EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON LOAN PERFORMANCE IN COMMERCIAL BANKS IN KENYA

BY

SAMUEL CHERUIYOT

ADMNO: 079256

A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF COMMERCE (INTERNATIONAL BUSINESS MANAGEMENT) AT STRATHMORE UNIVERSITY

STRATHMORE BUSINESS SCHOOL
STRATHMORE UNIVERSITY
NAIROBI, KENYA

2024

DECLARATION

I hereby declare that this dissertation has not been previously submitted and approved for the award of a degree by this or any other university. To the best of my knowledge and belief, the report contains no material previously written by another person except where due reference is made and properly acknowledged.

Samuel Kipkurui Cheruiyot...................... [*Name of Candidate*]

……………... [*Signature*]

……………... [*Date*]

Approval

The dissertation of **SAMUEL CHERUIYOT** was reviewed and approved (*for examination*) by the following:

Name of Supervisor …Dr. Mumbi Maria Wachira………………………………………

Faculty Affiliation: Lecturer……………………………………………

Institution Strathmore University Business School (SBS)………

Head of School/Institute/Faculty …………………………………………………………

School Name………………………………………………………………………………

Dean, School of Graduate Studies…………………………………………………………

ABSTRACT

Businesses do not exist in a vacuum. They exist in a society from where they derive their benefits and to where they should extend a lending hand. Corporate social responsibility is a way of giving back to the society by businesses. In doing so, the businesses end up gaining by having favorable public perception thus increasing their overall financial performance. In Kenya, the interdependency is particularly pronounced in the Banking sector as most commercial banks have not been left behind in participating in CSR activities. Commercial banks in particular have come up with community-based programs targeting health, education and general welfare. Given that the main source of income for commercial banks is through interest paid in by borrowers for credit facilities extended, it was interesting to ascertain whether engaging in CSR activities would influence loan performance in commercial banks. The outcome of the previous studies on the influence of CSR on loan performance of commercial banks remains inconclusive. Therefore, the purpose of the study was to investigate the effect of CSR on loan performance of commercial banks in Kenya. The specific objectives were to determine the effects of philanthropic CSR, environmental CSR, economic CSR and ethical CSR on loan performance in commercial banks in Kenya. The study was grounded on the stakeholder theory and the Signaling theory and adopted the correlation design. The population of the study consisted of middle and senior level employees from thirty branches of ten purposively selected commercial banks in Nairobi City County. A sample of ninety respondents was selected using the purposive sampling techniques. The data was collected using closed-ended questionnaires. The data was analyzed using both the descriptive and inferential statistics with the aid of the SPSS. Descriptive statistics included frequencies, percentages, means and standard deviations, while the inferential statistical measures included the Pearson correlations and (simple) linear regressions. The results were presented in tables, charts and graphs. The results revealed that loan performance in commercial banks in Nairobi City County was influenced by philanthropic CSR, environmental CSR, economic CSR and ethical CSR. The study concluded that commercial banks must focus on supporting charitable programs targeting the less fortunate members of the society in order to improve their loan performance. They must also support sustainable environmental initiatives, engage in fair contracts and carry out ethical business practices in order to enhance their loan performance portfolio. The study recommended that commercial banks should continue to engage in corporate social responsibilities by investing more in philanthropic activities and environmental programs aligned to their goal. They should also engage in economic activities that meet their financial goals and ensure that all their financial activities are carried out in an ethical manner to influence loan performance. However, the study was limited to commercial banks in Kenya and the conclusions drawn may not relate to non-commercial banks.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LIST OF ABREVIATIONS AND ACRONYMS

ANOVA: Analysis of Variance

CBK: Central Bank of Kenya

CSR: Corporate Social Responsibility

KEFRI: Kenya Forest Research Institute

NACOSTI: National Commission for Science, Technology and Innovation

NSE: Nairobi Stock Exchange

SACCOS: Savings and Credit Corporative Societies

SPSS: Statistical Package for Social Sciences

ACKNOWLEDGMENT

First and most importantly, I would like to thank God and sincerely acknowledge His genuine love for me that has brought me this far in my studies. It is by His grace and mercy that I have stayed put and managed to prepare this proposal. I would also like to exuberantly acknowledge and applaud the inspirational instructions and scholarly guidance and supervision from my supervisor Dr. Mumbi Wachira. I am grateful for her guidance and support throughout the research process. I would also like to appreciate the initial impetus to study international business management given to me by my lecturers. In particular, my lecturers provoked a deep appreciation for knowledge in business management. My fellow course mates would not go unappreciated because of their scholarly and constructive criticisms and encouragement. Finally, I would sincerely utter my fullest appreciation to my loving family basically for their unwavering support and encouragement. Their energetic and active assistance, tolerance and enthusiasm has brought me this far.

DEDICATION

I would like to dedicate this research report to my family for the relentless efforts to support me during the entire research process. There is no doubt that this research could not have been completed without their unwavering support, counsel and love. No part of this thesis may be reproduced or transmitted in any form without the permission of the author or Strathmore University

CHAPTER ONE

INTRODUCTION

1.1 Background to Study

Corporate Social Responsibility (CSR) probably emerged in the 1950s in the United States. CSR evolved into alternative thematic frameworks such as corporate social performance, stakeholder theory and business ethics theory. During this time, business practices that could be termed as being socially responsible took the forms of philanthropic donations to charity, service to the community, enhancing employee welfare and promoting religious conduct (Hull & Rothenberg, 2016). Before this period there was a common perception in the business world that the sole responsibility of businesses was to make as much profit as possible, while community building and public services were the sole responsibility of the government (Nadeem & Malik, 2020; Holme & Watts, 2017). With this traditional understanding, engaging in CSR was seen as being detrimental to the company. At its inception, the ideology of CSR was primarily based on an assumption of the obligation of business to society. This obligation arose because some scholars and practitioners saw business as an instrument of society and the managers as public trustees whose job was to balance the often-competing demands of employees, customers, suppliers, communities and shareholders. Thereafter, the philosophy driving CSR discourses was seen as an attempt to cultivate civic virtue in corporations. In the 1980s, the focus of CSR shifted from CSR as an obligation to CSR as a strategy (Banerjee, 2009).

Today, many businesses have undertaken CSR activities out of the consideration that they are part of the society and therefore are obliged to support the societies where they are part of (Holme & Watts, 2017). Matterson and Metivier (2016) observe that CSR is aimed at benefiting the community within which an organization operates without necessarily gaining financially from the practice. Many businesses with well-structured and systematized legal frameworks and policies have succeeded in implementing CSR activities in the areas they operate (Lindgreen and Swaen, 2014). However, for financial institutions, CSR is viewed as a strategic positioning and tool for raising their profile in terms of image and reputation (Weber, 2016).

Globally, CSR has become a fundamental concept in the contemporary business world and financial institutions are faced with the complex strategic resource allocation decisions which are not only based on their financial outcomes, but which respond to the emerging needs of the society

(Ebrahimi, 2017; Qu, 2024). Interest in CSR is continuing to increase worldwide because financial institutions are implementing voluntary initiatives aimed at promoting the wellbeing of the society (White, 2022). Consequently, financial institutions are adopting an altruistic business model due to the increasing pressure from the stakeholders to demonstrate societal responsibility (White, 2022). In this regard, CSR has obvious benefits as far as loan performance in financial institutions is concerned.

1.1.1 Corporate Social Responsibility

In practical terms, CSR is a broad concept that has a variety of meanings. Consequently, previous scholars have defined CSR differently. Aguinis (2019) conceptualized CSR as context-specific organizational actions and policies that take into account, the stakeholders' expectations and the triple-bottom-line of economic, social and environmental performance. Carroll (2021) views CSR as the obligations of businesses to pursue policies and decisions which are desirable in terms of the objectives and values of the society.

Frederick (2006) summarizes CSR as balancing competing stakeholders' claims with corporate resources and the acceptance of philanthropy as a discretionary organizational principle. Brown and Dacin (2022) perceive CSR as a corporate activity with respect to its perceived societal or stakeholder obligations to the society. Matten and Moon (2014) conceptualizes CSR as a cluster concept which overlaps with such concepts as business ethics, corporate philanthropy, corporate citizenship, sustainability, and environmental responsibility. Shafiqur (2019) presented a ten - dimensional points on CSR definitions focusing on obligation to the society, stakeholders' involvement, improving the quality of life, economic development, ethical business practice, law abiding, voluntariness, human rights, environmental protection, transparency and accountability. Matterson and Metivier (2016) pointed out that CSR comprises of the economic, legal, ethical and philanthropic dimensions each of which can be examined in relation to the various organizational stakeholders like owners, customers, employees, the community and the public at large. Mohr (2019) perceives a socially responsible company as one whose concerns go beyond short-term profitability. Mbeda (2019) sees it as an umbrella term that incorporates a variety of theories and practices all of which emphasize the responsibility for the society and environment beyond the legal compliance and liability to clients.

From these thematic conceptualizations, the main idea behind the call for CSR is that financial institutions are becoming aware of their responsibility to extend the social, ecological and economic engagement to the society at large. This promotes the image and reputation of the company in a manner that enables the company to sustain profitability (Webber, 2016). Hence, CSR goes beyond simply staying within the rules of profit maximization but involves taking actions that further social good, beyond the interest of the firm (McWilliams & Segal, 2019). This involves balancing the goals of investors, employees, consumers, communities and the environment. Faleye (2006) argues that satisfying multiple constituencies may actually increase financial performance and paying attention to issues of social responsibility is more likely to result in improved organizational and financial performance.

Chenyiye (2009) believes that CSR not only maximizes the interests of the shareholders, but also remains concerned with the public interest. It is further argued that if the company strives to satisfy social interests, the society will reciprocate by supporting the firm. For instance, the employees will be more loyal and the stakeholders will be more supportive which will ultimately be manifested in superior performance (Bansal, 2005). A socially responsible organization will also be less prone to extreme negative events, thus reducing the risk of financial losses (Buysse & Verbeke, 2003). Barnea and Rubin (2005) suggest that CSR is motivated by the desire to polish the reputations of the organizations. Reputation consists of the overall impression that stakeholders have developed about the characteristics, values and behaviours of an organization, thanks to their direct interactions with it (Fombrun, 1996). For commercial banks, involving in social activities can encourage the banks to act ethically in order to improve their public image, brand value and reputation. A socially responsible bank can create a positive image and this promotes the bank's reputation. Reputation plays a double role by acting as a driver of competitiveness and as a buffer against adverse scenarios (Cabral, 2012). The banks with the best reputations are associated with higher consumer retention (Holme & Watts, 2017).

According to Pérez and del Bosque (2022) banks are more likely to be successful when they develop trust relationships with stakeholders. Werther and Chandler (2014) concur that CSR covers the relationship between the corporations and the society within which they interact by considering the interest of the customers, suppliers, employees, shareholders, communities and other stakeholders as well as their environment. This has compelled financial institutions to propagate CSR initiatives with the public relations and loan performance being some of the motivating factors (Muthuri, 2019; Gathungu & Ratemo, 2018). In this study, CSR was defined as a means through which commercial banks give back to the society by improving the quality of life of the members of the society through discretionary business practices and philanthropic contributions, environmental CSR and economic CSR and ethical CSR (Kotler, 2017). In other words, CSR was examined in terms of philanthropic CSR, environmental CSR, economic CSR and ethical CSR.

Philanthropic responsibility refers to a business's aim to actively make the world and society a better place. Organizations driven by philanthropic responsibility often dedicate a portion of their earnings for acts of charity. While many firms donate to charities and nonprofits that align with their guiding missions, others donate to worthy causes that don't necessarily directly relate to their business (Weber, 2016). Others go so far as to create their own charitable trust or organization to give back. Philanthropic responsibility can include things such as funding educational programs, supporting health initiatives, donating to causes, and supporting community beautification projects (Shafiq, 2019). For companies committed to CSR, it's important to engage in environmentally friendly practices. Corporations can be significant contributors to greenhouse gas emissions, pollution, waste and natural resource depletion by taking ownership over its impact on the environment. Depending on the size of the business, environmental responsibility can take many different forms. For some companies, it means using alternative energy sources and sustainable materials. For others, it means enacting a company-wide recycling program or donating to and volunteering for local environmental projects (Shafiq, 2019).

Organizations that seek to embrace environmental responsibility can act to reduce pollution, greenhouse gas emissions, using single-use plastics, water consumption and general waste. This can be done by increasing reliance on renewable energy, sustainable resources and recycled or partially recycled materials and offsetting negative environmental impact by planting trees, funding research, and donating to related causes. When a business is acting with economic responsibility in mind, it is making financial decisions that prioritize doing good not just making more money (Holme & Watts, 2017). This could mean that a business signs a contract with a supplier that uses sustainable materials, committing to a transparent salary system that fairly compensates all employees and makes up for past gender and race pay gaps. Being ethically responsible means ensuring a business engages in fair business practices across the board, including treating all employees, stakeholders and customers ethically and with respect (Holme &

Watts, 2017; Robin, 2016). It also includes setting a higher minimum wage, guaranteeing all materials are ethically sourced, and ensuring that all employees receive competitive pay and comprehensive benefits as well as being treated with respect.

Organizations can embrace ethical responsibility in different ways. For example, a business might set its own, higher minimum wage if the one mandated by the state or federal government doesn't constitute a minimum wage. Likewise, a business might require that products, ingredients, materials, or components be sourced according to free trade standards. In this regard, many firms have processes to ensure they're not purchasing products resulting from slavery or child labor. Being ethically responsible means ensuring a business engages in fair business practices across the board-including treating all employees, stakeholders and customers ethically and with respect.

1.1.2 Loan Performance

According to Ho, Liang and Tumurbatar (2019) loan performance is the extent to which loan objectives of a financial institution are achieved. From a financial perspective, a favourable loan performance is a key factor in assessing the overall financial performance of financial institutions such as commercial banks (Sapundzhieva, 2019). Financial institutions that rely on debt as a source of financing must ensure that non-performing loans are minimized and credit facilities extended to customers are repaid in good time (Hull & Rothenberg, 2016). If the loan repayment is not consistent throughout the business cycle, it becomes more likely that the bank will face significant loan write-offs which will subsequently constrict credit growth. Under such a scenario, potential borrowers may be faced with low loan supply (Jansson, 2020). Moreover, loan portfolio growth may remain leveled off as a result of lower loan demand when repeat borrowers are more likely to delay taking out a new loan.

Different scholars have conceptualized loan performance differently. According to Al-Azzam, Hil and Sarangi (2019) the overall measures of loan performance include profitability, leverage, liquidity and changes in intangible assets such as cash flow. Jansson (2020) has categorized loan performance into portfolio quality, efficiency and productivity, financial management and profitability. Bruton, Khavul and Chavez (2019) have conceptualized loan performance in terms of efficiency ratio, operating expense as a percentage of assets, total loans outstanding, total deposits, non-performing loan ratio and loan yield. This means that the financial key performance indicators of financial institutions are high-level measure of revenue, expenses, profits and other financial outcomes. However, in this study, loan performance was conceptualized in terms of loan default rate, credit policy, interest rate and credit risk management as recommended by Olweny and Shipho (2019).

Low loan default is significant for any financial institution (Du, 2014). The primacy of assessing low loan default in commercial banks is particularly important for credit growth. Understanding theresponse of the commercial banks toward loan default is important in drawing important lessons for CSR activities. If banks do not consider loan default in the assessment of borrowers' credit worthiness, then it would be cumbersome to bear the costs of CSR activities (Ngarum, 2023). A credit policy is a set of guidelines that sets credit and payment terms for customers and establishes a clear course of action for late payments (Margolis, Elfenbein & Walsh, 2020). The credit policy is a critical factor influencing an institution's capability to engage in CSR.

Traditionally, undertaking CSR depends on whether the banks have clearly laid out their philosophy of extending credits to stakeholders (Kamau & Kinyua, 2021). For most financial institutions, there is a sound credit policy that is taken as an integral part of the business plan. This is because without a proper credit policy, it is difficult to run its operations smoothly leave alone engage in CSR activities. Credit risk is also an important aspect of loan performance which in turn is influenced by CSR. According to Bannier and Björn (2020) various facets of corporate social responsibility are can be reduced through different measures of credit risk in financial institutions. Conversely, credit risk reduces the effects of corporate social responsibility. In particular, credit ratings, corporate bond spreads, and spreads on bank loans are notoriously responsible for lowering a company's capacity to engage in CSR. This consists not just of credit risk but also liquidity risk and systematic risk (Franken, 2020).

Given that profit maximization is the primary obligation of financial institutions, the level of interest rate is a significant determinant of a bank's CSR involvement. Banks interest rates are generally based on individual bank specific factors and macroeconomic reality. Brock and Franken (2020) observe that interest policy plays a major role in explaining whether a bank engages in CSR activities. For instance, an increase in real economic activity may make a financial institution to undertake a project that would have been unfeasible (Franken, 2020). When the economy is booming, it pushes up demand for deposits denying banks incentives to increase deposit rates.

However, an increase in the cost of financial intermediation leads to higher lending rates as banks attempt to recoup the costs. These include costs incurred in assessing the risk profile of borrowers, monitoring of the various loans for which loans have been advanced and reaching out to as many people and geographical areas as possible through expansion of branch network.

These dimensions of loan performance have been supported by the Signaling theory and stakeholder theory by attempting to explain how socially responsible financial institutions can enhance their performance (Franken, 2020). Among the theoretical considerations, the accepted view is that the interests of stakeholders must be considered first before considering the interest of the management. Moreover, the classical finance theorists remain steadfast that if CSR initiatives do not maximize firm value, they represent a costly diversion of scarce resources. In deed the traditional shareholder view recognizes that the unconstrained pursuit of profit may result in negative externalities for all stakeholders, but holds that the financial institutions should try to undertake actions that further social good, beyond profit maximization. In this regard, the advocates of the stakeholder view and the Signaling theory contend that corporate social responsibility should go beyond simply staying within the rules of the game, but take noble actions that further social good, beyond the interest of the firm and the rule of the law (McWilliams & Segal, 2001). Based on the tenets of these theories, CSR is expected to improve loan performance in the long run through increased revenue and return on borrowing.

1.1.3 Corporate Social Responsibility and Loan Performance

It can be inferred from the literature on the effect of loan default that all banks incur certain loan losses when some borrowers default in repaying their loans. Irrespective of the extent of the risk involved loan default reduces profitability and liquidity of banks. Given the foregoing problems amongst others which banks can encounter if they do not manage their credit risk well, the managers should see into it that while carrying out their operational function of risk assumption, a judicious balance between profitability, liquidity and capital adequacy must be considered. However, the nature of the results of the link between CSR and loan performance may depend on the methods and data used as well as on the driving motives of banks to engage in social activities (Wu & Shen, 2019). According to Wu and Shen (2019) the link can be negative if banks conduct social activities based on altruism and positive if the activities are guided by the strategic motives of the banks (Husted & Salazar, 2015). Some researchers have argued that CSR improves the competitiveness of a company in the long run, implying a positive relationship between the CSR and its financial success (Weber, 2016). However, the relationship between CSR and loan performance represents the least understood area of CSR (Massetti, 2016). While studies suggest a mild positive relationship, this connection has not been fully established and the mechanism through which loan performance was enhanced by CSR is not well understood (Jawahar & McLoughlin, 2017).

Globally, commercial banks have identified different CSR activities to outperform competitors (Winston & Crandall, 2019). In Europe, for example, CSR has increasingly become significant given that a host of commercial banks generally tend to improve their overall performance when they engage in CSR activities. In Britain, for instance, the movement towards business liberalization opened the previously rigidly regulated financial market, an act that provided new rights for increased CSR activities. Consequently, many commercial banks took advantage of the new regulatory adjustment to engage in CSR activities thus improving their performance (Shehu & Mahmood, 2018). In the Asian countries, the desire to improve image compelled banks to engage in CSR as a means of attracting customers (Gross & Luck, 2019).

In Africa, many commercial banks are currently engaged in social courses, especially coming in to support the underprivileged members of the society. Some of these initiatives seem to have had an impact on the performance of the banks. For instance, in Ghana, there is a corresponding increase in profitability for banks that engage in CSR activities (Ocran, 2019). In East African countries, most of the commercial banks have realized tremendous growth in the last five years and have expanded to the other region. The banks have CSR programs that are run under own established foundations in the region (Okiro, Omoro & Kinyua, 2021). Through CSR programs, the commercial banks are able to increase the uptake of their loan products.

1.1.4 Commercial Banks in Kenya

Commercial banks are profit making financial institutions that play a significant role in the financial system. They offer a wide range of corporate financial services that address the specific needs of its clients. They provide deposits, loans and trading facilities in the financial markets (Magutu, 2023). In Kenya, there are 44 commercial banks with approximately 8.3 million bank accounts. Out of the 44 banks, 31 are locally owned while 13 are foreign-owned banks (CBK, 2014). The dominant banks that have branches throughout the country include KCB, Equity, Cooperative, and ABSA Bank. These banks have experienced a lot of expansion in their branch network and client base. Currently, the largest Bank by assets is KCB with an asset base of over Ksh. 334 billion followed by Equity Bank with an asset base of over Ksh. 208.9 billion. The commercial banks commit their resources to treasury bills and bonds, securities, foreign currencies as their major investments apart from owning subsidiaries and joint associations with other organizations as the major sources of income for the commercial banks. The banks also advance loans and advances to their customers. However, the banking act requires all commercial banks not to advance loans in excess of 80% of deposits while at the same time deposit a minimum amount with the CBK. The financial regulations also require all commercial banks to insure all cash held by them (CBK, 2020).

All the major commercial banks in Kenya have taken keen interest in CSR (Okoth, 2019; Okiro, Omoro & Kinyua, 2021; Gathungu & Ratemo, 2018). This is evident in their annual reports and websites where they provide statements pertaining to the CSR involvement. In most of their end of year financial reports, they highlight their contributions to CSR initiatives such as philanthropic activities, community empowerment and ethical business practices. For instance, Equity bank, through Equity foundation is involved in CSR activities that include education and leadership development, financial literal, entrepreneurship, agriculture, health, innovation, and environmental sustainability. KCB through KCB foundation undertakes CSR activities focusing on environment; enterprise development; education; health, humanitarian intervention. National Bank undertakes CSR activities focusing on human rights, business ethics, environmental policies, corporate contributions, community development, and corporate governance and workplace issues. The National Bank is also concerned with community issues like HIV/AIDS community policing, education, and the girl child welfare. Co-op Bank is involved in sponsoring needy students to undertake studies at the University.

Similarly, Standard Chartered Bank is involved in distribution of Mosquito Nets, Environmental Conservation, education, and health activities. ABSA Bank is concerned with fair treatment of employees and customers and is involved in employee led community service, environmental conservation and education (Gathungu & Ratemo, 2018). Also, I&M bank is involved in slum Initiatives, environmental conservation, and makes donations to various trust organizations while NIC bank reports education, child health and environmental conservation as its CSR activities.

Citibank Kenya is keen on environmental CSR activities. It was prudent to find out whether involvement in CSR affected the loan performance in commercial banks in Kenya.

1.2 Problem Statement

Commercial banks play an important role in the economy. However, the main objective of commercial banks is to maximize shareholder value by enhancing loan performance. In the past years commercial banks have shown more interest in CSR (Lindgreen & Swaen, 2014). If the idea of shareholder value maximization is to be achieved as the ultimate objective, then spending on CSR without expecting a return would not make economic and financial sense. This implies that undertaking CSR should increase the returns to the shareholders through improved loan performance. However, there has been a concern about the relationship between CSR and loan performance in financial institutions (Kevan & Scholes, 2014). The question of concern has been whether borrowers usually make prompt repayments of loans from banks that engage in CSR. A large number of researchers have presented mixed results about the relationship between CSR and banks' financial performance (Peng & Yang, 2019). In particular, some studies show a positive link, while others find the negative correlation between CSR and loan performance. Others state the absence of any link between CSR and loan performance (McWilliams & Siegel, 2019). The studies have also outlined opposing theoretical frameworks that support both a positive and a negative relationship between CSR and loan performance. The mixed results could be due to methodological, contextual and logistical constraints inherent in some of the studies.

Nevertheless, Scholtens (2022) asserted that socially responsible banks should operate with the aim of remunerating the investors, without neglecting the expectations of the community. In this sense, increasing attention has been devoted to determining the effects of CSR on the financial performance of banks not only globally but also in Kenya. However, the genuine concern is that loan performance in commercial banks has been deteriorating in Kenya in spite of engaging in elaborate CSR activities (Okeyo, 2019). This presents a contradiction and it is unclear whether CSR provides any economic benefits in terms of loan performance. Thus, studying loan performance offers a rich opportunity to examine the important question of whether CSR confers value to the concerned financial institutions. In addition, studies devoted exclusively to investigating the relationship between CSR and financial performance in commercial banks in Kenya are scarce or inadequate. Consequently, previous studies have not combined the influence of philanthropic CSR, environmental CSR, economic CSR and ethical CSR on loan performance in Kenya. It is on this basis that this study examined the influence of philanthropic CSR, environmental CSR, economic CSR and ethical CSR on loan performance in commercial banks in Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The broad objective of the study was to establish the effect of corporate social responsibility on loan performance in commercial banks in Kenya

1.3.2 Specific Objectives

i. To determine the effect of philanthropic corporate social responsibility on loan performance in commercial banks in Kenya.
ii. To establish the effect of environmental corporate social responsibility on loan performance in commercial banks in Kenya.
iii. To establish effect of economic corporate social responsibility on loan performance in commercial banks in Kenya
iv. To establish the effect of ethical corporate social responsibility on loan performance in commercial banks in Kenya

1.3.3 Research Questions

i. What is the effect of philanthropic corporate social responsibility on loan performance in commercial banks in Kenya?
ii. Does environmental corporate social responsibility affect loan performance in commercial banks in Kenya?
iii. To what extent does economic corporate social responsibility affect loan performance in commercial banks in Kenya?
iv. To what extent does ethical corporate social responsibility affect loan performance in commercial banks in Kenya?

1.4 Scope of the Study

This study was limited to commercial banks in Kenya, targeting the senior level management employees (branch managers, relationship managers and credit managers) in the selected banks in Nairobi County. In these banks the adoption of corporate social responsibility is perceived to have influenced a number of loan performance dimensions such as credit risk, default rate, credit policy and interest rate. Although there are other factors that may affect loan performance, the study focused on environmental corporate social responsibility, philanthropic corporate social responsibility, ethical corporate social responsibility and economic corporate social responsibility. Data was collected using structured questionnaires and data obtained analyzed using both descriptive and inferential statistics. The study was conducted from July 2022 to August 2023.

1.5 Significance of the Study

1.5.1 Policymakers

The study provided pertinent information to policy makers regarding the impact of CSR on loan performance in financial institutions. The results might benefit policy makers by enhancing a better understanding of the impact of CSR on loan performance in commercial banks in Kenya. The study will aid policy makers in formulating appropriate policy interventions in portfolio management in financial institutions. Similarly, the study was instrumental in formulating policies that would guide the financial institutions in allocating resources into CSR activities.

1.5.2 Practitioners

Engaging in social activities can help a bank to manage the emerging credit risk challenges. By understanding the effect of CSR activities on loan performance, the management of commercial banks will gain insight into the intended benefit of CSR activities and therefore guide their decision in allocating resources to CSR activities. By focusing on the possible relationships derived from the study, commercial banks will identify operational strategies that can improve loan performance. Furthermore, the bank managers will find this study helpful when trying to understand the impact of social activities on a bank’s loan performance. The study might also be beneficial to the management of the financial institutions in their effort to revitalize the performance in cases of decreasing loan performance.

1.5.3 Researchers

By investigating the influence of CSR on loan performance, the study findings will enrich the discussions on how CSR contribute to the existing theories that attempt to explain the association between CSR and loan performance. This may help other scholars who would adopt the results as a springboard for further studies. Thus, the study's findings may act as reference material for advancing similar studies. The academia may benefit from the findings which would form a basis for future empirical studies which would be helpful in refining and validating literature on the effect of CSR on loan performance in commercial banks.

1.6 Definition of Significant Terms

Corporate Social Responsibility: This referred to the duty of commercial banks to support community initiatives as a way of giving back to the community in which they exist.

Environmental Corporate Social Responsibility: This referred to the belief and practice of behaving in as environmentally friendly way as much as possible by using alternative energy sources and sustainable materials, enacting a company-wide recycling program or donating to and volunteering for local environment-focused organizations.

Ethical Corporate Social Responsibility: This referred to the practice of engaging in fair business practices across with respect to setting a higher minimum wage, guaranteeing all materials are ethically sourced and ensuring that all employees receive competitive pay and comprehensive benefits and are treated with respect.

Philanthropic Corporate Social Responsibility: This referred to the practice of dedicating a portion of a bank's earnings to charities and nonprofits that align with its guiding missions such as funding educational programs, supporting health initiatives, donating to noble causes, and supporting community projects.

Economic Corporate Social Responsibility: This referred to the practice of undertaking financial decisions that seek to benefit the society such as fair contracts with suppliers and employees as well as committing to a transparent salary system that fairly compensates all employees and makes up for past gender and race pay gaps.

Commercial Banks: This referred to a type of bank that provides services such as accepting deposits from customers, offering loans and other investment

Credit risk: This referred to the risk of loss arising from the inability or failure of a borrower or counterparty to meet its portfolio obligations.

Default rate: This referred to the percentage of all outstanding loans that borrowers have missed to repay on a regular basis.

Interest rate: This referred to the payment from a borrower to a lender of an amount above the amount borrowed at a particular rate.

Credit policy: This referred to the set of principles on the basis of which it determines who it will lend money to or gives credit.

Loan performance: This referred to extent to which customers are meeting their obligations in terms of principal or interest payment or any other obligations defined in the loan agreement. In this study loan performance was operationalized as credit policy, interest rate, credit risk and default rate.

1.7 Summary of the Chapter

This chapter has explained the background of the study, problem statement research questions and objectives and the significance of the study along with operational definitions. The focus of the study was to lay the foundation for understanding the effect of corporate social responsibility on loan performance in commercial banks in Kenya. The next chapter focuses on the review of literature based on the study objectives.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of previous studies carried out in areas related to the topic of study. The review is based on the study objectives. The chapter also describes the theoretical review, conceptual framework, a summary of the empirical studies and study gap.

2.2 Theoretical Review

A theory is an explanation of how why something occurs. It is a statement that explains the cause and effect relationships. Theories describe, explain, predict or control human phenomena in a variety of contexts. According to Kumar (2018) a theory is a systematic explanation of the relationships among phenomena. This section discusses the theories that guided the study. The study was guided by two relevant theories. These theories were the stakeholder theory and the Signaling theory.

2.2.1 Stakeholder Theory

Stakeholder theory evolved from Freeman's works entitled stakeholder Approach in 1984. Since then the stakeholder theory has grown to various taxonomies envisaging the normative stakeholder theory, descriptive stakeholder theory and instrumental stakeholder theory (Donaldson, 1995). The normative stakeholder theory contains the principles and thoughts of the stakeholder concept highlighting how the managers and stakeholders should view the purpose of the existence of the organization guided by some ethical principles. The instrumental stakeholder theory is concerned with how managers should act if they want to work for the interest of the organization. The descriptive stakeholder theory deals with the actual behaviour of the managers in addition to how they view their roles and actions (Mahmoud, 2019).

The stakeholder theory postulates that the purpose of undertaking any business activity is to deliver benefits to its stakeholders. It is perceived that these benefits are the key drivers of the business activity and the realization of the stakeholders' objectives often drives the business success. A stakeholder is any individual or group of individuals that can affect or be affected by the achievement of the organization's objectives (Freeman, 1984). Financial stakeholders can either be internal or external to the organization. Whether an individual or a group of individuals is external or internal to an institution is determined by the point of view of the observer. The stakeholders of an institution perceive that they have a stake in the institution and as a result of the perceived stake they have certain expectations and hence they adopt a certain type of behaviour which is sometimes constructive or destructive.

Stakeholder theory also supports the concept of organizational performance (Hubbardston, 2023). This is because stakeholders often analyze organizational performance in regard to the expectations of the shareholders and other stakeholders of the company who have interest in the operations and activities of the company. However, Kaplan (2005) argues that most strategic activities such as CSR are unbalanced because one stakeholder might be overemphasized. For instance, a financial institution may engage in one form of CSR activity with the intention to attract clients yet the clients might believe that the institution is doing so with their interest at heart. Therefore, the stakeholder theory provides a framework for understanding the various needs likely to be served by undertaking corporate social responsibility activities. On one hand, CSR activities act as measures for ascertaining the stability of the financial institution while also communicating interest and care for the welfare of the stakeholders. According to Hubbardston (2023) financial institutions affect the social, environmental and economic aspects of the people and therefore a sustainable balanced scorecard is a suitable measure for their performance. In this regard, Huang, Ye, Li, Chen and Zhang (2023) have encouraged financial institutions to continue offering appropriate solutions to the problems affecting the society.

In the context of this study, it was expected that all the stakeholders would reciprocate the positive gesture by honoring the credit obligations extended to them thus enhancing the performance of financial commercial banks in Kenya. Critiques argue that profit oriented commercial banks may after all to take part in social corporate responsibility. In Kenya, however, many commercial banks such as Equity bank, KCB and Stan Chart have diverse corporate social responsibilities as societies' stakeholders. Therefore, the theory supported involvement of the financial institutions in corporate social responsibility thus explain the relationship between of corporate social responsibility and loan performance in commercial banks in Kenya.

2.2.2 Signaling Theory

The Signaling theory was first developed by Spence in 1973. It says that a good firm can distinguish itself from a bad one by sending credible signals about its quality to the capital markets or to the public, hence Signaling theory. The Signaling theory utilizes the concept of the labor market to emphasize the signaling role of information about an organization. Spence postulated that information regarding organizations is not usually equally available to managers and the investors alike at any one given time. Therefore, as a way of bridging information gap, the managers convey signals to the investors when they make financial decisions such as involvement in CSR activities. The methods adopted in making financial decisions could also convey different signals which can be interpreted differently by the stakeholders.

While expounding on the model, Myers and Majluf (1984) explained that the stakeholders are able to interpret the position of the firm based on the financial decisions made by the management. This is why the study was concerned about how adoption of CSR by the commercial banks would signal positive response to the shareholders (Stiglitz, 2023). Dittmar and Thakor (2007) posited that financial institutions tend to engage in CSR when they perceive that the shareholders would also interpret the goals of CSR activities to signal the same intentions. However, one of the criticisms of the Signaling theory is that it is based on the assumption that the insiders know the true intentions of the firms' activities while the investors and stakeholders do not (Gross & Luck, 2019). The financial markets are also further assumed to be efficient and predictable which in most cases are not. In other words, the Signaling theory is presumed to reduce the information asymmetry about participating in CSR activities to its bare minimum.

In the context of this study, the signal is credible only if the commercial banks are able to reduce loan default rate through CSR activities. In this regard, CSR activities will be perceived to signal positive prospects for the banks. Allen and Faulhaber (2015) contend that commercial banks are likely to engage in CSR activities as a signal for the positive information about their concern for the welfare of the society yet with the hidden intention to benefit the shareholders. The cost of CSR activities will be compensated if the creditors act in good faith and remain in good faith in the financial transactions. Since CSR activities do not obligate borrowers to act in good faith and honour their loan obligations, Poitevin (2021) notes that CSR activities can help to manage potential competition from other financial institutions. It is on this basis that the study was guided by the Signaling theory to explain how corporate social responsibility signals enhanced loan repayment which leads to a reduction of loan default in commercial banks in Kenya.

2.3 Empirical Review

The implication of this study is that most commercial banks are involved in CSR activities and the impact of these activities should be assessed to ascertain its influence on loan performance. This study addresses this need by focusing on loan performance in commercial banks in Kenya. The relationship between these variables and loan performance forms the body of the empirical literature reviewed as depicted in subsequent sections of this chapter.

Gineitiene and Ziogelyte (2014) have defined CSR as a comprehensive set of policies, practices, and programmes that are integrated in the business operations, supply chains, and decision-making processes throughout the company and usually include issues related to business ethics, community investment, environmental concerns, governance, human rights, the market place as well as the work place ethics. It involves realizing financial success in ways that honor ethical values and respect for the people, communities and the natural environment. Williams and Siegel (2001) have described CSR as actions that promote social good, beyond the interest of the firm as required by the law. Tsoutsoura (2014) observe that each company differs in how it implements corporate social responsibility. The differences depend on such factors as the company's size, the industry involved, the company's business culture, stakeholders' demands, and how historically progressive the company is engaging in CSR. Indeed, commercial banks in Kenya differ in the kind of social responsibilities they undertake but the main areas include environmental conservation, scholarship programmes for bright but needy students, humanitarian programmes, among other areas. In this study corporate social responsibility was conceptualized in terms of philanthropic CSR, environmental CSR, economic CSR and ethical CSR.

Theoretically CSR is known to affect loan performance (Pestrick & Quinn, 2019). Improved loan performance results into increased confidence in the commercial banks (Brunswick, 2016). Ailawadi (2017) observes that socially responsible commercial banks operate to improve the investors' fortunes without neglecting the expectations of the community. In this sense, due to the link between corporate social responsibility (CSR) and loan performance, increasing attention has been devoted to the effects of CSR on loan performance of commercial banks. Consistent with previous studies, loan performance considers profitability and liquidity position of the commercial banks based on the repayment momentum of the borrowers. In this study the concept of loan performance was conceptualized in terms of loan default rate, credit policy, interest rate and credit risk management.

2.3.1 Philanthropic CSR and Loan Performance

Scholars have attempted to examine the influence of philanthropic corporate social responsibility on loan performance. The findings are generally mixed and inconclusive. In China, Kamboti (2023) explored this link by gathering primary data using semi-structured questionnaires from a sample of 56 respondents and analyzed inferentially through both the regression and correlation analysis. In this study, CSR was perceived to promote the financial position of the financial institutions through effective policy formulations. In China, Yanyang (2019) used the factor analysis and multiple linear regression models to obtain results of a significant negative correlation between philanthropic corporate social responsibility and credit policy in Chinese commercial banks.

Marcia, Otgontsetseg and Hassan (2019) investigated whether US commercial banks were formulating substantive credit policies as a result of philanthropic corporate social responsibility in the United States of America. The study adopted the publicly available data on philanthropic CSR to analyze philanthropic CSR backed credit policy strengths and concerns. However, the results failed to ascertain the financial implications of philanthropic CSR. However, the researchers realized that some banks appeared to be rewarded for engaging in philanthropic activities. Ho, Liang and Tumurbaatar (2019) studied the impact of philanthropic CSR on loan performance in commercial banks in Mongolia. Data was hand-collected to construct CSR disclosure index from selected banks in Mongolia. The results indicated that banks with larger size exhibited higher philanthropic CSR engagement.

Moreover, banks with higher philanthropic CSR activities tended to have favourable credit policies but this was not associated with loan performance (Aramburu & Pescador, 2022). Lorraine (2012) carried out a descriptive study to examine CSR philanthropy and management in Dublin, South Africa. The study noted that one of the most significant risks for any project was lack of philanthropic CSR. The study revealed that philanthropic CSR succeeded proportionately to the improved attitudes of the stakeholders. There is therefore a need to examine philanthropic CSR and how it influences loan performance in commercial banks in Kenya. In Barcelona, Carmen-Pilar and Rosa (2017) carried out a comparative study to ascertain the role of philanthropic CSR on performance in the private sector. The study found out that continuous engagement in philanthropic CSR led to better organizational performance. This implies that philanthropic CSR is necessary for improved loan performance in commercial banks.

Kitzmuellery and Shimshack (2023) also carried out a qualitative study on philanthropic CSR and its impact on organizational performance of firms in Sweden. The study used secondary data from the Sweden Securities Exchange and noted that philanthropic CSR was necessary for progressive organizations. It was also evident that philanthropic CSR was a hinge from which operational success of companies listed was realized. This means that philanthropic CSR could as well portend much for loan performance in commercial banks which the main concern of the present study. Abiodun (2019) carried out a study to determine the effect of philanthropic CSR on firms' profitability in Nigeria. In this study, secondary data was collected from ten profitable firms randomly selected on the Nigeria Stock Exchange. Using regression analysis, the study found a negative relationship between firms' CSR performance measure with profit after tax and investment in CSR.

Locally, Okoth (2019) sought to determine the effect of philanthropic corporate social responsibility disclosure in Kenya using a sample of all 54 listed companies at the NSE and found preliminary evidence of the possibility that CSR disclosures improved the corporate image and to some extent financial performance. Kipkemoi (2019) carried out a study to determine the relationship between philanthropic CSR and financial performance of 36 firms listed at the NSE. Using regression analysis, he found that there was a significant positive relationship between CSR and ROA and a significant negative relationship between CSR and GIS. In the commercial sector, the study yielded a significant positive relationship between CSR and ROA and a negative relationship with both ROE and GIS. This study however cannot be argued to provide conclusive knowledge on the relationship between CSR and loan performance in commercial banks considering that it focused on listed banks.

Auka (2016) collected data from 48 banking institutions listed at the NSE, Nairobi Kenya. Using descriptive statistics to analyze the data, he found that corporate image was the main factor that influenced the practice of philanthropic CSR among financial institutions. It is much more likely that a commercial bank would be interested in building its image so as to expand its customer base and grow its revenues and profits. Therefore, there was need to determine through a correlation design whether the corporate image built out of CSR activities would affect loan performance of commercial banks in Kenya. Wanjala and Riitho (2023) analyzed the relationship between philanthropic CSR and the mitigation of fraud in the Association of Savings and Credit Cooperatives of Kenya (Saccos). To achieve this goal, the study’s specific objectives were formulated in line with five components of CSR including philanthropic CSR. Structured questionnaires were used to collect data. The collected data were analyzed by use of ordinary least squares regression. According to the study’s findings, all the CSR variables mentioned greatly affected the mitigation of fraud among the Saccos in Kenya. Further, the findings of the study showed that it is necessary for Saccos to implement CSR programs to a greater extent to solve the persistent fraud problem. The study concentrated on Saccos as opposed to the current study which sought to investigate the effect of philanthropic CSR on loan performance in commercial banks in Kenya. Therefore, this presented a location-contextual gap that the results of the study have extensively filled.

2.3.2 Environmental CSR and Loan Performance

Environmental CSR has become a major area of concentration among the business scholars worldwide. Development of new environmentally sustainable products and business operations result in higher level of efficiency in terms of resources investment, enhanced market, better corporate branding, higher sales, and eventually sustained loan performances (Murcia, Murcia, Rover & Borba, 2014). Previous studies have been carried out to ascertain the impact of environmental CSR and organizational performance. For instance, Cipovová and Belás (2022) carried out a study to determine impact of environmental CSR on organizational performance in Finland. Using the semi-structured questionnaires to collect data, the study was objectively anchored on the descriptive survey design. Primary data was collected from 11 purposively selected financial institutions. Being guided by the structural equation modeling approach, they suggested that various social activities were significant, but study did not focus on environmental CSR activities.

Edelstein (2019) conducted a research in improving credit risks with the research question as the differentiation between potentially good and potentially bad credit risks in Europe and the USA.

Because the selected financial institutions were located in diverse locations, the study opted to adopt a cross-sectional survey design. Theoretically, the study was guided by resource-based theory with simple random sampling used to select the research participants. Moreover, the researcher settled on the semi-structured questionnaire as the tool of data collection and the regression analysis as the approach of data analysis. A fuzzy link between environmental CSR and credit risk was established. Katchova and Barry (2015) used credit value-at-risk methods to analyze probability of default by Credit Metrics and Moody's KMV in Scotland and found that for commercial banks credit risk varies significantly depending on the riskiness of the portfolio and not because the banks were involved in environmental CSR activities. However, the study did not rule out the possibility that CSR could be linked to credit risk. This is because debtors are least likely to default when the banks were involved in activities that promoted their welfare. By applying the paired samples analyses to conduct a study on the selected commercial banks based on pre-and post-performance audit in Norway, Glennon and Nigro (2015) found that the probability of default was provisional on borrower, lender and loan characteristics and changes in economic conditions and least on benevolent activities such as environmental CSR activities.

Ericsson and Renault (2015) developed a structural bond valuation model to capture credit risk in Tennessee, USA and found that there is a positive correlation between social factors and loan performance. Based on an understanding of the mortgage constraints and implications for Econometric Modelling in the United Kingdom, Carty (2019) identified the deviations in credit risk with macroeconomic conditions and through time an important depiction many approaches to measuring and managing credit risk. In Britain, Gorton (2019) carried out a study on the determinants of loan performance by considering both financial and non-financial factors. In his study, relevant theoretical data were critically reviewed, compared and contrasted as they relate to loan performance. The researcher adopted a mixed method approach with a bias on both qualitative and quantitative data collection dimensions. Applying purposive sampling design, thirty relations managers in five purposively selected local banks constituted the study's sample size. The generated data was scrutinized and eventually analyzed on the basis of the predetermined research objectives. The study revealed that loan performance was dependent upon macroeconomic fluctuations and not on environmental CSR activities as was proposed in the present study.

Locally, Korir and Langat (2016) adeptly pursued the purported influence of environmental CSR on the performance of commercial banks in Nakuru County. The study focused on environmental orientation in selected branches of commercial banks in Nakuru County. The study adopted the survey approach and targeted four commercial banks. A self-generated questionnaire was wired to the respondents to obtain data which was carefully sorted and analyzed through inferential approaches with a bias on correlation analysis. The study noticeably found that environmental CSR activities was intensified when there were perceived benefits associated with such CSR activities undertaken by the banks. Hence, it was evident that environmental CSR could have a positive and significant impact on the loan performance. However, the study did not focus exclusively on environmental CSR. It also differed methodologically from the present study.

Muhunyo and Jagongo (2022) conducted a study to investigate the impacts of environmental risk assessment and awareness on default rate in SMEs in Nairobi City County. A sample of 96 employees and a descriptive research methodology was used in the study. The results of the study demonstrated that risk assessment and awareness had a favorable impact on loan default prevention. The study concentrated on environment risk assessment as a mitigation measure in SMEs as opposed to the current study which considered environment CSR. This, therefore, presented a location-contextual gap that this study sought to fill.

2.3.3 Economic CSR and Loan Performance

A lot of studies have been done in the area of economic CSR both globally and locally. However, the results are inconclusive. Erhemjants (2017) carried out a study to determine the relationship between economic CSR and loan performance in the banks in the United States. Using regression analysis, they found a positive relationship between economic CSR and loan performance. Hasan (2017) carried out a study to determine the relationship between economic CSR and credit default in Bangladesh. In this study, credit default rate of 5 economically socially responsible banks was compared with default rate of 12 none economically socially responsible banks. The study found that economically socially responsible banks had a lower loan default rate though the difference was not statistically significant. Tsoutsoura (2014) carried out a study to determine the impact of economic CSR on the overall performance of banks in Californian using a sample of 422 commercial banks and collected data covering a period of 5 years. One of the variables in the study was credit default. The study established that banks with an elaborate economic CSR activity reported lower rate of loan default. The study sought to ascertain whether this was the case in commercial banks in Kenya.

Kitzmuellery and Shimshack (2023) investigated succinctly the viewpoints on economic CSR and came to the realization that when social shareholders preferences are evident, many firms use this strategic CSR to maximize their profits. However, the study showed when persons engage in private giving for public good, often altruism is not the main goal always but guilt and pressure from social circles and desire to appear good. Although relevant, the study did not look at directly at the economic element of CSR. Margolis, Elfenbein and Walsh (2020) explored via a meta-analysis the issues of financial focused CSR activities of over 167 cases that showed a significant positive relationship and at other instances negative relationships that exists when looking at the link inherent in economic CSR and loan performance. In an inclusive study, Laeven and Levine (2017) assessed how financial CSR activities affected the value of major banking institutions in 42 countries. Their main findings were the selling value of financial CSR and other financial services firms is mostly lesser than that of specialized organizations and institutions. Therefore, the benefits of the economies of scope may not be enough to allow most banks in Europe and the USA to perform at their peak. The study was however not comprehensive in its methodology and thus failed the test of dependability.

Sonia (2022) analyzed the impact of economic CSR on fraud prevention in Indonesian State-Owned Enterprises (SOE). Economic CSR was employed as independent variable while fraud prevention was employed as the dependent variable with a focus on internal auditors as the study participants. The size of the sample was determined by using Solvin's approach. Out of 122 participants, 62 were chosen as study participants. Multiple regression analysis was used to analyze the data. The findings demonstrated that economic CSR influenced fraud prevention in SOE. The study concentrated on state-owned corporations as opposed to the current study which sought to investigate the effect of economic CSR on fraud prevention in commercial banks in Kenya.

Locally, many studies have been carried out on economic CSR though not necessarily in connection with credit default rate of financial institutions. However, most studies tend to show that CSR is used as a strategic tool towards enhancing overall performance of financial institutions. Okoth (2019) sought to determine the effect of corporate social responsibility disclosure in Kenya using a sample of listed commercial banks at the NSE. In this study, the quantitative data was simultaneously collected using questionnaires and corroborated and analyzed using inferential statistics and the preliminary evidence presented the possibility that CSR disclosures in Kenya represented attempts by companies to improve their corporate image and to be seen as responsible corporate entities. This study sought to ascertain through correlation design whether this perception would promote loan performance in commercial banks in Kenya.

Kipkemoi (2019) carried out a study to determine the relationship between economic CSR and loan performance at the NSE, Nairobi using a sample of 36 listed firms. Using regression analysis, it was evident that there was a significant positive relationship between CSR and ROA which was a pointer that level defaults were minimal for these financial institutions. However, the study presented mixed results as it failed to establish any significant relationship between economic CSR and loan performance. In the commercial sector, the study yielded a significant positive relationship between CSR and ROA and a negative relationship with ROE. This study however cannot be argued to provide conclusive evidence on the relationship between CSR and credit default rate of commercial banks considering that it only sampled listed banks and therefore the sample used was not an adequate representation of commercial banks in Kenya. Anyona (2015) investigated the effect of economic CSR on performance of commercial banks in Kenya. The study was strategically based on a case study design and utilized mainly qualitative primary data which was gathered through the use of guided interviews. The results revealed that economic CSR was a major interest of the concerned banks though some banks could not forego profitability for social good. It was the intention of this study to ascertain whether this was true.

2.3.4 Ethical CSR and Loan Performance

Previous studies have examined the link between ethical CSR and loan performance in commercial banks. For instance, Soana (2017) analyzed the correlation between ethical social activities and loan performance in Italian banks. The analysis showed that many banks adhered to prudent business practices. However, it was evident that the study did not focus on negative impact of ethical business practices even though the study provided evidence that banks investing heavily on ethical CSR might actually achieve immense benefits. This is supported by Sigurthorsson (2022) in Iceland who noted that commercial banks often pay attention to ethical business practices for personal benefits. However, based on the European Banks in the Financial Crisis, Fassin and

Gosselin (2017) noted that financial institutions could be having strong ethical CSR practices without necessary implementing the said practices.

Becchetti (2017) sought to determine the influence of ethical CSR on both non-financial and financial institutions in Italy. The findings indicated that the effects of ethical CSR on non-financial institutions were positive. The study highlighted the significant function of ethical CSR to improve customer satisfaction and organizational reputation for non-financial external success. Pérez and Del Bosque (2022) focused on Spanish banking institutions and observed that banks tend to promote only those activities through ethical CSR from which they generally derive the greatest benefit. Fernandhytia and Muslichah (2023) conducted a study on the influence of ethical CSR on financial performance in start-up businesses. The participants of this study were 188 entrepreneurs in Brazil. According to the study's findings, financial performance was affected positively by adherence to ethical business standards. This, therefore, implied that financial performance in start-up businesses could be improved by engaging in ethical CSR. The findings of this study are inconclusive since the study was guided by non-parametric tests in the context of start-up businesses. This, therefore, presented a methodological gap that the current study sought to fill.

In Ireland, Watkin (2017) has observed that banking system is a typical capitalist activity which aims to gain a profit at all costs. Based on results of an empirical investigation in Kisumu Town, Omore (2022) indicated that larger financial institutions are more oriented on CSR as a means to an end but it may not after all lower credit rate. Barnett (2017) examined the influence of social responsibility on corporate success in Guinness Nigeria Plc, Benin. A survey of 312 respondents by unintended sampling methods was selected from 857 employees. The data obtained were analyzed through correlation and regression analysis. The study showed that corporate social responsibility was closely linked to business success.

Kamau (2017) investigated the relationship between ethical CSR and the cost of banks' loans. Applying purposive sampling design, 302 bank managers from five purposively selected local banks in Kenya constituted the study's sample size. The generated data was scrutinized and eventually analyzed on the basis of the predetermined research objectives using SPSS software. It was evident that within a credit approval process and subsequent verification, banks gained more profitable 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. However, this study was not exclusively based on ethical CSR and could not be applied in the present study.

While studying social perspectives of ethical CSR in Kenya, Kinuthia (2018) concurred that individual preferences are less likely to be the ultimate driving force behind ethical CSR activities. In the presence of social stakeholder preferences, commercial banks may use CSR to indirectly maximize profits but not to satisfy shareholders' social ambitions. However, the results could not apply in the present study because the study did not examine the link between ethical CSR and loan performance in commercial banks.

2.4 Research Gaps

The above literature review reveals that there is a wide body of research showing that CSR is significant in determining loan performance of financial institutions. However, participating in CSR activities is informed by the perception that the institutions can benefit by extending help to the society from where they derive benefits. Even though there is abundant theoretical inquiry on how CSR activities could potentially improve the performance of commercial banks, there is little empirical evidence that supports the assertion that commercial banks engaged in CSR activities usually register improved loan performance. This lack of empirical evidence is clearly apparent when analyzing the loan portfolio of financial institutions. Mixed results on the effect of philanthropic, environmental CSR, economic CSR and ethical CSR have been reported by several authors (Kamboti, 2023; Gorton, 2019; Erhemjants, 2017; Okoth, 2019; Kamau, 2017; Kinuthia, 2018; Anyona, 2015).

In these empirical studies, there are methodological, contextual and conceptual gaps, with a scarcity of empirical studies employing inferential statistical analyses in determining a direct relationship between CSR and loan performance. This study sought to fill the methodological, conceptual and contextual gaps by adopting the quantitative methods to establish the nature, strength, and direction of the relationship between these variables. Further, based on the findings of these studies, the components of CSR in a specified organization have not been done. For this study's purposes, the philanthropic CSR, environmental CSR, economic CSR and ethical CSR were examined. Hence, the study filled the identified gap by examining the force exerted by these types of corporate social responsibility activities on the loan performance. Table 2.1 presents a summary of literature and research gaps.

Table 2.1: Summary of Literature Review and Research Gaps

Authors	Findings	Identified gaps
Kamboti (2023)	CSR did not only maximize the interests of the financial institutions, but also helped to formulate policies that influenced the overall bank performance.	The study used a qualitative research approach. Further, the study did not address the other aspects of CSR
Yanyang (2019)	There was a significant negative correlation between philanthropic corporate social responsibility and credit policy in Chinese commercial banks	The study concentrated on a developed, in China in particular which may present a significant difference in the Kenyan context. Therefore, the results may not be applied in the Kenyan context due to contextual differences
Marcia, Otgontsetseg and Hassan (2019)	There were financial implications for philanthropic CSR	The researchers realized that some banks appeared to be rewarded for being socially responsible but this was not directly related to CSR scores, hence, results may not apply in commercial banks in Kenya.
Carmen-Pilar and Rosa (2017)	Continuous engagement in philanthropic CSR led to better organizational performance	The study did not focus on commercial banks in Kenya.
Abiodun (2019)	There was a negative relationship between firms' CSR performance measure with profit after tax and investment in CSR	The study considered loan performance in commercial banks in Kenya
Kipkemoi (2019)	There was a significant positive relationship between CSR and ROA and a significant negative relationship between CSR and GIS.	The study cannot be argued to provide conclusive knowledge on the relationship between CSR and loan performance in commercial banks in Kenya.
Auka (2016)	corporate image was the main factor that influenced the practice of philanthropic CSR among financial institutions but not loan performance	There is need to determine whether the corporate image built out of CSR activities would affect loan performance of commercial banks in Kenya.
Cipovová and Belás (2022)	various social activities were significant, but study did not focus on environmental CSR activities	The study is related to the present study; however, the specifics not applicable since it adopted the survey approach without examining the potential impact of specifics of CSR activities
Katchova and Barry (2015)	Credit risk varied significantly depending on the riskiness of the portfolio and not because the	However, the study did not rule out the possibility that CSR could be linked to credit risk.

	banks were involved in environmental CSR activities.	
Glennon and Nigro (2015)	The probability of loan default was provisional on borrower, lender and loan characteristics and changes in economic conditions and least on benevolent activities such as environmental CSR activities.	The study underplayed the role of CSR activities in relation to loan performance and may not apply in the commercial banks in Kenya
Gorton (2019)	Loan performance was dependent upon macroeconomic fluctuations and not on environmental CSR activities as proposed in the present study	The study was based on a cross-section survey and failed to directly associate loan performance to CSR activities
Korir and Langat (2016)	Environmental CSR activities were intensified when there were perceived benefits associated with such activities	The study did not focus exclusively on environmental CSR as it related to loan performance of commercial banks.
Erhemjants (2017)	A positive relationship between economic CSR and loan performance.	The study adopted Content analysis in data analysis without focusing on CSR as it related to loan performance of commercial banks.
Hasan (2017)	Economically socially responsible banks had a lower loan default rate though the difference was not statistically significant	The study adopted a mixed methods approach and was not carried out in Kenya
Tsoutsoura (2014)	Banks with an elaborate economic CSR activities reported lower rate of loan default	The study sought to ascertain whether this was the case in commercial banks in Kenya.
Kitzmuellery and Shimshack (2023)	Engaging in private giving for public good, often altruism is not the main goal always but guilt and pressure from social circles and desire to appear good	Although relevant, the study did not look at directly at the economic element of CSR. The study sought to ascertain whether this was true in the Kenyan context.
Laeven and Levine (2017)	The selling value of financial CSR is mostly lesser than that of specialized organizations and institutions	The benefits of the economies of scope may not be enough to allow most banks in Europe and the USA to perform at their peak. The reviewed study focused on corporate social responsibility disclosure while this study sought to ascertain whether engaging in CSR activities minimized credit default

Okoth (2019)	CSR disclosures in Kenya represented attempts by companies to improve their corporate image and to be seen as responsible corporate entities.	The study sought to ascertain whether this perception could promote loan performance in commercial banks in Kenya.
Anyona (2015)	Economic CSR was a major interest of the concerned banks though some banks could not forego profitability for social good.	An important difference is that the proposed study was carried out in Kenya with the intention to ascertain whether this is true. It is the intention of this study to ascertain whether this is true.
Soana (2017)	Many Italian banks adhered to prudent business practices.	The study provided evidence that Italian banks' investment in CSR influenced economic benefits but the generalization is limited to the Italian banks and not Kenya.
Becchetti (2017)	The effects of ethical CSR on non-financial institutions were positive.	The study highlighted the significant function of ethical CSR to improve customer satisfaction and organizational reputation for non-financial external success but the results cannot apply empirically in the present study.
Barnett (2017)	The study showed that corporate social responsibility was closely linked to business success and banks promoted CSR activities from which they derived the greatest benefit.	The study focused on the CSR without unpacking the loan performance components of the CSR activities.
Kamau (2017)	Within a credit approval process and subsequent verification, banks gained more profitable information.	The study was not exclusively based on ethical CSR and could not be applied in the present study. Hence, the study focused on the link between CSR and profitable information and not directly on credit rate as proposed in the present study.

Source: (Author, 2022)

2.5 Conceptual Framework

The conceptual framework explains the relationship between the independent variables and the dependent variable (Kothari, 2004). The conceptual framework presented in figure 1 indicates that the independent variables for the study were philanthropic CSR, environmental CSR, economic CSR and ethical CSR while the dependent variable was loan performance.

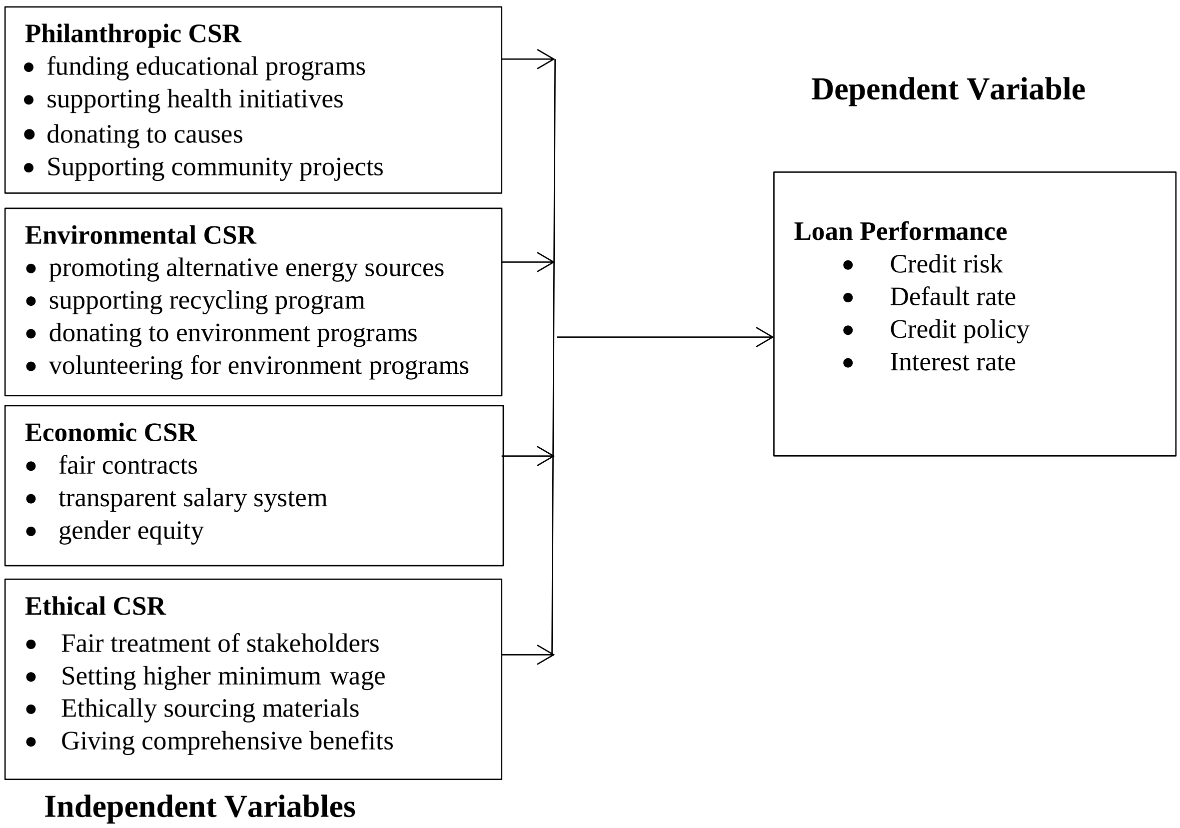

Figure 2.1: Conceptual Framework

Figure 2.1 presents the interaction among the study variables. The independent variables were philanthropic CSR, environmental CSR, economic CSR and ethical CSR. These variables were analyzed in relation to loan performance in commercial banks in Kenya. The indicators of loan performance were credit risk, default rate, credit policy and interest rate. In the context of this study, philanthropic CSR, environmental CSR, economic CSR and ethical CSR were conceptualized to enhance loan performance in commercial banks in Kenya. All these were projected to enhance the relationship between philanthropic CSR, environmental CSR, economic CSR and ethical CSR and loan performance.

The expressed linkage has been supported by the theories upon which the study was anchored. As postulated by the Signaling theory and stakeholder theory, CSR is a strategic tool to achieve economic objectives and ultimately, wealth creation. In this regard, the only responsibility of business towards society is the maximization of profits to the shareholder within the framework and ethical custom of the country and the prevailing competitive advantage. In this regard if the social demands only impose a cost on the commercial banks, the CSR activities should be discarded. However, the development of proper relationships with the primary stakeholders such as employees, customers, suppliers, and communities as can generate competitive advantage. As social institutions commercial banks must use power responsibly to meet the social demands too and by so doing, they achieve greater social legitimacy, social acceptance and prestige.

2.6 Operationalization of Variables

The independent variable was corporate social responsibility operationalized as philanthropic CSR, environmental CSR, economic CSR and ethical CSR, while the dependent variable was loan performance operationalized credit risk, loan default rate, credit policy and interest rate. Table 2.2 presents the indicators of the independent variable and each of the dependent variables in the study.

Table 2.2: Summary and Research Gaps

Variable	Measurement	Likert Scale	Author
Philanthropic CSR	• funding educational programs • supporting health initiatives • donating to causes • Supporting community projects	5-point likert scale	Shafiqur (2019) Carroll (2021) Frederick (2006)
Environmental CSR	• using alternative energy sources • Supporting sustainable materials • enacting recycling program • donating to environment-focused organizations	5-point likert scale	Aguinis (2019) Brown and Dacin (2022)
Economic CSR	• fair contracts • transparent salary system • gender equity	5-point likert scale	Kotler (2017) Mbeda (2019)
Ethical CSR	• Fair treatment of stakeholders • Setting higher minimum wage • Ethically sourcing materials • Giving comprehensive benefits	5-point likert scale	Matterson and Metivier (2016)

Loan Performance	• credit risk • loan default rate • credit policy • interest rate	5-point likert scale	Al-Azzam, Hil and Sarangi (2019)

Source: (Author, 2022)

2.7 Chapter Summary

This chapter has presented the literature review for the study. It has described the two theories namely the stakeholder theory and the Signaling theory and presents an analysis of the empirical studies that have been done on the link between CSR and loan performance. Based on the literature review, the chapter presents a conceptual framework showing the nature of the relationship between philanthropic CSR, environmental CSR, economic CSR and ethical CSR and loan performance. The chapter further operationalizes the variables for measurement in the data collection instrument. From the empirical studies reviewed, it is evident that some studies show a positive correlation, others negative correlation while others have shown no correlation at all. A closer examination of these studies revealed some variations on data sources, measures used on the dependent and independent variables as well as the conceptual and contextual variations. Therefore, the researchers have not been conclusive in espousing the relationship between corporate social responsibility and loan performance. However, the studies did not empirically demonstrate how loan performance in commercial banks was directly affected by CSR. This constituted the research gap which this study filled.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the overall methodological framework of the study. It specifically covers research philosophy, research design, target population, sampling techniques, data collection, research quality, data analysis and ethical considerations.

3.2 Research Philosophy

Research philosophy is essential in guiding how a study is carried out. Saunders and Bristow (2015) defined a research philosophy as an overarching belief on how a phenomenon should be investigated in terms of data gathering and analysis. All research is underpinned by a set of belief systems or world views. The philosophical assumption underlying this research was the interpretive research philosophy. This implies a subjective epistemological and ontological belief that reality is socially constructed (Kothari, 2004). In interpretive research philosophy there are no predefined assumptions about the association between the variables, but a focus on the complexity of human sense-making as the situation emerges.

The proponents of the interpretive approach claim that social phenomena must be understood in the social contexts in which they are constructed and reproduced through relevant activities. In other words, the understanding of social action must include the meaning that social actors give to their deeds. The advocates of the interpretive stance consider aver that social reality is constructed as a result of intentional actions. The interpretive approach is aimed at producing an understanding of the context of the information system, and the process whereby the information system influences and is influenced by the context (Kothari, 2004). Interpretive approaches give the research greater scope to address issues of influence and impact and to ask questions such as ‘why’ and ‘how’ particular trajectories are created. This study adopted the position that reality was stable, observable and that relationships between stakeholders can be described objectively, using numerical data obtained from administration of questionnaires to the selected respondents, in order to establish the relationship between CSR and loan performance in commercial banks.

3.3 Research Design

Creswell (2014) defines research design as the overall strategy that a researcher chooses to integrate the different components of the study in a coherent logical way. In this case, the research design lays the foundation for the collection, measurement and analysis of data. The importance of the design is to make sure that evidence obtained enables the researcher to effectively address the research problem logically and as unambiguously as possible (McMillan, 2012). The research adopted the correlation research design. A correlational research design investigates the relationships between variables without the researcher controlling or manipulating any of them. A correlation reflects the strength and/or direction of the relationship between and among two or more variables. The direction of a correlation can be either positive or negative. This implied that the study adopted quantitative techniques to collect data that facilitated the use of correlation and regression analysis.

Kothari (2004) recommends a correlation design where the researcher desires to describe, record, analyses and report conditions as they exist or existed. It also allows the researcher to generate both numerical and descriptive data that can be used in measuring relationships between variables in single area. The choice of this design was based on the fact that the researcher sought to examine the relationship between philanthropic CSR, environmental CSR, economic CSR and ethical CSR as the independent variables and loan performance as the dependent variable. Therefore, the correlation design was adopted to explore empirically the relationship among the study variables by making a scientific prediction on how one variable changed in response to equivalent change in another research attribute.

3.4 Population and Target Population of the Study

The population of interest in this study consisted of the branch managers, credit managers and relations managers of all commercial banks in Kenya. There are 42 commercial banks that have been licensed to provide commercial banking services in Kenya. Considering that not all the commercial banks take part in CSR activities, only the banks selected were those with branches in Nairobi City County and engaged in CSR activities. Hence, the target population consisted of branch managers, credit managers and relations managers of the commercial banks engaged in CSR activities in Nairobi, Kenya. These banks are KCB, Equity Bank, Cooperative Bank, ABSA

Bank, Stan chart Bank, Citibank, NIC Bank, Credit Bank, Family Bank and the National Bank. Therefore, the target population consisted of the branch managers (30), credit managers (30) and relations managers (30) of branches of commercial banks based in Nairobi City County as shown in table 3.3.

Table 3.3: Target Population

Name Bank	No. Branches	Branch Managers	Credit Managers	Relations Managers
KCB	3	3	3	3
Equity Bank	3	3	3	3
Cooperative Bank	3	3	3	3
ABSA Bank	3	3	3	3
Stan chart Bank	3	3	3	3
Citibank	3	3	3	3
NIC Bank	3	3	3	3
Credit Bank	3	3	3	3
Family Bank	3	3	3	3
National Bank	3	3	3	3
TOTAL	**30**	**30**	**30**	**30**

Source: (Researcher, 2022)

As shown in table 3.3 the target population was 90 branch managers, credit managers and relation managers drawn from 30 branches of commercial banks involved in CSR in Nairobi City County. The branch managers were considered suitable because they oversee the CSR activities undertaken by the banks at the branch level while the relations managers are conversant with the extent to which CSR activities have created a favorable relationship with the community where the activities are undertaken. The credit managers were considered relevant owing to their ability to assess the consumption and performance of loans.

3.5 Sampling Techniques

Sampling involves the process of selecting a sample of individuals for the study that are representative of the population being studied (Cooper & Schindler, 2014). It involves taking a sub-group from the universe to take part in the research. The subsection describes the sampling technique used in the selection of the sample size.

3.5.1 Sampling Design

Sampling design is the process for selecting the elements of the population from whom data was collected. Sampling design also determines how many respondents were selected for the study (Cooper & Schindler, 2014). The main goal of sampling is to ensure that the selected respondents are representative of the target population. Therefore, the researchers must decide how to select the respondents from the target population in order to administer the research instrument. This study adopted the purposive sampling and census in the respondents' selection. By definition, purposive sampling allows the researchers to select members of the population that have the information required to answer the research questions (Sekaran, 2016). Purposive sampling was used to select ten commercial banks that were engaged in CSR activities. The target population consisted of branch managers, credit managers and relations managers. A census is adopted if the entire target population is small or when it is reasonable to include the entire population in the study. Census was preferred because the target population was homogenous based on its comprehensive understanding of the commercial banks' involvement in CSR activities.

3.5.2 Sample Size

The sample size is a subset of the target population. Sample sizes represent the characteristics of the target population and have the capacity to provide the information that can be used to answer the research questions (Cooper & Schindler, 2014). Determining an appropriate sample size is integral in collecting accurate and adequate data. In this case, census was adopted in which branch manager, credit manager and relations manager were taken from each of the selected thirty branches of the commercial banks. The sample size was 90 respondents (1 branch managers, 1 credit manager and 1 relations manager) as presented in Table 3.4.

Table 3.4: Distribution of the Sample Size

Name Bank	No. of Branches	Sample Size
KCB	3	9
Equity Bank	3	9
Cooperative Bank	3	9
ABSA Bank	3	9
Stan chart Bank	3	9
Citibank	3	9
NIC Bank	3	9
Credit Bank	3	9
Family Bank	3	9
National Bank	3	9
TOTAL	**30**	**90**

Source: Researcher, 2022

3.6 Data Collection

Quantitative data was collected using questionnaires. Quantitative data refers to data that can be analyzed using descriptive and inferential statistics which was the intention of the study. Creswell (2014) defined the questionnaire as a set of questions collecting biographical information and assessing the opinions and beliefs of the respondents concerning the study variables. The decision to choose one data collection instrument over another is informed by the characteristics of the target population, variables under study, desired response rate and time constraints. The questionnaires were structured to adequately capture all the research questions under investigation. The questionnaire had six sections. The first section focused on the general information from the respondents. The second, third, fourth, and fifth sections sought to gather data on the study variables. The responses to the questions were ranked using a 5-point Likert scale (1=strongly disagree, 2=disagree, 3=neutral, 4=agree, 5=strongly agree) to determine the level of agreement with each measure of the concerned variable parameters. The questionnaire was divided into two sections. Section A included questions on democratic characteristics such as gender, age bracket and work experience. Section B covered items on the various study variables.

The questionnaires were preferred for data collection owing to the fact that they ensure anonymity of respondents, permit the use of standardized questions, and are less expensive to administer. Questionnaires also eliminate uncertainties and ambiguities since the questions are structured clearly to attract clear and relevant responses (Creswell, 2014). The questionnaires were dispatched after obtaining permission from Strathmore School, NACOSTI and the selected commercial banks. Some of the questionnaires were physically delivered to the respondents and collected later while others were emailed and returned by the respondents after filling them up. This was done to ensure that administered face to face to employees at their places of work. The questionnaires were accompanied with instructions on how to respond to the questionnaire items. In the introductory letter, the researcher shared with the respondents the reasons for carrying out the study and urged the respondents to seek clarifications in case anything was unclear.

3.7 Research Quality

Research quality was determined through instrument validity and piloting to test instrument reliability.

3.7.1 Validity

The validity of the data collection instrument is the degree to which it measures what it purports to measure (Creswell, 2014). The test focused on examining both the face validity and the content validity. The validity was computed by subjecting the questionnaire to academic supervisors to establish whether the constructs represents what is being measured. According to Saunders and Bristow (2015) peer review of the responses on the questionnaire can be used to improve it before final administration.

Content validity of the instruments was ascertained through consultation with the supervisor and other lecturers in the Department of Business Management who are experts in research to determine whether the responses given were the anticipated ones. Content validity was used to ascertain the completeness, comprehensiveness and relevance of the items and to determine whether the items in the questionnaire addressed the research questions and the objectives of the study. The professionals rated the questionnaire items according with regard to the level of accuracy with which they assessed the concerned variables. From the expert ratings, I-SDI was computed as shown in the table 4.5.

Table 4.5: Validity Test Results

Variable	Number of items	I-SDI
Philanthropic CSR	7	0.8191
Environmental CSR	7	0.9025
Economic CSR	7	0.8572
Ethical CSR	7	0.8781
Loan performance	10	0.7810

Source: Survey Data (2022)

As shown in table 4.5, I-SDI for each of the variable was greater than 0.78, which indicated that the questionnaire adopted in data collection generated valid responses. This suggested that the questionnaire met the content validity and was suitable to be used for further data collection.

3.7.2 Piloting

The research instrument was piloted and the responses and comments be used to improve on the instrument. Two commercial banks in Kiambu County were involved in piloting. The respondents involved in the pilot study were 6 branch managers. According to Gay and Hall (2014) a pilot study is carried out using population with similar characteristics to the target population. The researcher adopted the Cronbach's alpha to establish the internal consistency of the questionnaire items. Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group.

Internal consistency describes the extent to which all the items in a test measure the same concept or construct and hence it is connected to the inter-relatedness of the items within the test (Gay & Hall, 2014). Cronbach alpha is commonly used when there are multiple Likert items in a survey questionnaire that form a scale and the researcher intends to find out if the scale is reliable. A coefficient of more than 0.7 was considered acceptable for studies in social sciences as shown in table 4.6. In this study, the reliability of the instrument was tested during the pilot study. Cronbach's alpha reliability coefficient threshold of 0.70 was adopted. The summary of the results is presented in table 4.6.

Table 4.6: Reliability Analysis

Variable	Cronbach's Alpha	Number of items
Philanthropic CSR	0.85125	7
Environmental CSR	0.8355	7
Economic CSR	0.8290	7
Ethical CSR	0.7932	7
Loan performance	0.8345	10

Source: Survey Data (2022)

From the summary presented in Table 4.6 philanthropic CSR had an alpha value of 0.85125 while environmental CSR had alpha value of 0.8355. It is also evident that economic CSR had an alpha of 0.829 while ethical CSR had Cronbach alpha of 0.79325 and loan performance had a value of 0.8345. All these values were greater than 0.70. This showed that all the items in the questionnaire met the set reliability criteria of Cronbach alpha 0.70 (α>0.70). This allowed the researcher to adopt the questionnaire items in the main study for data collection.

3.8 Data Analysis

The analysis of data was guided by the study objectives. The quantitative data collected the through questionnaires was analyzed using descriptive statistics such as frequency counts, means, percentages and standard deviations. Quantitative data was also subjected to inferential statistics such as regression and correlation analysis to show the relationship between the variables of the study and the nature of those relationships. However, before inferential analysis was performed, diagnostic tests were carried out to test the assumptions that there existed a linear relationship between the variables and that the data was obtained from a normally distributed population. The linear regression model explored the relationship between the independent variables and a response variable by fitting a linear equation to the observed data for each variable. Thus, loan performance was regressed against philanthropic CSR, environmental CSR, economic CSR and ethical CSR as presented in the model:

$$\mathbf{Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + e}$$

Where:

Y = Loan Performance

$\boldsymbol{\beta_0}$ = Constant Term

$\boldsymbol{\beta_1}$ to $\boldsymbol{\beta_4}$ = Regression Coefficients

$\mathbf{x_1}$ = Philanthropic CSR

$\mathbf{x_2}$ = Environmental CSR

$\mathbf{x_3}$ = Economic CSR

$\mathbf{x_4}$ **=** Ethical CSR

e = Error

The model was tested at 95% level of significance ($p<0.05$). The correlation analysis was also used to measure the degree of association between the independent and dependent variables. The coefficient of determination (R^2) was used to interpret the goodness of fit of the regression model. The study also used Analysis of Variance (ANOVA) to analyze the degree of relationship between the study variables. This provided an indication of the strength and direction of association between the study variables and hypotheses. The analysis was aided by the Statistical Package for Social Sciences (SPSS) version 25. The results were presented in tables and figures to enable ease of interpretation.

3.9 Ethical Considerations

Ethical considerations were strictly adhered to as required by the university rules and regulations. The researcher obtained the research authorization from the university to carry out data collection. Participation in the study was voluntary. No participant was forced, coerced or tricked to participate in the study. All the respondents were comprehensively briefed about the objectives of the study to ensure that they make an informed decision to participate in the study. The researcher ensured that the participant’s rights to confidentiality and privacy are upheld. The questionnaire was not collected personally identifiable information from the respondents. All the information shared by respondents was kept completely confidential. The researcher also obtained the ethical approval from the Ethics Review Committee of Strathmore University and a research permit from the National Commission for Science, Technology and Innovation (NACOSTI). The researcher ensured that the report was original and where information is borrowed from other authors, acknowledgement was properly done. The entire thesis was subjected to a recognized anti plagiarism test to ensure originality.

3.10 Chapter Summary

The chapter presented the research design and the methodology followed. The chapter also identified the population of interest, explained the sampling procedure employed and the data collection approach was explained. The data collection instruments and the procedures, including ethical considerations have been described. The parameters of interest in the data analysis were presented. The quality of the research was equally explained.

CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

This chapter presents the results of the study based on the objectives. The chapter covers the response rate, the results on the characteristics of the respondents and the results on both the descriptive and inferential analysis. The section also presents the interpretation of the presented results.

4.2 Response Rate

The number of questionnaires distributed was 90. As shown in Table 4.7, a total of 86 questionnaires were completed and returned. This accounted for 95.5% of the total number of questionnaires distributed.

Table 4.7: Response Rate

Sample Size	No. of Questionnaires Returned	Response Rate (%)
90	**86**	**95.5**

Source: Survey Data (2022)

The response rate was considered sufficient. Carvajal and Hardigan (2016) observe that a return rate greater than 60% is sufficient for adoption in analysis. Further, other researchers have contended that 50% response rate is adequate for analysis while 70% and above is considered excellent. In this study, 95.5% response rate was suitable because the study did not target a large population.

4.3 Demographic Characteristics of the Respondents

This section discusses the demographic profile of the respondents. It presents the results on the respondents' gender, age, level of education, work experience and level of involvement in corporate social responsibility.

4.3.1 Distribution of the Respondents by Age

The distribution of the responses by age was examined and the results presented in Table 4.8.

Table 4.8: Distribution of the Respondents by Age

		Frequency	Percent	Valid Percent
	Below 30 yrs	2	2.3	2.3
Valid	30-39 yrs	13	15.1	15.1
	40-49 yrs	40	46.5	46.5
	Above 50 yrs	31	36.0	36.0
	Total	**86**	**100.0**	**100.0**

Source: Survey Data (2022)

The results presented in Table 4.8 show that majority of the respondents were aged 40-49 years (46.5%) while those aged above 50 years constituted 36% of the respondents. Similarly, 15.1% were aged 30-39 years while 2.3% were aged below 30 years. 20-29 years. It is evident that the employees at the commercial banks were fairly distributed across all the age brackets. This supports the global requirements for workforce diversity concerns in which employees of different age sets are represented in diverse organizational leadership structures.

4.3.2 Distribution of the respondents by Gender

The distribution of the responses in relation to gender is presented in Table 4.9.

Table 4.9: Distribution of the respondents by gender

		Frequency	Percent	Valid Percent
	Male	53	61.6	61.6
Valid	Female	33	38.4	38.4
	Total	**86**	**100.0**	**100.0**

Source: Survey Data (2022)

From the results presented in table 4.9, it is evident that majority of respondents were male as represented by 61.6% of the respondents followed by the females who were represented by 38.4%. This implied that most of the senior level employees in the commercial banks in Kenya were males. This is consistent with Zhang (2016) who opined that the females are frequently underrepresented in the management roles in many organizations.

4.3.3 Distribution of the respondents by Level of Education

The researcher sought to establish the distribution of the respondents by their highest level of education. The findings are presented in table Figure 4.10.

Table 4.10: Distribution of the Respondents by Level of Education

		Frequency	Percent	Valid Percent
	Certificate	2	2.3	2.3
	Diploma	6	7.0	7.0
Valid	Degree	51	59.3	59.3
	Post Graduate	27	31.4	31.4
	Total	**86**	**100.0**	**100.0**

Source: **Survey Data, 2022**

The results presented in table 4.10 reveal that 59.3% of the respondents had received bachelors of education as their highest level of education while those with post graduate level of education were 31.4%. It is also evident that 7.0% had diploma level of education while 2.3% had other qualifications such as certificate. From these results, it was evident that majority of the respondents were knowledgeable, able to interpret the instruments and provide reliable data.

4.3.4 The Distribution of the Respondents by Years Worked

The study further sought to establish the number of years the respondents had worked in the selected commercial banks. The results are presented in Table 4.11.

Table 4.11: Distribution of the respondents according to years of Service

		Frequency	Valid Percent
	Less than 5 yrs	5	5.8
Valid	6-10 yrs	30	34.9
	Over 10 yrs	51	59.3
	Total	**86**	**100.0**

Source: Survey Data, 2022

As shown in table 4.11, majority of the respondents (59.3%) had worked in commercial banks for over 10 years. The remaining 34.9% and 5.8% had worked for 5-10 years and for less than 5 years respectively. From these results, the researcher noted that most of the respondents comprising of 94% had served for more than 5 years, thrusting them into a position to provide reliable information regarding loan performance in commercial banks. It also implied that the sampled commercial banks offered security of tenure to its senior employees.

4.3.5 Level of Involvement in Corporate Social Responsibility

The study further sought to establish the commercial banks' level of engagement in CSR. The results are presented in Table 4.12.

Table 4.12: Distribution of the Responses by level of engagement in CSR

		Frequency	Percent
	High	14	16.3
Valid	Moderate	58	67.4
	Low	14	16.3
	Total	**86**	**100.0**

Source: Survey Data (2022)

From the findings presented in table 4.12, it is evident that majority of the respondents concurred that their banks were moderately engaged in corporate social responsibilities (67.4%), followed by 16.3% each who noted that the level of involvement in corporate social responsibility was high with a similar percentage (16.2%) noting that their banks were lowly engaged in corporate social responsibility. The results provided evidence for the reliability of the findings as nearly every bank undertook some corporate social responsibility activities at varying levels.

4.4 Descriptive Statistical Findings

This section presents the descriptive results on the parameters for both the dependent and independent variables. Descriptive analysis consists of measure of central tendency (mean) and measure of dispersion (standard deviation). The descriptive statistics were obtained by running the parameters for each variable on the SPSS. The results are discussed in the subsequent sections.

4.4.1 Descriptive Results for Philanthropic Corporate Social Responsibility

The participants were required to rate their level of agreement with statements relating to philanthropic CSR activities in their commercial banks based on a scale ranging from 1 to 5, with 1 being Strongly Disagree, 2 Disagree, 3 being Undecided, 4 being agree, and 5 being strongly agree. Hence, various statements on philanthropic corporate social responsibility were included in the questionnaire and presented to the respondents. Table 4.13 summarizes the respondents' level of agreement with the various statements.

Table 4.13: Philanthropic Corporate Social Responsibility

Statements	N	Mean	Std. Deviation
In our bank there are educational programs carried out to support the less fortunate members of the society	**86**	3.7326	.72638
In our institution we support health initiatives and programs in the community	**86**	3.7209	.69707
Our bank donates towards community projects	**86**	3.7907	.73750
As a bank we donate to causes that are in harmony with our vision	**86**	3.6628	.82048
As a bank we endeavor to make the world a better place to live in	**86**	3.6512	.97940
In our bank a portion of earnings is dedicated to charities and nonprofits that align with our guiding missions	**86**	3.6860	.84382
We have our own charitable trust to give back to the society	**86**	3.7442	.88366

Source: Survey Data (2022)

The results presented in Table 4.13 confirmed that majority of the respondents agreed that in their banks there were educational programs carried out to support the less fortunate members of the society as depicted by a mean score 3.7326 and a standard deviation of 0.72638. Moreover, there was a widespread consensus among the respondents that the commercial banks supported health care initiatives and programs in the community (M=3.7209; SD=0.69707). It is also evident that majority of the respondents agreed that their banks often donated towards community projects as shown by a high mean score of 3.7907 with a corresponding small standard deviation of 0.73750. This was supported by majority of the respondents who concurred that as banks they donated to causes that were in harmony with their vision as depicted by mean score of 3.6628 and a standard deviation of 0.82048.

Furthermore, the results suggested that the banks endeavored to make the world a better place to live in as illustrated by mean response of 3.6512 and a standard deviation of 0.97940. It was also evident that the commercial banks had charitable trusts to give back to the society as shown by mean score of 3.6860 and a standard deviation of 0.84382. In addition, the respondents agreed that their banks dedicated a portion of earnings to charities and nonprofits that aligned with their guiding missions (M=3.7442; SD=0.88366). From the results it is evident that the respondents rated all the parameters within the range of agreement, suggesting that all the branches of the selected commercial banks were involved in philanthropic corporate social responsibility. The range of agreement is 3.5 to 4.4 on the five-point Likert scale.

4.4.2 Descriptive Results for Environmental Corporate Social Responsibility

The researcher sought to establish the respondents' views concerning environmental CSR in commercial banks. Several indicators of environmental CSR were presented to the respondents and the results obtained from their responses are presented in Table 4.14.

Table 4.14: Environmental Corporate Social Responsibility

Statements	**N**	**Mean**	**Std. Deviation**
Our bank supports environment friendly policies and programs	**86**	3.6977	.68719
Our bank supports the use of alternative energy sources	**86**	3.8605	.72213
We often donate to local environment-focused organizations	**86**	3.7907	.73750
As a bank we believe in behaving and acting in environmentally friendly	**86**	3.8256	.67199
We contribute to the use of sustainable materials	**86**	3.8953	.68649
As a bank we undertake activities that help to conserve the environment such as tree planting	**86**	3.6860	1.19076
Our bank has enacted recycling programs & policies	**86**	3.6512	.97940

Source: **Survey Data, 2022**

The findings presented in Table 4.14 demonstrated that majority of the respondents agreed that commercial banks supported environment friendly policies and programs (M=3.6977; SD=0.68719) as well as the use of alternative energy sources (M=3.8605; SD=0.72213). It was also evident that the banks often donated to local environment-focused organizations (M=3.7907; SD=.73750). This was part of the initiatives adopted by the commercial banks to attract customers.

Similarly, majority of the respondents slightly concurred that their commercial banks believed in behaving and acting in environmentally friendly ways (M=3.8256; SD=0.67199) by contributing to the use of sustainable materials (M=3.8953; SD=0.68649). Moreover, majority of the respondents agreed that their banks undertook activities that helped to conserve the environment such as tree planting (M=3.6860; SD=1.19076) s evidenced by the fact that the banks had enacted recycling programs and policies (M=3.6512; SD=0.97940). It is significant to note that the respondents agreed with all the statements pertaining to environmental CSR. In particularly, it is apparent that the commercial banks supported the use of sustainable materials and alternative energy sources as mean response to these parameters were relatively higher than the rest.

4.4.3 Descriptive Results for Economic Corporate Social Responsibility

The participants were to rate various statements relating to economic CSR in the commercial banks. The researcher used a combination of indicators of economic CSR and presented them to the respondents and the results are presented in table 4.15.

Table 4.15: Economic Corporate Social Responsibility

Statements	N	Mean	Std. Deviation
Our bank engages in fair contracts with stakeholders	**86**	3.7442	.90989
As a bank we believe in transparent salary and remuneration system	**86**	3.2209	1.02212
CSR activities position us in financial market	**86**	3.1395	1.09719
In our institution we consider gender equity in our financial dealings	**86**	3.6977	.68719
In our bank we often share our economic gains with the community	**86**	3.8605	.72213
Through CSR bank shares positive attributes of unselfishness as us, the employees	**86**	3.7907	.73750
Our employees perform better because of equitable treatment	**86**	3.5465	.82115

Source: Survey Data, 2022

From Table 4.15, majority of the respondents concurred that their banks engaged in fair contracts with both the supplies and employees (M=3.7442; SD=0.90989). This implied that the commercial banks were involved in the search for the best ways to enhance the relationship with supplies and even the employees. The results also showed that majority of the respondents were noncommittal that their banks believed in transparent salary and remuneration system (M=3.2209; SD=1.02212) and in so doing the respondents were further noncommittal that the banks adopted appropriate economic CSR activities to favourably position themselves in the financial market (M=3.1395; SD=1.09719). It was also evident that the financial institutions considered gender equity in their financial dealings as revealed by a considerable high mean response rate of 3.6977 with a corresponding small standard deviation of 0.68719.

Also, the respondents agreed that their banks often shared economic gains with the community through CSR activities (M=3.8605; SD=0.72213). Apparently, this is the parameter that received the highest level of evaluation, signifying that there were deliberate efforts by the commercial banks to participate in CSR activities that economically benefitted the community. It also implied that the commercial banks involved in the study were embracing the standards imposed by the regulatory authorities of being mindful of the welfare of the society from where they derive their profits.

Moreover, majority of the respondents agreed that through economic CSR activities the banks shared positive attributes of unselfishness with their employees (M=3.7907; SD=0.73750) and that the employees of the commercial banks performed better because of equitable treatment (M=3.5465; SD=0.82115). It is conceivable that the respondents concurred that the adoption of economic corporate social responsibility influenced the loan performance of commercial banks. While the respondents concurred with the parameters for economic CSR, mixed results were evident in two parameters where the respondents expressed noncommittal evaluation. This was in regard to transparent salary and remuneration system and the use of economic CSR activities to favourably position the banks in the financial market. This is significant because both the parameters reflected the banks' financial relationship with the employees and customers.

4.4.4 Descriptive Results for Ethical Corporate Social Responsibility

The study participants were asked to rate their level of agreement with predetermined claims about ethical CSR in commercial banks. Table 4.16 shows the results as described in terms of the mean and standard deviation of the responses obtained.

Table 4.16: Ethical Corporate Social Responsibility

Statements	N	Mean	Std. Deviation
Our bank engages in ethical business practices such as fair interest rates	**86**	3.3837	.89664
In our bank we are committed to its core mission of engaging in business	**86**	4.0000	.95794
In our institution we set and adhere to higher minimum wage	**86**	3.8721	.85125
Our bank deals with ethically sourced materials	**86**	3.8605	.72213
As a bank we give comprehensive benefits to our clients	**86**	3.7907	.73750
As a policy our bank does not charge exorbitant interest rates	**86**	3.6512	1.07120
In our bank we believe in fair treatment of stakeholders	**86**	3.6163	1.05349

Source: Survey Data, 2022

The results in Table 4.16 indicated that majority of the respondents were noncommittal that their banks engaged in ethical business practices such as fair interest rates as depicted by a mean score of 3.3837 and a standard deviation of 0.89664. This further implied that, like any other business, the primary concern of commercial banks was ethical business practice but questions pertaining to interest rates are often determined by external macroeconomic forces such as inflation. In this regard, the commercial banks are often compelled to adjust their interest rates in compliance with the financial market trends. It is also evident that the commercial banks were committed to their core mission of engaging in financial business as shown by a mean score of 4.0000 with low standard deviation of 0.95794. This is an obvious expectation since the core business of the commercial banks is profit maximization. Moreover, majority of the respondents concurred that in their banks they were committed to their core mission of engaging in business as illustrated by mean score of 3.8721 and a standard deviation of 0.85125. This further shows that following the core mission was the main concern of commercial banks.

Moreover, the respondents agreed that in their institutions they set and adhered to higher minimum wage as illustrated with a mean response of 3.8605 with a standard deviation of 0.72213. It is informative to note that the high response rate in this regard suggested that the commercial banks were driven by the desire to improve the minimum wages for the employees. This represents an additional expenditure that could be actualized by foregoing commitment to CSR. Moreover, majority of the respondents agreed that their banks dealt with ethically sourced materials as illustrated by mean score of 3.7907 with a standard deviation of 0.73750. Furthermore, the findings demonstrated that the respondents agreed that their banks they extended comprehensive benefits to their clients (M=3.6512; SD=1.07120) and that the banks did not charge exorbitant interest rates because they believed in fair treatment of stakeholders (M=3.6163; SD=1.05349). This implied that undertaking ethical CSR activities positively influenced loan performance in the commercial banks.

4.4.5 Descriptive Results for Loan Performance

The participants were asked to show their level of agreement with the claims about loan performance in commercial banks. Table 4.17 summarizes the respondents' level of agreement with the proposed statements on loan performance as described in terms of the mean and standard deviation.

Table 4.17: Loan performance of Commercial Banks

Statements	N	Mean	Std. Deviation
Our bank provides loan products with low interest	**86**	3.8953	.85446
In our bank we charge low loan processing fees	**86**	3.9884	.80431
We use the standard interest rates recommended by the central bank of Kenya	**86**	3.5930	.80261
There is low risk for loans issued to our clients	**86**	3.6628	.74535
The repayment patterns for loans given is predictable	**86**	3.6395	.76563
There is low credit risk because we have good faith	**86**	3.7093	.73351

In our bank there are no fraudulent loan approvals that violate our credit policy	**86**	3.6512	.68199
Our clients comply with our credit policy	**86**	3.6977	.76803
Our bank has a lenient credit policy	**86**	3.7442	.68918
Banks adopt nonaggressive credit collection methods	**86**	3.9419	.85893

Source: Survey Data, 2022

The results presented in Table 4.17 illustrated that majority of the respondents agreed that their banks provided diverse loan products with relaxed interest rates as depicted by the mean score of 3.8953 and a standard deviation of 0.85446. This is sufficient evidence that commercial banks were focused on realizing growth in financial performance through diversification of loan products. Similarly, majority of the respondents noted that their banks were charging low loan processing fees as shown by mean score of 3.9884 and a standard deviation of 0.80431. From these observations, it seems that the commercial banks were competing for the same customers and by possibly offering more attractive terms as explained by the low loan processing fees.

Moreover, majority of the respondents strongly agreed that they used standard interest rates recommended by the central bank of Kenya (M=3.5930, SD= 0.80261). The respondents further agreed that there was low risk of defaults for the loans issued to their clients as revealed by a mean response of 3.6628 with a standard deviation of 0.74535. This was supported by majority of the respondents who agreed that the repayment patterns for loans advanced was predictable as revealed by a mean response of 3.6395 with a standard deviation of 0.76563. Perhaps this is why most people still prefer commercial banks compared to other established financial institutions. Moreover, the results showed that there was a low credit risk because the commercial banks had adequate faith in the customers as shown by a response of 3.7093 with a standard deviation of 0.73351.

The majority of the respondents further agreed that in their banks there were no fraudulent loan approvals that violated the banks' credit policy as revealed by a mean response of 3.6512 with a standard deviation of 0.68199. This explains why there was overwhelming concurrence that the clients complied with the credit policy of the commercial banks as revealed by a mean response of 3.6977 with a standard deviation of 0.76803. This is further supported by the overwhelming concurrence that there were lenient credit policies as supported by a mean response of 3.7442 with a standard deviation of 0.70138. From the results it is evident that majority of the respondents concurred that the commercial banks adopted non-aggressive credit collection methods as reflected by the mean response of 3.9419 with a standard deviation of 0.85893.

These results seemed to support the fact that loan performance was determined by the extent to which loan objectives of the banks were achieved. From a financial perspective, consistent favourable loan performance was the main motive of financial institutions. It is on this basis that that commercial banks ensured that non-performing loans were minimized and credit facilities only extended to creditworthy customers. If loan repayment is not consistent throughout the business cycle, it becomes more likely that the bank would face significant loan write-offs and would subsequently constrict credit growth thus reducing loan supply. This implied that an increase in real CSR activities would boost the organizational performance.

4.5 Diagnostic Tests

Diagnostic tests and tests of statistical assumptions tests were advanced on the assumptions that there exists a linear relationship between the variables and that the data was obtained from a normally distributed population. The tests were also carried out to confirm whether the data collected was reliable and valid and whether the set questions aimed at addressing the study variables. These tests included test of normality, heteroscedasticity test, homoscedasticity test and correlation test. Shapiro-Wilk was adopted to test normality because the sample size was less than 100. The results of normality test are presented in table 4.18.

Table 4.18: Tests of Normality

Variables	**Shapiro-Wilk**		
	Statistic	**Df**	**Sig.**
Philanthropic CSR	.808	16	0.119
Environmental CSR	.719	16	0.089
Economic CSR	.805	16	0.214
Ethical CSR	.877	16	0.093

Loan performance	.904	16	0.110

Source: Survey Data (2022)

From the findings in table 4.18, the results show that philanthropic CSR had p-value=0.119>0.05; environmental CSR had p-value=0.089>0.05; economic CSR had p-value=0.214>0.05; ethical CSR had p-value=0.093>0.05; and loan performance had p-value=0.110>0.05. All the p-values were greater than 0.05. This indicated that all the variables were normally distributed and hence the data met the assumption of normality. The Breuch-pagan/cook-weisberg test was used to test for heteroscedasticity. The null hypothesis for the test was that the variances of error terms were equal. Generally, if Prob>Chi-squared is greater than 0.05 then it suggests the existence of homoscedasticity. The results are presented in table 4.19.

Table 4.19: Breusch-Pagan/Cook-Weisberg test for heteroscedasticity

Ho: Constant variance			
Statistics	Df	Stat value	p-value
Chi-squared	5	1.6079	0.1112

Source: Survey Data (2022)

The findings presented in Table 4.19 shows that the Chi^2 was 1.6079 at p=0.1112 which was greater than 0.05. This therefore suggests insignificance. The data obtained from the survey was also subjected to homoscedasticity test to evaluate the assumption of homoscedasticity where it was deduced that the error term generated in the relationship between the dependent and independent variables was homoscedastic and that it was the same for all the values of the predictor variables. The test results are presented in Table 4.20.

Table 4.20: Diagnostic Tests for Homoscedasticity

	Model	Zero-order	Partial	Part	Tolerance	VIF
	(Constant)					
1	Philanthropic CSR	.198	.135	.132	.859	1.164
	Environmental CSR	.207	.167	.163	.871	1.148
	Economic CSR	.067	.030	.029	.780	1.283
	Ethical CSR	.062	.046	.045	.855	1.170

Source: (Survey Data, 2022)

The results in Table 4.20 illustrated that the test was significant and therefore the assumptions that the survey data was heteroscedastic and serially correlated was rejected. The primary concern was the tolerance level which is an indication of the amount of variance in the predictor that could be accounted for by other predictors. As a rule of thumb, if the value of the Variance of Inflation Factor (VIF) is greater than 10 it may merit further investigation.

From the findings, the variable philanthropic CSR had a tolerance of 0.859 and a VIF of 1.164, environmental CSR had a tolerance of 0.871 and a VIF of 1.148 and economic CSR had a tolerance of 0.780 and a VIF of 1.283 while ethical CSR had a tolerance level of 0.855 and a VIF of 1.170. Since the tolerance for all the variables was more than 0.1 and the VIF was less than 10, there was no need for further investigations. Based on these results it was concluded that there was no heteroscedasticity in the research data. The deduction was that the data was fit for analysis. Moreover, it was evident that the null hypothesis of constant variance (Zero order) should not be rejected since the p value was greater than 5%. The results therefore indicated that the values for tolerance and VIF were within an acceptable range and that indeed there was no threat of multicollinearity problem and therefore, all the independent variables could be used for further analysis using the regression model.

4.6 Inferential Analysis

This section presents the results on the inferential analysis. The inferential analysis was carried out in light of the objectives and hypotheses of the study.

4.6.1 Pearson Correlation Analysis

The linear association between the independent variables including and the dependent variable was investigated using Pearson's correlation analysis as shown in Table 4.21.

Table 4.21: Pearson Correlation Analysis Results

		Loan PERF	Phil CSR	Env CSR	Econ CSR	Eth CSR
Loan Performance	Pearson Correlation	1	.423**	.342**	.371**	.397**
	Sig. (2-tailed)		.000	.001	.000	.000
	N	86	86	86	86	86
Philanthropic CSR	Pearson Correlation	.423**	1	.330**	.301**	.493**
	Sig. (2-tailed)	.000		.002	.005	.000
	N	86	86	86	86	86
Environmental CSR	Pearson Correlation	.342**	.330**	1	.307**	.311**
	Sig. (2-tailed)	.001	.002		.004	.004
	N	86	86	86	86	86
Economic CSR	Pearson Correlation	.371**	.301**	.307**	1	.452**
	Sig. (2-tailed)	.000	.005	.004		.000
	N	86	86	86	86	86
Ethical CSR	Pearson Correlation	.397**	.493**	.311**	.452**	1
	Sig. (2-tailed)	.000	.000	.004	.000	
	N	86	86	86	86	86

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

Source: Survey Data (2022)

Table 4.21 shows that the correlation coefficients for philanthropic CSR, environmental CSR, economic CSR and ethical CSR toward loan performance of commercial banks results were shown to be all positive, with p-values of less than 0.05. The analysis of the findings further revealed that there was a moderate positive relationship (r=0.423, p=0.000) between philanthropic CSR and loan performance. Similarly, environmental CSR was perceived to be an important determinant of loan performance. Hence, the study established a moderate positive relationship and statistically significant (r=0.342; p=0.001) between environmental CSR and loan performance. It is notable that the strength of the relationship is moderate. This is, however, important since environmental CSR is not considered in isolation as other factors too play a role in determining loan performance. Furthermore, the deduced relationship implied that commercial banks that supported programs aimed at protecting and conserving the environment tended to record improved ratings on their loan portfolios. The results also revealed that there was a moderate positive and statistically significant relationship (r=0.371; p=0.000) between economic CSR and loan performance of commercial banks. This implies that through economic CSR commercial banks could minimize credit risk. Finally, the results show that there was a moderate positive relationship (r=0.397; p=0.000) between ethical CSR and loan performance of the commercial banks. The relationship was also found to be statistically significant. This implied that the loan performance of commercial banks significantly depended on ethical CSR. It is provident that besides financial gain, the commercial banks stand to benefit if they diversified their ethical CSR activities.

4.6.2 Regression Analysis

The regression model equation was applied to determine the influence of philanthropic CSR, environmental CSR, economic CSR and ethical CSR on loan performance of commercial banks, where $\mathbf{X_1}$=philanthropic CSR, $\mathbf{X_2}$=environmental CSR, $\mathbf{X_3}$ =economic CSR and $\mathbf{X_4}$ = ethical corporate CSR as depicted in the equation 4.1

$$Y= \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + e \quad \text{(4.1)}$$

Table 4.22 presents the model summary for the multiple linear regression analysis. This analysis is important because it communicates the combined effect of the four variables on loan performance. The outputs for the regression analysis engendered the summary model, ANOVA and regression coefficients.

Table 4.22: Model Summary for Regression Analysis

Model	R	R Square	Adjusted R Square	Standard Error	Sig.
1	.532[a]	.283	.247	.24273	0.000

a. Predictors: (Constant), Philanthropic CSR, Environmental CSR, Economic CSR, Ethical CSR

Source: Survey Data (2022)

According to the data in Table 4.22, the multiple regression (R) obtained was 0.532 and the R-squared was 0.283. These results show that philanthropic CSR, environmental CSR, economic CSR and ethical CSR accounted for 28.3% of the total variance observed in loan performance of commercial banks. This means that other factors not considered in the model would significantly influence loan performance of the commercial banks. This seems to reflect reality because in practical terms loan performance is attributed to several factors including the borrowers' income, economic condition, collateral used, the amount of loan borrowed and terms and conditions of the credit. The statistical significance of the model was determined using the analysis of variance and the results obtained presented in table 4.23.

Table 4.23: Analysis of Variance (ANOVA[a])

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.882	4	.471	7.987	.000[b]
	Residual	4.772	81	.059		
	Total	**6.655**	**85**			

a. Dependent Variable: Loan Performance
b. Linear Regression through the Origin
c. Predictors: Ethical CSR, Economic CSR, Philanthropic CSR, Environmental CSR

Source: Survey Data, 2022

The ANOVA results presented in Table 4.23 show that the four study variables namely philanthropic CSR, environmental CSR, economic CSR and ethical CSR were statistically significant in influencing loan performance of commercial banks. The study established that the F-ratio ($F_{(4,81)}$=7.987) was statistically significant at *p*=0.000 and displayed goodness of fit. This significance can be deduced to justify the persistence of many commercial banks in CSR activities. For example, the major banks in Kenya such as Equity bank and KCB have consistently set a side part of their profits for CSR activities because doing so fits with their loan performance agenda. Moreover, the influence of philanthropic CSR, environmental CSR, economic CSR and ethical CSR on loan performance was explained using the regression coefficients shown in Table 4.24.

Table 4.24: Regression Coefficients

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
	(Constant)	1.740	.373		4.671	.000
1	PHILCSR	.172	.078	.243	2.193	.031
	ENVCSR	.138	.089	.161	1.558	.123
	ECONCSR	.138	.081	.183	1.695	.094
	ETHCSR	.096	.078	.145	1.238	.219

a. Dependent Variable: LOAN PERF

Source: Survey Data, 2022

Table 4.24 indicates that philanthropic CSR, environmental CSR, economic CSR and ethical CSR all had a positive influence on loan performance in commercial banks. Analyzing the derived multiple regression model, it is evident that with all the other factors remaining constant, the beta value of 0.172 supported by a *p*-value of 0.031 for philanthropic CSR implied that a unit change in philanthropic CSR led to 0.172 change in loan performance. This implied that 17.2% of the variance observed in the loan performance of commercial banks was explained by funding educational programs, supporting health initiatives, donating to philanthropic causes and supporting community projects among other parameters. Based on the results, it is evident that philanthropic CSR significantly influenced loan performance of commercial banks. Therefore, being driven by philanthropic responsibility will require commercial banks to dedicate a portion of their earnings for acts of charity. Many Kenya's commercial banks have aligned their operational policies to support worthy causes that are not necessarily related to their core business. To actualize this goal the commercial banks have created their own charitable trusts to channel philanthropic activities: examples here include Equity Foundation and KCB Foundation.

It was also evident that holding other factors constant the beta value of 0.138 supported by a p-value of 0.123 for environmental CSR implied that a unit change in environmental CSR led to a 0.138 change in loan performance. This means that promoting alternative energy sources, supporting recycling programs, donating to environment programs and volunteering for environment programs accounted for 13.8% of the variance observed in loan performance of commercial banks. In compliance with the global warming austerity measures many institutions including commercial banks are actively engaged in CSR activities that protect the environment. It is apparent that this is pay dividends going by its impact on loan performance. This is a case of double benefit for the banks conserve the environment while also realizing improved fortunes. From the study findings, it can be observed that environmental CSR positively influenced loan performance of commercial banks. However, the influence was found to be statistically insignificant. It is, however, common practice nowadays for commercial banks to make contribution to averting greenhouse gas emissions, pollution, and waste and natural resource depletion by supporting planting trees programs and funding environmental research programs.

The results also revealed that holding other factors constant the *B* value of 0.138 supported by a p-value of 0.094 indicated that a unit change in economic CSR led to 0.138 changes in loan performance of commercial banks. This implied that fair contracts, transparent salary system, taking welfare of employees and paying attention to aspects of gender equity accounted for 13.8% change in the loan performance of commercial banks. From the study findings, the study observed that economic CSR statistically and significantly influenced the loan performance of commercial banks. Just like environmental CSR, it notable that economic CSR activities are equally important in so far as loan performance of commercial banks is concerned. This appears to be self-explanatory because by taking care of the economic interest of the workers and other interested parties, loan performance is bound to improve through prompt repayment of loans.

Finally, the *B* value of 0.096 supported by a p-value of 0.219 indicated that holding other factors constant a unit change in ethical CSR contributed to 0.096 of the variances in loan performance of commercial banks. In this case, 9.6% of the variance in the loan performance was explained by fair treatment of stakeholders, setting higher minimum wage, ethically sourcing materials and giving comprehensive benefits among other parameters. The analysis revealed that ethical CSR significantly influenced loan performance in commercial banks in Kenya. However, in comparison to the other types of CSR, ethic CSR appears to exhibit least influence on loan performance. Nevertheless, the influence cannot be underrated because nearly all commercial banks are obligated to operate within the ethical confines provided by the central bank of Kenya. In many respects it is often the practice that commercial banks in Kenya engage in fair business practices across the board, including treating all employees, stakeholders and customers ethically and with respect. To motivate employees Kenya’s commercial banks, have in recent past been setting relatively higher minimum wages thus guaranteeing all employees competitive and comprehensive pay and benefits. As a result of the regression analysis, a model equation with standardized beta coefficients was developed as shown in equation 4.2:

$$\mathbf{Y = 0.172X_1 + 0.138X_2 + 0.138X_3 + 0.096\,X_4 \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (4.2)}$$

4.7 Chapter Summary

The chapter has presented analysis of the results. Descriptive analysis was used to profile the demographic characteristics of the respondents and the descriptive findings. Correlation analysis was used to examine the relationship between the study variables. Regression analysis was then applied to establish the contribution of the subvariables to the dependent variables. The study's findings showed that CSR had a significant influence on the loan performance in commercial banks in Kenya. It is evident that the four CSR and their parameters had a significant influence on loan performance. The results showed that philanthropic CSR, environmental CSR, economic CSR and ethical CSR explained 28.3% of the variability in loan performance in commercial banks in Nairobi Kenya.

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary and discussion of the study findings. It also highlights the conclusions based on the study objectives. The chapter also makes recommendations and suggestions for further research. The limitations of the study are also presented.

5.2 Summary of Findings

The results show that 86 questionnaires were returned accounting for 95.6% of the response rate. Majority of the respondents were aged 40-49 years (46.5%) with the males represented by 61.6% of the respondents. 59.3% had received bachelors of education with 59.3% having worked in the commercial banks for over 10 years. 67.4% of the respondents cited that all the banks were moderately engaged in CSR activities. The correlation coefficients for philanthropic CSR, environmental CSR, economic CSR and ethical CSR toward loan performance of commercial banks results were shown to be all positive, with p-values of less than 0.05. The relationship between philanthropic CSR and loan performance and between environmental CSR and loan performance were moderate and positive and statistically significant (r=0.423, p=0.000) and (r=0.342; p=0.001) respectively. Economic CSR and loan performance and ethical CSR and loan performance were also moderate, positive and statistically significant (r=0.371; p=0.000 & r=0.397; p=0.000).

With regard to the regression results, philanthropic CSR, environmental CSR, economic CSR and ethical CSR accounted for 28.3% of the total variance observed in loan performance of commercial banks. The F-ratio of 7.987($F_{(4, 81)}$) with p=0.000 indicated that the results were statistically significant and the model displayed goodness of fit. Linear regression model revealed that a unit change in philanthropic CSR led to 0.172 (p=0.031) change in loan performance while a unit change in environmental CSR (p=0.123) and economic CSR (p=0.094) led to 0.138 change in loan performance of commercial banks respectively. The results also revealed that a unit change in ethical CSR contributed to 0.096 (p=0.219) variance in loan performance of commercial banks.

5.3 Discussion of the Findings

The study sought to investigate the influence of CSR on loan performance of commercial banks in Kenya. A discussion of the findings of the study is presented in this subsection as guided by the specific objectives.

5.3.1 Philanthropic Corporate Social Responsibility and Loan Performance

From the study findings, it was evident that the commercial banks had excelled in supporting educational programs targeting the less fortunate members of the society and donated towards community projects and other causes that were in harmony with their vision. The commercial banks also endeavored to make the world a better place through charitable trusts. Hence, philanthropic CSR influenced loan performance in commercial banks. Consequently, there was a positive influence of philanthropic CSR on loan performance. These results concurred with Karimi (2019) who observed that donating to community projects implied that the commercial banks were concerned with the welfare of the community which enabled them to receive favourable evaluation by the clients as a positive gesture. This is further supported by Levin (2019) who conceptualized that philanthropic corporate social responsibility involving donating to noble causes tended to lower operational costs in the final analysis.

The results have also been supported by Kamboti (2023) who noted that CSR did not only maximize the interests of the financial institutions, but also helped to formulate policies that influenced their overall financial performance. Lorraine (2012) contended that philanthropic CSR succeeded proportionately to the improved attitudes of the stakeholders while Carmen-Pilar and Rosa (2017) noted that continuous engagement in philanthropic CSR led to better organizational performance as CSR was perceived to be necessary for improved loan performance in commercial banks.

Kitzmuellery and Shimshack (2023) noted that philanthropic CSR was necessary for progressive organizations and it was a hinge from which operational success of financial institutions could be realized. It is in this regard that Kipkemoi (2019) found that there was a significant positive relationship between CSR and ROA and a significant negative relationship between CSR and GIS while Auka (2016) realized that corporate image was the main factor that influenced the practice of philanthropic CSR among financial institutions. However, Marcia, Otgontsetseg and Hassan

(2019) failed to ascertain the financial implications of philanthropic CSR while Abiodun (2019) found a negative relationship between philanthropic activities and performance. However, the results have implications for the stakeholder theory because they have highlighted the reasons for the existence of commercial banks which the managers should strive to achieve. IN this regard, the espoused link between philanthropic CSR and loan performance confirm the derived benefits the shareholders of the commercial banks stand to benefit by engaging in philanthropic activities. Consequently, philanthropic activities should be perceived to signal improved performance for the commercial banks as engendered by the Signaling theory.

5.3.2 Environmental Corporate Social Responsibility and Loan Performance

The results on environmental corporate social responsibility established that the commercial banks supported the use of alternative energy sources, donated to local environment-focused organizations and generally behaved and acted in environmentally friendly ways by contributing to the use of sustainable environmental materials. Moreover, commercial banks undertook activities that helped to conserve the environment by enacting recycling programs and policies. From the results, it is evident that the commercial banks engaged in environmental CSR which influenced loan performance. It was also evident that environmental CSR implied that the variance in loan performance of commercial banks was accounted for by environmental CSR. This is supported by Urbancová (2019) who noted that commercial banks that needed to take advantage of their exponential growth ought to engage in environmentally friendly activities. From the results, it was apparent that commercial banks engaged in environmental CSR which seemed to influence loan performance, and this has been supported by Cipovová and Belás (2022) who suggested that various environmental activities were significant.

Similarly, Korir and Langat (2016) confirmed that environmental CSR activities seemed to be intensified when there were perceived benefits associated with such activities as undertaken by the banks. Markus (2019) averred that environmental social activities were part and parcel of success stories of successful commercial banks while Commer (2019) noted that environmental CSR gave commercial banks a competitive edge over other financial institutions that did not participate in such activities. However, Edelstein (2019) failed to establish a link between environmental CSR and credit risk while Katchova and Barry (2015) asserted that credit risk in commercial banks varied significantly depending on the riskiness of the portfolio and not necessarily due to environmental CSR. In the same conceptualization, Glennon and Nigro (2015) noted that the probability of a loan default was provisionally pegged on the borrower, lender and loan characteristics and least on environmental CSR activities. However, the arguments advanced by the stakeholder theory and the Signaling theory recommend that the managers of the commercial banks should engage in environmental CSR if they want to improve the financial fortunes of the commercial banks usually by reciprocating the positive gesture by honoring the credit obligations extended to them thus enhancing the performance of financial commercial banks in Kenya.

5.3.3 Economic Corporate Social Responsibility and Loan Performance

With regard to economic CSR, the commercial banks involved in this study engaged in fair contracts with both the supplies and employees, believed in transparent salary and remuneration system and adopted appropriate economic CSR activities that favourably positioned themselves in the financial market. The commercial banks also considered gender equity in their financial dealings, shared economic gains with the community through CSR, and shared positive attributes of unselfishness with their employees making them perform performed better owing to equitable treatment. The results also revealed that the variance observed in loan performance was contributed by economic CSR. Although the change was statistically insignificant, the impact of economic CSR has received support in both theoretical and empirical literature. Theoretically, the stakeholder theory postulates that financial institution will engage in CSR activity with the hope that the stakeholders would reciprocate the positive gestures by honoring the credit obligations extended to them. Signaling theory on the other hand believes that financial institutions can engage in CSR when they perceive that the shareholders would also interpret the goals of CSR activities to signal improved organizational performance.

Empirically, the results are also supported by other studies such as Huang (2019) who suggested that the best practices adopted by many commercial banks related to favourable engagement with the stakeholders. This agrees with Sundus and Naintara (2018) who noted that gender issues in the recruitment practices should be a primary policy concern for all commercial banks. Hasan (2017) also concurred that economically socially responsible banks had a lower loan default rate though the difference was not statistically significant. This has also been supported by Tsoutsoura (2014) who noted that banks with an elaborate economic CSR activity reported lower rate of loan default. Similarly, Okoth (2019) presented the possibility that economic CSR disclosures represented attempts to improve the corporate image and to be seen as responsible and mindful of the wellbeing of the employees. However, the results differ from Kipkemoi (2019) who failed to establish any significant relationship between economic CSR and loan performance with Anyona (2015) downplaying the significance of economic CSR terming it as a major interest of commercial banks that painfully seeks to forego profitability for social good. This is congruent with the stakeholder perspective according to which CSR should positively impact a banks' loan performance.

5.3.4 Ethical Corporate Social Responsibility and Loan Performance

Regarding ethical corporate social responsibility, it was evident that the banks engaged in ethical business practices such as fair interest rates. Just as was postulated by the stakeholder theory the commercial banks were committed to their core mission of engaging in ethical financial business to benefit the stakeholders. However, the stakeholders must first perceive that they have a stake in the institution before developing expectations of financial gain from the ethical CSR activities. It is also evident that the banks were committed to their core mission of engaging in ethical by adhering to not only the goal of providing higher minimum wage but also ethically sourcing materials and extending benefits to their clients, lowing interest rates and carrying out business activities in terms of the objectives and values of the society.

The results further indicated that the variance in loan performance was influenced by ethical CSR. These results have been supported by Soana (2017) who showed that many banks adhered to prudent business practices in order to gain competitive advantage. Sigurthorsson (2022) agreed that commercial banks often paid attention to ethical business practices for personal benefits. This has also been supported by Becchetti (2017) who discovered the significant function of ethical CSR while Omore (2022) indicated that larger financial institutions were more oriented on CSR as a means to an end and as an end in itself which led to business success. In this regard, it can be conceptualized that if the CSR activities undertaken by commercial banks are perceived to be ethical, clients are likely to reciprocate by responding favourably in terms of loan repayment. This avidly coheres with the tenets of the Signaling theory where the ethical CSR activities are expected to send credible signals about future gains.

5.4 Conclusion

The purpose of the study was to investigate the influence of CSR on loan performance of commercial banks, Kenya. Based on the study findings, it is concluded that philanthropic CSR, environmental CSR, economic CSR and ethical CSR accounted for 28.3% of the total variance observed in loan performance of commercial banks.

It is also concluded that 17.2% of the variance in loan performance of commercial banks was attributed to philanthropic CSR while environmental CSR explained 13.8% of the change in loan performance of commercial banks. The study also concluded that 13.8% of the variance observed in the loan performance of commercial banks is influenced by economic CSR while ethical CSR influenced 9.6% of the change in loan performance.

It was also concluded that for the commercial banks to improve their loan performance they must focus on supporting educational programs targeting the less fortunate members of the society and donating towards community projects and causes while also endeavoring to invest in charitable trusts.

The commercial banks must also support the use of alternative energy sources, donate to local environment-focused organizations and contribute to the use of sustainable environmental materials in order to improve on their loan performance.

Similarly, the study concluded that for the commercial banks to realize improved loan performance they should engage in fair contracts with both the supplies and employees, act transparently and position themselves well in the financial market. The study also concluded that commercial banks must engage in ethical business practices, remain committed to their core mission, provide higher minimum and lower interest rates in order to enhance loan performance.

5.5 Recommendations

This section presents the recommendations for the managers, private sector and policy makers. The recommendations were proposed in relation to the study objectives.

5.5.1 Recommendations for Managers

Based on the conclusions drawn from the study it is recommended that the managers should ensure that the commercial banks continue to engage in corporate social responsibilities. The management should invest more in philanthropic programs given that these programs enhance loan performance of the commercial banks. For instance, the management of KCB and Equity banks through their KCB Foundation and Equity's *Wings to Fly* should be vigilant to ensure that the philanthropic programs continue to benefit the society. The managers of commercial banks should also ensure that the CSR activities revolving around economic activities are promoted as economic CSR had a statistically insignificant influence on loan performance. For instance, the managers of ABSA bank should continue to promote economic CSR involving MSMES and tree planting support programs in order to enhance loan performance.

Moreover, the managers of the commercial banks should promote morally upright behavior by upholding ethical code of conduct in their dealings with the clients, customers and the society. They could do this by engaging in open recruitment processes, effective delivery of services and fair treatment of customers and employees. The managers of the banks that are engaged in environmental protection programs such as Standard Chartered Bank through the Go-green and urban green paces programs should maintain these programs given that they inherently enhance loan performance. In addition, the managers of NCBA that support numerous CSR activities (Green initiative, Pulmhouse foundation, Edumed Trust, MPESA Foundation, SOS Children Villages) should continue with these CSR undertaking for the good of the banks and the society.

5.5.2 Recommendations for the Private Sector

Based on the conclusions drawn from the study it is recommended that the private sector can take cue from the commercial banks to accelerate their participation in CSR activities. The private sector should invest more in philanthropic programs given that these programs promote organizational performance. For instance, the public sector should be committed to ensuring that their CSR activities benefit the society from where they are engaged. The outcome of the study provides impetus for developing a strong alliance or public private partnership (PPP) between the private and public institutions to leverage on the potency of their corporation in supporting the community initiatives. Through PPP, the problems afflicting the society can easily be remedied while the CSR activities will enable the commercial banks to leverage on their overall institutional performance.

5.5.3 Recommendations for Policy Makers

The findings of this study have presented insights that can be adopted to guide policy formulation and regulations pertaining to CSR in commercial banks. Hence, the government should adopt the findings to guide in the review of policies and regulations pertaining to CSR in commercial banks. The government should also involve all the players, practitioners and regulators in the financial sector with the aim of helping to reduce the losses that may accrue from bad debts. Part of policy formulations should be directed to tax-exemption for commercial banks that engage in CSR.

Consequently, the CBK as the regulator of financial institutions should come up with policy recommendations that would promote involvement in CSR activities by the financial institutions. In this regard, the commercial banks should adopt the study findings to review internal policy and legal framework that govern their participation in diverse CSR activities. Thus, the study recommends elaborate policy interventions to allow commercial banks to engage in CSR activities in their chosen areas of interest. There is need for accelerated policy awareness that will ensure that loan losses are minimized as preconditions for enhancing the performance of commercial banks.

5.5.4 Recommendation for Theory

This study has highlighted the significance of the Signaling theory and stakeholders' theory as adopted to guide the study. The concept of signaling is relevant due to its emphasis on the distinguishing features of a good firm and the signaling role of the goodness of intentions. As postulated by the Signaling theory, the results have confirmed that CSR activities tend to signal good fortunes for commercial banks. As a result, the stakeholders should favourably perceive the justification for engagement in CSR activities and interpret the position of the commercial banks with regard to CSR. The existence of a positive relationship between CSR and loan performance indicates that CSR is a better indicator of loan performance.

It is evident that CSR activities enable the commercial banks to minimize loan default. However, a positive perception might also have a negative signaling effect as the clients and customers may perceive engaging in CSR activities as a sign of financial stability thus renegading on their loan repayment obligations which increases financial risks.

Supporting community programs can also be perceived as a sign of strong financial capability and this can scare the clients from taking up loan products for fear of the legal implications upon default. In this regard, the commercial banks should be judicious when undertaking the CSR activities.

Similarly, the results have been supported by the stakeholder theory. In this regard, the banks should focus on prioritizing the interests of all stakeholders by engaging in CSR. This is because participating in the CSR activities is one of the ways of demonstrating concern to the stakeholders. The loanees and other stakeholders will in turn perceive CSR activities as a plausible justification to repay loans owing.

The commercial banks should also pursue CSR programs only to the extent that doing so actually improves the financial position of the organizations. If CSR activities strive to satisfy all stakeholders, the stakeholders will reciprocate by supporting the financial institutions by paying their loan obligations. Ultimately the socially responsible commercial banks are less prone to extreme negative events given that by including philanthropic, environmental, economic and ethical considerations into business plans, the institutions will reduce the risk of bad debts.

5.5.5 Recommendations for Knowledge

Given that many commercial banks fail to reach their objectives, studies that approach the concept of loan performance from the perspective of CSR activities are bound to make positive contributions both to literature and knowledge. Therefore, this study has presented empirical evidence that should be embraced by students who are pursuing professional courses in public policy and corporate governance and related study areas.

This study should be taken as a foundation for building further arguments in the academia and in understanding the determinants of loan performance in commercial banks in Kenya. The study findings are projected to contribute empirical knowledge to the research community regarding CSR and loan performance and the general readers should benefit from the results by gaining additional knowledge on the aspects of CSR. This might enable students and other scholars to embrace the significance of CSR in commercial banks and in other organizations.

5.6 Suggestions for Further Studies

The study investigated the influence of corporate social responsibility on loan performance of commercial banks. However, the study considered four independent variables (philanthropic CSR, environmental CSR, economic CSR and ethical CSR) which accounted for 28.3% of the variance in loan performance of the commercial banks. The study suggests a further study to be carried out to establish the factors contributing the remaining 71.7% of the loan performance of the commercial banks. A further study is also suggested to investigate the factors influencing the adoption of CSR activities in commercial banks in Kenya. Moreover, the researcher suggests that a further study be carried out to establish the influence of the corporate social responsibility on the other dimensions of performance of commercial banks such as profitability, growth and human relations.

In addition, further studies should also look at the impact of Environmental Social Governance (ESG) on loan performance. ESG may provide insight on how organizations manage risks and opportunities related to the environment, social and governance. ESG looks at the organization's overall sustainability.

5.7 Limitations of the Study

Research limitations are flaws in the methodology used that may prevent an accurate interpretation of the research findings. In this study, some limitations were evident. For instance, the study was limited to the commercial banks in Nairobi City County. This gave the researcher an opportunity to undertake an in-depth analysis of the influence of CSR on loan performance. However, the researcher focused on a small sample of 90 respondents. Such a small sample might make it implausible to generalize the study to a wider population. The study also only focused on four aspects of CSR, that is, philanthropic CSR, environmental CSR, economic CSR, and ethical CSR in relation to loan performance taking cognizant of credit risk, default rate, credit policy and interest rate as the parameters of loan performance. This implies that other aspects of CSR were excluded.

Methodologically, the study was limited to the descriptive design with a bias on the use of self-administered questionnaire which further limited the generalizability of the findings. The results of this study may also not be applied to other categories of financial institutions because it was restricted to commercial banks in Nairobi County. It was challenging to determine whether the branch managers were expressing the truth about loan performance because the study adopted the questionnaire which relied on the respondents' memory. This often results in recall biasness as the responses tend to rely on their own hindsight. However, this was resolved by using the instrument's reliability and validity to assess whether the questions adhered to the necessary standards. The willingness of respondents to provide reliable information was enhanced by assuring the participants that any information given throughout the data collection process would be treated in the strictest confidence. The researcher also sought research permit from NACOSTI and the ethical committee of Strathmore University for permission to collect data.

REFERENCES

Abiodun, G. (2019). Effect of philanthropic CSR on firms' profitability in Nigeria, *Canadian Investment Review* 14, 20-34.

Aguinis, H. (2019). *Organizational responsibility: Doing good and doing well*, APA: Washington, DC.

Ailawadi, S. (2017). International Evidence on Ethical Mutual Fund Performance and Investment Style, *Journal of Banking and Finance* 29, 1751-1767

Al-Azzam, K., Hill, K., & Sarangi, S. (2019). Financial Rations, Discriminant Analysis and the Prediction of Corporate Bankruptcy, *Journal of Public Finance*, 3(9), 211-218.

Allen, D., & Faulhaber, K. (2015). Proactive environmental strategies: a stakeholder management perspective, *Strategic Management Journal* 24(5), 453- 470.

Angelidis, P., Massetti, L. & Magee-Egan, P. (2018). Does Corporate Social Responsibility Orientation Vary by Position in the Organizational Hierarchy? *Review of Business Spring*, 28(3), 23-32.

Anyona, O. (2015). Managing corporate performance: Investigating the relationship between economic corporate social responsibility and loan performance in emerging markets. *International Journal of Performance Management*, 59(3), 229-254.

Aramburu, I. A., & Pescador, I. G. (2022). The effects of corporate social responsibility on customer loyalty: The mediating effect of reputation in cooperative banks versus commercial banks in the Basque country, *Journal of Business Ethics*, 1-19.

Auka, K. (2016). Factors Influencing the Practice of Corporate Social Responsibility of Financial Institutions in Kenya, *Journal of Business* 68, 351-381.

Banerjee, A. (2009). Corporate Social Responsibility: The Good, the Bad and the Ugly, *Journal of Business Ethics*, 2002, (17)

Bannier, S., & Björn, B. (2020). Corporate Social Responsibility: The Good, the Bad and the Ugly. *European Business Review*, 98(1), 25-44.

Bansal, H. (2005). Social Responsibilities of the Businessman, *Journal of Banking and Finance* 13, 65-79.

Barnea, D., & Rubin, K. (2005). Barnea, A., & Rubin, A. (2024). Corporate social responsibility as a conflict between shareholders, *Journal of business ethics*,*97*(1), 71-86.

Barnett, M. L. (2017). Stakeholder influence capacity and the variability of financial returns to corporate social responsibility, *Academy of management review*,*32*(3), 794-816.

Becchetti, S. (2017). International evidence on ethical mutual fund performance and investment style in Italy, *Journal of Banking & Finance*, *29*(7), 1751-1767.

Brock, A. & Franken, B. (2020). The Pyramid of corporate social responsibility: toward the mural management of organizational stake holder, *Business Horizons*, (4)

Brown, T. J., & Dacin, P. A. (2022). The company and the product: Corporate associations and consumer product responses. *Journal of Marketing*, 61(1), 68-84

Bruton, V., Khavul, W. & Chavez, F. (2019). Managing corporate performance: Investigating the relationship between corporate social responsibility and financial performance in emerging markets. *International Journal of Productivity and Performance Management*, 59(3), 229-254.

Buysse, E., & Verbeke, S. (2003). Proactive environmental strategies: a stakeholder management perspective, *Strategic Management Journal* 24(5), 453-470.

Cabral, T. (2012). Living Up to Expectations: Corporate Reputation and Sustainable Competitive Advantage. NYU Working Paper No. 2451/31643.

Carmen-Pilar, B., & Rosa, M. (2017). Do the Best European Socially Responsible Companies Perform Better Financially? *Global Journal of Finance and Banking Issues*, 3(3), 23-33.

Carroll, A. B. (2021). Corporate social responsibility: evolution of a definitional construct, *Business and Society*, 3(8), pp. 268-95

Carty, G. (2019). The removal of mortgage market constraints and the implications for Econometric Modelling of UK House Prices, *Oxford Bullet*, 2(5),52-57.

Carvajal, G. & Hardigan, W. (2016). *Educational Research: Fundamentals for the Consumer*. Boston: Pearson.

Chenyiye, R. (2009). The Effect of Corporate Social Responsibility on Firms Profitability in Nigeria. *European Journal of Economics, Finance and Administrative Sciences:* 40-49.

Cipovová, H. & Belas, T. (2022). On the Determinants of Corporate Social Responsibility in China: International Evidence on the Financial Industry in Finland, *Journal of Business Ethics*, 93(1), 115-135.

Commer, B, (2019). Environmental Protection and the Social Responsibility of Firms: Perspectives from Law, Economics, and Business, *Economics, Management and Financial Markets, 7*(2), 132-148.

Cooper, R. & Schindler, S. (2014). *Business Research Methods*, USA: McGraw-Hill

Creswell, J. W. (2014). *Research Design: Qualitative, Quantitative and Mixed Methods Approaches* (4^{th} ed.). London: Sage Publications.

Dittmar, R., & Thakor, S. (2007). Economic Perspectives of Signaling theory , *Journal of Economic Literature*, *50*(1), 51-84.

Donaldson, T. (1995). The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications. *Academy of Management Review, 20*, 65-91.

Du, I. (2014). Does corporate social responsibility pay off in times of crisis? An alternate perspective on the relationship between financial and corporate social performance. *Corporate Social Responsibility and Environmental Management, 20*(3), 157-167.

Ebrahimi, C. H. (2017). Corporate social responsibility in the banking institutions, *Amicus Curiae*, 7(8), 24-28.

Edelstein, L. (2019). Corporate Social Responsibility in Europe and the United State of Africa: Insights from Businesses' Self-Presentations, *International Journal of Management Reviews*, 1(2), 8-19.

Erhemjants, R. (2017). *Corporate social responsibility: A Case Study Approach.* Chaltenham: Edward Elgar Publishing Limited.

Ericsson, M. & Renault, R. (2015). A Comparative Analysis of Current Credit Risk Models and Loan Performance in Tennessee, USA, *Journal of Banking and Finance*, (10):19-24

Faleye, O. (2006). When Labor Has a Voice in Corporate Governance, *Journal of Financial and Quantitative Analysis* 4(1), 489-510.

Fassin, Y., & Gosselin, D. (2017). The Collapse of a European Banks in the Financial Crisis: An Analysis from Stakeholder and Ethical Perspectives, *Journal of Business Ethics*, 102(2), 169-191.

Fernandhytia, G., & Muslichah, R. (2023). Influence of ethical CSR on financial performance in start-up businesses: The Effect of Internal Control, Individual Morality and Ethical Value on Accounting Fraud Tendency, *Issues in Accounting Education*, *27*(2), 555-579

Fombrun, C. J. (1996). Reputation, Harvard Business School Press.*Boston, MA.*

Frederick, W. C. (2006). Corporation, Be Good! The Story of Corporate Social Responsibility, Dogear Publishing: Indianapolis USA

Freeman, R. E. (1984). *Strategic Management. A Stakeholder Approach*. Marschfield, MA: Pitman.

Gathungu, J. M. & Ratemo, N. Z. (2018). An Assessment of the Impact of Corporate Social Responsibility on the Strategic Intent at Standard Chartered Bank Kenya Limited, *International Journal of Education and Research*, 1(5) 1-16.

Gay, L., & Hall, R. (2014). *Educational Research: Competence for Analysis and Applications*, New York: Macmillan Publishers

Gineitiene, R., & Ziogelyte, W. (2014). Enhancing the benefits of local content: integrating social and economic impact assessment into procurement strategies, *Journal of Project Management,* 2(3) 205-215.

Glennon, D. & Nigro, G. (2015). Loan Default and provisional borrowing: loan characteristics and changes in economic conditions in Norway, *Journal of Marketing* 52(3), 58-58.

Gorton, D. (2019). Determinants of loan performance by considering both financial and non-financial factors, *Academy of Management Journal,* 31,(4), 854-872.

Gross, J. & Luck, C. (2019). Corporate social responsibility reporting research in the Chinese academia: a critical review, *Social Responsibility Journal*, 9(1), 33-55.

Hasan, D. (2017). Corporate Social Responsibility: Balancing tomorrow's Sustainability and Today's Profitability. Palgrave Macmillan.

Ho, A., Liang, H. & Tumurbatar, T. (2019). The Impact of Corporate Social Responsibility on Loan Performance: Evidence from Commercial Banks in Mongolia, *Journal of economics and finance*, 1(7), 109-153

Holme, B. & Watts, R. (2017). Environmental Protection and the Social Responsibility of Firms, *Journal of economics and Finance*, 2(1), 309-324.

Huang, G., Ye, F., Li, Y., Chen, L., & Zhang, M. (2023). Corporate social responsibility and bank credit loans: Exploring the moderating effect of the institutional environment in China. *Asia Pacific Journal of Management*, 40(2), 707-742.

Huang, P. C. (2019). The relationship among corporate social responsibility, service quality, corporate image and purchase intention, *International Journal of Organizational Innovation (Online)*,*6*(3), 68.

Hubbardston, R. G., (2023). Stakeholder Perspective-Are there ‘bank effects’ in borrowers’ costs of funds? Evidence from a matched sample of borrowers and banks, *Journal of Business* 75(4) 559-581.

Hull, C. E. & Rothenberg, S. (2016). Firm performance: the interactions of corporate social performance with innovation and industry differentiation, *Strategic Management Journal*, (7)

Husted, B., T., & Salazar, M. A. (2015). An Empirical Research of Ethical Banking in Turkey. *Journal of Modern Accounting and Auditing*, 7(3), 289-304.

Jansson, R. (2020). Corporate social responsibility: Making good business sense, *Academy of Management Review*, 26(3), 397-414.

Jawahar, I. & McLaughlin, G. (2017). Toward a Descriptive Stakeholder Theory: An Organizational Life Approach. *Academy of Management Review, 26*(3), 397-414.

Kamau, A. W. (2017). Efficiency in the Banking Sector: An Empirical Investigation of Commercial Banks in Kenya: Unpublished thesis, University of Nairobi.

Kamau, N. & Kinyua, V. (2021). Commercial Banking Crises in Kenya: Causes and Remedies, *International Journal of Scientific and Research Publications, 6*(6), 600.

Kamboti, H. (2023). Corporate social responsibility and corporate Loan performance in China: an empirical research from Chinese firms, *Corporate Governance*, 11(4), 361-370.

Kaplan, D. (2005). Environmental Responsibility and Firm Performance: Stakeholder Perspective, *International Journal of Human and Social Sciences* 4:6.

Karimi, J. (2019). The Challenges Facing the Safaricom Foundation in Ailing Corporate Social Responsibility to Corporate Strategy, *International Journal of Innovative Research and Development*, 2,(5), pp. 1136-1156.

Katchova, R. & Barry, R. (2015). Finance, Entrepreneurship and Growth: Theory and Evidence from Scotland. *Journal of Monetary Economics* 32, 513-542.

Kevan, S. I. & Scholes, K. T. (2014). The differentiated CSR activities and corporate value, *Asian Review of Accounting*, 29(1), 19-41.

Kinuthia, B. M. (2018). Survey of Corporate Governance Practices in Banks in Kenya, *Journal of air transport management*,15(1)195-203.

Kipkemoi, C. F. (2019).The Relationship between Corporate Social Responsibility and Financial Performance of Companies listed at the NSE, *International Journal of Economics and Entrepreneurship*, 2(3), 309-311.

Kitzmuellery, B., & Shimshack, T. (2023). Impact of philanthropic CSR on organizational performance of firms in Sweden, *Journal of Banking and Finance* 20, 577-593.

Korir, R. & Langat, P. (2016). Managerial Attitude Toward Business Social Responsibility: The case of bank managers in Nairobi County, *Journal of Business Management,* 3(2), 513-542.

Kothari, C. R. (2004). *Research Methodology: Methods and Techniques,* New Age Publishers.

Kotler, R. (2017). Stock Markets, Growth and Tax Policy, *Journal of Finance 46,* 1445-1465.

Kumar, D. (2018). Theorizing Corporate Social Responsibility, *Journal of Marketing,* 7,(4,) 1-18.

Laeven, G., & Levine, A. (2017). The Ethicality of Altruistic Corporate Social Responsibility, *Journal of Consumer Marketing,* (3), 205-230.

Lindgreen, S., & Swaen, W. (2014). The Effect of Corporate Social Responsibility on Customer Donations to Corporate-Supported Non-Profits, *Journal of Marketing*, 68,(16-32).

Lorraine, S. (2012). Current Practices of Corporate Social Responsibility and an examination of the relationship between CSR and financial performance using Structural Equation Modeling in Dublin, *Journal of Business Ethics*, 34, 331-343.

Magutu, J. F. (2023). Searching for the common Good: A process Oriented Approach to Social Corporate Responsibility, *Business Horizons* 34(4), 79-87.

Mahmoud, T. (2019). Corporate Social Responsibility and its Impact on Financial Performance: Investigation of United States Commercial Banks, *Journal of Applied Corporate Finance* 14(3), 80-95.

Marcia M. C., Otgontsetseg, E. & Hassan T. (2019). Corporate Social Responsibility and its Impact on Financial Performance: Investigation of U.S. Commercial Banks, *Journal of Emerging Issues in Economics, Finance and Banking,*3(2), 1057-1064.

Margolis, J. D., Elfenbein, H. A. & Walsh, J. P. (2020). Does it pay to be good? A meta-analysis and redirection of research on the relationship between corporate social and financial performance, *Managerial Finance,* (12), 309-312.

Markus, B. (2019). Corporate social responsibility and financial performance correlation or misspecification? *Strategic Management Journal*, 21(5), 603-609.

Massetti, P. (2016), Does Corporate Social Responsibility Orientation Vary by Position in the Organizational Hierarchy? *Review of Business Spring*, *28*(3), 23-32.

Matten, D., & Moon, J. (2014). Implicit and Explicit CSR: A conceptual framework for understanding CSR in Europe, *International Journal of Social Sciences and Entrepreneurship*, 1 (2), 500-511.

Matterson, L., & Metivier, S. (2016). Corporate social responsibility a bank customer satisfaction, *International Journal of Bank Marketing*, 26(3), 170-182.

Mbeda, N. (2019). The Business Case for Corporate Social Responsibility: A Review of Concepts, Research and Practice, *International Journal of Management Reviews*, 12(1), pp.85-105.

McMillan, J. H. (2012). *Educational Research: Fundamentals for the Consumer*. Boston: Pearson.

McWilliams, A. & Siegel, D. (2019). Corporate social responsibility: A theory of perspective. *Academy of Management Review*, 26 (1), 117-127.

Williams, A., Siegel, D. (2001). Corporate social responsibility: A theory of the firm perspective, *Academy of Management Review*, 26(1), 117-27.

Mohr, L. (2019). Corporate social responsibility: A theory of the firm perspective, *Academy of Management Review*, 26(1), 117-27.

Muhunyo, S., & Jagongo, P. (2022). The impacts of environmental risk assessment and awareness on default rate in SMEs, *International Academic Journal of Human Resource and Business Administration*, 3(2): 273-287.

Murcia, F. C. S., Murcia, F. D., Rover, S., & Borba, J. A. (2014). The determinants of credit rating: Brazilian evidence. *Brazilian Administration Review, 11*(2), 188-209.

Muthuri, K. (2019). The Relationship between Corporate Social Responsibility and Financial Performance of Publicly Quoted Companies in Kenya, *Academy of Management Journal*, 39(2): 255-291.

Myers, S., & Majluf, L. (1984). Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology, 83*, 340-363.

Nadeem, F., & Malik, N. (2020). Corporate Responsibility, Stakeholders and the Social Performance-Financial Performance Relationship, *European Journal of Marketing, 39*(10), 1184-1198.

Ngarum, D. (2023). The Effect of Corporate Social Responsibility on the Financial Performance of Commercial Banks in Kenya, *Journal of Education and Practice*, 4 (19): 160-174.

Ocran, J. A. (2019). The Link between Corporate Social Responsibility and Corporate Strategy among Companies, *Journal of Business Management*, 3(2), *33*7-349*.*

Okeyo, W. (2019). Performance indicators of commercial Banks in Kenya, *Business Review*, 2(13), 209-213

Okiro, K., Omoro, N. & Kinyua, H. (2021). Investment in Corporate Social Responsibility and Sustained Growth in Commercial Banks in Kenya, *Journal of Emerging Issues in Economics, Finance and Banking*, 3(2), 1057-1064.

Okoth, D. O. (2019). The Influence of Corporate Social Responsibility on the Financial Performance of Commercial Banks in Kenya, *International Journal of Academic Research in Business and Social Sciences* 3(10).

Olweny, T., & Shipho, T. (2019). Effects of banking sectorial factors on the profitability of commercial banks in Kenya. *Economics and Finance Review,* 1(5) pp. 1-30.

Omore, P. B. (2022). Relationship between Corporate Social Responsibility Practices and Market Share among Supermarkets in Kisumu Town, *Journal of Business Finance,* 4(2), 331-343.

Peng, J., &, Yang, D. (2019). Corporate social performance and its relation with corporate financial performance: International evidence in the banking industry, *International Journal of Management Reviews*, 12(1), 85-105.

Pérez, A., & Del Bosque, I. R. (2022). The Role of CSR in the Corporate Identity of Banking Service Providers, *Journal of Business Ethics*, 8(2), 145-166.

Petrick.J. & Quinn, J. (2019). The Challenge of Leadership Accountability for Integrity Capacity as a Strategic Asset, *Journal of Business Ethics* 34, 331-343.

Poitevin, M. (2021). The Loan performance of Corporate Philanthropy. *Harvard Business Review*, 8(12), 56-69

Qu, R. (2024). Corporate Social Responsibility: Impact of Regulations, Market Orientation and Ownership Structure. *Chinese Management Studies,* 1, (3), pp. 198-207

Robin, D. (2016). Toward an Applied Meaning for Ethics in Business, *Journal of Business Ethics*, 89(1), 139-150.

Sapundzhieva, J. (2019). Are Ethical Banks Different? A comparative analysis using Radical Affinity Index, *Journal of Business Ethics,* 1(1), 151-173.

Saunders, M., & Bistow, A. (2015). *Research Methods for Business Students*, Pearson, New York.

Scholtens, B. (2022). Corporate social responsibility in the international banking industry, *Journal of Business Ethics*, *86*(2), 159-175.

Sekaran, U. (2016). *Research Methods for Business: A Skill-Building Approach*. New York: John Wiley and Sons, Inc.

Shafiqur, R. (2019). Evaluation of Definitions: Ten Dimensions of Corporate Social Responsibility, *World Review of Business Research*, 1(1), 166-176.

Shehu, T. & Mahmood, D. (2018). Meeting the Challenge of Disruptive Change, *Harvard Business Review* 78(2), 66-75.

Sigurthorsson, N. (2022). The Icelandic Banking Crisis: A Reason to Rethink CSR? *Journal of Business Ethics,* 111(2), 147-156..

Soana, M. G. (2017). The Relationship between Corporate Social Performance and Loan performance in the Banking Sector, *Journal of Business Ethics*, 14(1), 133-148.

Sonia, D. (2022). The impact of economic CSR on fraud prevention in Indonesian State-Owned Enterprises (SOE) in Indonesia, *International Journal of Contemporary Applied Sciences*, 3(2), 1308-1318.

Stiglitz, F. (2023). Signaling theory : the structure and profitability of the US banking Sector in the pre-crisis period. *Journal of Economics,* 14(3), 35-42

Sundus, D., & Naintara, R. (2018). Corporate Social Responsibility and Financial Performance Linkage-Evidence from the Banking Sector of Bangladesh, *Journal of Organizational Management*,1 (1): 14-21.

Tsoutsoura, M. (2014). Corporate Social Responsibility and Financial Performance, *Australian Journal of Business and Management Research*, 3(2), 31-38.

Urbancová, P. (2019). Corporate Social Responsibility and Firm Financial performance, *Academy of Management Journal*, 31(4),pp 854-872.

Wanjala, F., & Riitho, D. (2023). The relationship between philanthropic CSR and mitigation of fraud in the deposit taking Saccos in Kenya, *Finance and Economics Review*, 2(1), 11-29.

Watkin, D. (2017). The banking system as a capitalist in Ireland: Profit Maximization, *International Journal of Human and Social Sciences* 4 (6), 209-213.

Weber, E. J. (2016). *A short history of derivative security markets*, Crawley: University of Western Australia.

Werther, D. M. L., & Chandler, J. (2014). Market structure and performance in Spanish banking. *Journal of Banking and Finance,* 1(8), 433-443.

White, R. (2022). Impact of corporate social responsibility on the financial performance of banks in Pakistan. *International Letters of Social and Humanistic Sciences, 21, pp 9-19.*

Winston, D, & Crandall, B. (2019). Social Responsiveness, Corporate Structure, and Economic Performance, *The Academy of Management Review*, 7(2), 235-241,

Wu, M. W., & Shen, C. H. (2019). Corporate social responsibility in the banking industry: Motives and financial performance, *Journal of Banking and Finance*, 3(9), 3529-3547.

Yanyang, S. (2019). The Role of Banks in Corporate Social Responsibility, *Journal of Applied Economics and Business Research*, 1(2), 103-115.

Zhang, D. (2016). *Research Methods: A guide for Researchers*, New York: McGraw-Hill.

APPENDICES

Appendix I: Letter of Introduction

Samuel Kipkurui Cheruiyot,
Strathmore Business School,
Strathmore University,
P.O Box, 59857-00200,
Nairobi.

Dear Respondent,

I am a master's student in the school of business. I am carrying out a study on the E**ffect of corporate social responsibility on loan performance in commercial banks in Kenya**. Through purposive and random sampling, you have been selected to take part in the study. This study is purely for academic purposes and your responses will be not be used for any other purposes but will be treated with utmost confidentiality. I will be grateful if you could participate in the study and share your experiences with me.

Kindly complete all the sections of the questionnaire without indicating your name or any other form of identification anywhere in the questionnaire. If you have any questions, you are free to seek clarification.

Thank You.

Signature…………………………Date…………………….

Appendix II: Informed Consent Form

I, ________________________________, have clearly had the aims of the study explained eloquently to me. I hereby honestly proclaim that I have clearly understood all that I have read and have had explained to me and had all my questions and concerns addressed satisfactorily. I understand that I can change my mind at any conceivable stage. Please tick (√) the boxes that apply to you;

Participation in the research study

- [ ] **I AGREE** to take part in this research
- [ ] **I DON'T AGREE** to take part in this research
- [ ] **I AGREE** to have my completed questionnaire stored for future data analysis
- [ ] **I DECLINE** to have my completed questionnaire stored for future data analysis

Participant's Name: ____

Participant's Signature: ______________________________________

Date: ______/_______/_________

Appendix III: Questionnaire for the Respondents

Instructions

The purpose of this questionnaire is to solicit information on E**ffect of corporate social responsibility on loan performance in commercial banks in Kenya.** You are requested to read carefully and answer the questions sincerely. The information you give will be treated as private and confidential and will not be disclosed to anybody whatsoever. Fill in the blank spaces and put a tick against the statement that is most applicable to you.

SECTION A: Demographic Characteristics of the Respondents

1. Please indicate your gender: Male [ ] Female [ ]

2. Please indicate your age bracket below 30yrs [ ] 30-39 yrs [ ] 40-49 yrs [ ] Above 50 yrs [ ]

3. Please indicate your level of education: [ ] Certificate [ ] Diploma [ ] Degree [ ] Post graduate

4. How many years have you worked in your bank? Less than 5 yrs ( ) 6-10yrs Over 10 ys ( )

5. How would you describe the level of involvement in corporate social responsibility by your bank? High ( ) Moderate ( ) Low ( )

SECTION B: Philanthropic CSR in commercial banks in Kenya

6. To what extent do you agree or disagree with the following statements regarding the p**hilanthropic** corporate social responsibility in your bank. Respond by ticking (√) (1-Strongly Disagree) (2-Disagree) (3-Not sure) (4-Agree) (5-Strongly Agree) on the corresponding response.

No.	**Statement**	**5**	**4**	**3**	**2**	**1**
1	In our bank there are educational programs carried out to support the less fortunate members of the society					
2	In our institution we support health initiatives and programs in the community					
3	Our bank donates towards community projects					
4	As a bank we donate to causes that are in harmony with our vision					
5	As a bank we endeavor to make the world a better place to live					
6	In our bank a portion of earnings is dedicated to charities and nonprofits that align with our guiding missions					
7	We have our own charitable trust to give back to the society					

SECTION B: Environmental Corporate social responsibility in commercial banks

7. To what extent do you agree or disagree with the following statements regarding environmental corporate social responsibility in your bank. Respond by ticking (√) (1-Strongly Disagree) (2-Disagree) (3-Not sure) (4-Agree) (5-Strongly Agree) on the corresponding response.

No.	**Statement**	**5**	**4**	**3**	**2**	**1**
1	Our bank supports environment friendly policies and programs					
2	Our bank supports the use of alternative energy sources					
3	We often donate to local environment-focused organizations					
4	As a bank we believe in behaving and acting in environmentally friendly					
5	We contribute to the use of sustainable materials					
6	As a bank we undertake activities that help to conserve the environment such as tree planting					
7	Our bank has enacted recycling programs and policies					

SECTION B: Economic Corporate social responsibility in commercial banks

8. To what extent do you agree or disagree with the following statements regarding the economic corporate social responsibility in your bank. Respond by ticking (√) (1-Strongly Disagree) (2-Disagree) (3-Not sure) (4-Agree) (5-Strongly Agree) on the corresponding response.

No.	**Statements**	**5**	**4**	**3**	**2**	**1**
1	Our bank engages in fair contracts with supplies and employees					
2	As a bank we believe in transparent salary and remuneration system					
3	CSR activities favourably position us into the financial market					
4	In our institution we consider gender equity in our financial dealings					
5	In our bank we often share our economic gains with the community					
6	Through CSR the bank shares positive attributes of unselfishness as us, the employees					
7	Our employees perform better because of equitable treatment					

SECTION B: Ethical Corporate social responsibility in commercial banks in Kenya

9. To what extent do you agree or disagree with the following statements regarding ethical corporate social responsibility in your bank. Respond by ticking (√) (1-Strongly Disagree) (2-Disagree) (3-Not sure) (4-Agree) (5-Strongly Agree) on the corresponding response.

No.	**Statement**	**5**	**4**	**3**	**2**	**1**
1	Our bank engages in ethical business practices such as fair interest rates					
2	In our bank we are committed to its core mission of engaging in business					
3	In our institution we set and adhere to higher minimum wage					
4	Our bank deals with ethically sourced materials					
5	As a bank we give comprehensive benefits to our clients					
6	As a policy our bank does not charge exorbitant interest rates					
7	In our bank we believe in fair treatment of stakeholders					

SECTION B: Loan performance in commercial banks in Kenya

10. To what extent do you agree or disagree with the following statements regarding loan performance in your bank. Respond by ticking (√) (1-Strongly Disagree) (2-Disagree) (3-Not sure) (4-Agree) (5-Strongly Agree) on the corresponding response.

No.	**Loan performance**	**5**	**4**	**3**	**2**	**1**
1	Our bank provides loan products with low interest rates					
2	In our bank we charge low loan processing fees					
3	We use the standard interest rates recommended by CBK					
4	There is low risk for loans issued to our clients					
5	The repayment patterns for loans given is predictable					
6	There is low credit risk because we have good faith					
7	In our bank there are no fraudulent loan approvals that violate our credit policy					
8	Our clients comply with our credit policy					
9	Our bank has a lenient credit policy					
10	Banks adopt non-aggressive credit collection methods					

Thank you so much for your corporation in filling in this questionnaire

Appendix IV: Research Letter

Ole Sangale Rd, Madaraka Estate,
P.O Box 59857 00200, Nairobi, Kenya.
Cell: +254 703 414/6/7, Twitter: @SBSKenya
Email: info@sbs.ac.ke or vist **www.sbs.strathmore.edu**

Strathmore UNIVERSITY BUSINESS SCHOOL

18th July 2022

To Whom It May Concern,

RE: FACILITATION OF RESEARCH-SAMUEL KIPKURUI.

This is to introduce Samuel Kipkurui Cheruiyot who is a Master of Commerce (MCOM) Student at Strathmore University Business School, admission number MCOM/079256. As part of our MCOM Programme, Samuel is expected to do applied research and undertake a project. This is in partial fulfillment of the requirements of the MCOM course. To this effect, Samuel would like to request for appropriate data from your organization.

Samuel is undertaking a research paper on "**EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON LOAN PERFORMANCE IN COMMERCIAL BANKS IN KENYA."** The information obtained shall be treated confidentially and shall be used for academic purposes only.

Our MCOM Programme seeks to establish links with industry, and one of these ways is by directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research, and we trust that you will find them of great interest and of practical value to your organization. We appreciate your support and shall be willing to provide any further information if required.

Yours sincerely,

Njoki Kiagiri
Manager, Graduate Programmes

Strathmore University Business School

Strathmore Business School is a Proud member of;

Association of African Business Schools AABS

EFMD AACSB

Appendix V: Ethical Approval

Strathmore
UNIVERSITY

Final Decision

This is to certify that the application for ethics clearance submitted by:
Principal Investigator: Mr. CHERUIYOT, SAMUEL KIPKURUI
Reference number: SU-ISERC1462/22
For Study: "EFFECT OF CSR ON LOAN PERFORMANCE IN COMMERCIAL BANKS IN KENYA"
Was reviewed and received the following status: "done"
Reviewer Comments
Final decision: **approved**
Comments sent:

Reviewer #1:
'None.
'

The SU-ISERC wishes you all the best with this research undertaking.
22 August 2022 11:07:29

Appendix VI: Research Permit from NACOSTI

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 909146

Date of Issue: 11/August/2022

RESEARCH LICENSE

This is to Certify that Mr.. Samuel Kipkurui Cheruiyot of Strathmore University, has been licensed to conduct research in Nairobi on the topic: EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON LOAN PERFORMANCE IN COMMERCIAL BANKS IN KENYA for the period ending : 11/August/2023.

License No: **NACOSTI/P/22/19637**

909146

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

Appendix VII: List of Commercial Banks

S/N	Name of Bank
1	KCB
2	Equity Bank
3	Cooperative Bank
4	ABSA Bank
5	Stan chart Bank
6	Citibank
7	NIC Bank
8	Credit Bank
9	Family Bank
10	National Bank