>4</td>
<td>1.194</td>
<td>7.259</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>7.893</td>
<td>38</td>
<td>0.164</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>12.667</td>
<td>42</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a Dependent Variable: Financial Performance  
b Predictors: (Constant), economic

Table 7 above provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that the independent variable are good predictor of performance. This was supported by an F statistic of 7.259 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level.

Table 8: Regression of Coefficients

<table>
<thead>
<tr>
<th>Unstandardized coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>0.680</td>
<td>1.328</td>
<td>0.190</td>
</tr>
<tr>
<td>Economic activities</td>
<td>0.213</td>
<td>0.315</td>
<td>2.702</td>
</tr>
</tbody>
</table>

Results showed that economic activities and financial performance were positively and significantly related (β =0.213, p=0.009). The findings agreed with those of Nyakundi (2009) who conducted a study at Safaricom to determine whether an investment in economic activities impacts the firm's financial performance, and established that there was a relationship between the economic activities carried out by the firm as part of its CSR efforts and the financial performance of Safaricom.

In summary, the findings were consistent with those of Tarus (2015) who conducted a study on corporate social responsibility engagement in Kenya and found out a positive and significant relationship between employee CSR, product/service CSR and community CSR and firm performance. The overall CSR index was found to be positive and significant to both measures of firm performance.

After the analysis of the variables, the study regression model was as follows:

\[ Y = 0.680 + 0.213X_1 \]

It was thus established that taking all the factors into account, to a constant zero, financial performance would be 0.680. Findings also revealed that taking all the variables to a constant zero, a unit increase in economic activities would increase financial performance by 0.213 respectively.

VII. Conclusion

The study aimed at evaluating the effect of corporate social responsibility on the financial performance of listed commercial banks in Kenya. Findings revealed that investment in economic activities had a positive and significant effect on the financial performance of commercial banks in Kenya. Economic activities such as making donations, engaging in initiatives that involve improving the firm’s business operation while participating in sustainable practices, and offering products and services that are needed by the customers at a reasonable price, were found to have a positive and significant effect on financial performance of commercial banks in Kenya.

Based on the findings of the study, the study concluded that economic activities had a positive and significant effect on financial performance. Good reputations and an increased legitimacy as a result of a responsible citizenship behavior of a firm are an essential intangible resource for an organization, which can increase organizational productivity and performance.

References


