

**CORPORATE SOCIAL RESPONSIBILITY AND
FINANCIAL PERFORMANCE OF TIER 1 COMMERCIAL BANKS IN KENYA**

SHEILA NYAWIRA MWANGI

D53/EMB/PT/31555/2015

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF
BUSINESS ADMINISTRATION (FINANCE OPTION) IN THE SCHOOL OF
BUSINESS, ECONOMICS AND TOURISM, KENYATTA UNIVERSITY**

NOVEMBER, 2025

Declaration

Student Declaration

This research project is my original work and has not been presented for a degree in any other university.

Signature:*SNwangi*..... Date:

Sheila Nyawira Mwangi

Department of Accounting and Finance

Supervisor Declaration

I confirm that this research project is done by the candidate under my supervision as the appointed University Supervisor

Signature: Date:

Dr. Job Omagwa,

Department of Accounting and Finance,

School of Business, Economics and Tourism

Kenyatta University

Dedication

This project is sincerely dedicated to my parents and husband, with deep appreciation for their constant support and encouragement throughout the entire duration of this research. Throughout the entire period you were my true energy source.

Acknowledgement

First and foremost, I am deeply grateful to God for His unwavering grace and support throughout the entire journey of this project, from its inception to completion. I also extend my heartfelt thanks to my supervisor, Dr. Job Omagwa, whose valuable guidance, encouragement, and constructive feedback were instrumental in navigating this demanding task. It would have taken longer and could be more tiresome endeavor without his input and intelligence. My friends and family circle provided encouragements and shoulders to lean on. I also thank my tutors and the Kenyatta University fraternity for their great influence during the research project. Lastly, my sincere appreciation reaches counterparts and friends in the finance department for contributing to this work.

Table of Contents

Declaration.....	ii
Dedication	iii
Acknowledgement.....	iv
Table of Contents	v
List of Tables	viii
List Of Figures.....	ix
Abbreviations and Acronyms	x
Operational Definitions of Terms.....	xi
Abstract.....	xiii
CHAPTER ONE	1
INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.1.1 Corporate Social Responsibility	3
1.1.2 Financial Performance	9
1.1.3 Commercial Banking Sector, Kenya	13
1.2 Problem Statement	16
1.3 Objectives of the Study	18
1.3.1 General Objective	18
1.3.2 Specific Objectives.....	18
1.4 Research Hypotheses.....	19
1.5 Significance of the Study	19
1.6 Scope of the Study.....	20
1.7 Limitations of the Study	20
1.8 Organization of the Study	21
CHAPTER TWO	22
LITERATURE REVIEW	22
2.1 Introduction	22
2.2 Theoretical Review	22
2.2.1 Agency Theory	22
2.2.2 Stakeholders' Theory.....	25
2.2.3 The Social View Theory.....	29
2.3 Empirical Review	31
2.3.1 Medical Costs and Financial Performance	32

2.3.2 Environmental Costs and Financial Performance	35
2.3.3 Education Costs and Financial Performance	39
2.4 Summary of Literature and Research Gaps.....	41
2.5 Conceptual Framework	44
CHAPTER THREE	46
RESEARCH METHODOLOGY	46
3.1 Introduction	46
3.2 Research Design	46
3.3 Target Population	46
3.4 Sampling Design	47
3.5 Data Collection Instrument	47
3.5.1 Validity Test	48
3.5.2 Reliability Test	48
3.6 Data Collection Procedure	48
3.7 Data Analysis and Presentation.....	49
3.8 Diagnostic Tests	50
3.8.1 Multicollinearity Test	50
3.8.2 Normality Test.....	50
3.8.3 Homogeneity Test.....	51
3.8.4 Linearity Test.....	52
3.9 Ethical Considerations.....	52
CHAPTER FOUR.....	54
DATA ANALYSIS AND DISCUSSION.....	54
4.1 Introduction	54
4.2 Response Rate	54
4.3 Descriptive Statistics	54
4.3.1 Medical Costs	55
4.3.2 Environmental Costs.....	56
4.3.3 Education Costs	57
4.3.4 Analysis of Secondary Data on Corporate Social Responsibility	58
4.3.5 Financial Performance	59
4.4 Diagnostic Tests	60
4.4.1 Multicollinearity Test	60

4.4.2 Normality Test.....	60
4.4.3 Homogeneity Test.....	61
4.4.4 Linearity Test.....	61
4.5 Regression Analysis and Hypotheses Testing.....	62
4.5.1 Medical cost and financial performance.....	64
4.5.2 Environmental cost and financial performance	65
4.5.3 Education Cost and Financial Performance.....	66
CHAPTER FIVE	67
SUMMARY, CONCLUSION AND RECOMMENDATIONS	67
5.1 Introduction	67
5.2 Summary	67
5.3 Conclusion.....	68
5.4 Recommendations of the Study	69
5.4.1 Recommendations for Policy.....	69
5.4.2 Recommendations for Practice	70
5.4.3 Recommendations for Theory	70
5.5 Contribution of the Study	71
5.6 Areas for Further Research	71
REFERENCES.....	73
APPENDICES	77
Appendix 1: Introductory Letter	77
Appendix 2: Research Questionnaire	78
Appendix 3: Financial performance secondary data collection sheet	83
Appendix 4: Permit from NACOSTI	85
Appendix 5: Kenyatta University Graduate School Data Collection Approval Letter	86

List of Tables

Table 2. 1: Summary of Literature Review and Research Gaps.**Error! Bookmark not defined.**

Table 4.1: Medical Costs	55
Table 4.2: Environmental Costs.....	56
Table 4.3: Education Costs	57
Table 4.4: Analysis of Secondary Data on Corporate Social Responsibility	58
Table 4.5: Normality Test.....	60
Table 4.6: Homogeneity Test.....	61
Table 4.7: Multicollinearity Test	60
Table 4.8: Linearity Test.....	62
Table 4.9: Model Summary	62
Table 4.10: ANOVA Findings.....	63
Table 4.11: Coefficients and Significance	63

List of Figures

Figure 2.1: Conceptual Framework	45
--	----

Abbreviations and Acronyms

ANOVA :	Analysis of Variance
CBK :	Central Bank of Kenya
CSR :	Corporate Social Responsibility
GLA :	Group Life Assurance
NACOSTI :	National Commission for Science, Technology and Innovation
NEMA :	National Environment Management Authority
NHIF :	National Hospital Insurance Fund
NSE :	Nairobi Stock Exchange
ROA :	Return on Assets
ROE :	Return on Equity
UNEP :	United Nations Environmental Programme
VIF :	Variance Inflation Factor
WB :	World Bank
WHO :	World Health Organization

Operational Definitions of Terms

Environmental Costs	They are organizations' incurred expenses for handling environmental pollution and management of wastes. Additionally, budgets' allocation for support of institutions' formulated environmental policies e.g. UNEP –United Nations Environmental Program and NEMA –National Environmental Management Authority which promote enterprises social responsibility to the society.
Education Sponsorship	Include incurred organizational expenses striving toward empowering the society's less privileged to access formal knowledge hence development economically. Employees of commercial banks can be sponsored or even entrepreneurs in getting skills and knowledge hence economic development.
Financial Performance	A performance measurement parameter used to assess progress in form of net income, liquidity ratio, in addition to return on asset over a specific time period.
Medical Costs	They are organizations incurred expenses in keeping employees and kin members' well-being. Employees are provided with medical covers and outpatient service like tele-counseling.
Corporate Social Responsibility	A self-regulating policy in business helping firms address stakeholders' interests for the society's advantage.
Tier 1 Banks in Kenya	They are banks with a 5% weighted index or more as defined by the Kenyan Central bank. They are presumed

as safe and command close to 50 percent of the banking sector in Kenya.

Abstract

Corporate Social Responsibility (CSR) matters remain a main strategic practice enhancing the financial performance of companies. Companies being the society's integral part, have CSR continually determining confidence of stakeholders and consequently firms' sustainable performance. Nevertheless, in spite of the fact that CSR affects the financial position of firms, it is revealed Tier 1 Kenyan commercial banks experience challenges related to CSR and affecting financial position directly and indirectly. This research sought to investigate the significant effect of corporate social responsibility (CSR) on the financial performance of Tier 1 commercial banks in Kenya. Specifically, the research focused on three key objectives: assessing how education-related expenses, healthcare-related expenditures, and environmental costs influence the financial outcomes of Kenya's leading commercial banks. The main theory that guided this research was the agency theory. It was supported by other models which included social view theory and theory of stakeholders'. This research considered a cross-sectional research design. Ten targeted Tier 1 commercial banks produced 60 respondents who formed the target population where 6 of the respondents were selected from each of the 10 banks by use of purposive sampling technique. The 6 comprised one finance manager, one chief executive officer, two marketing officer and two branch managers. The tool used to collect primary data were questionnaires with closed ended items. Tier 1 Kenya commercial banks financial statements and documents from the human resources provided secondary data. Data analysis was done using statistical package for social sciences version 24. It consisted descriptive analysis, correlation analysis, in addition to multiple regression analysis. The data analyzed was presented using figures and tables. The research additionally adhered to ethical considerations. The study found that the p-value for medical cost was 0.029, which is less than the threshold of 0.05, leading to the rejection of hypothesis H_{01} and indicating that medical cost had a significant effect on financial performance. Similarly, the p-value for environmental cost was 0.000, also below 0.05, resulting in the rejection of hypothesis H_{02} and suggesting that environmental costs had a significant effect on financial performance. Additionally, the p-value for education cost was 0.013, which is under 0.05, prompting the rejection of hypothesis H_{03} and confirming that education costs had a significant effect on financial performance. The investigation concluded that corporate social responsibility is a noteworthy financial performance determinant. The research endorses that all commercial banks in Kenya should increase their expenditure in education corporate social responsibility as doing so would enhance their financial performance. All commercial banks in Kenya should review their strategic goals and intents to align with environmental component of Sustainable Development Goals and doing so would lead to an improvement in their financial performance. There is need for more investment in health CSR activities by commercial banks in Kenya to support the National Health goals of the Government.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Banking sector firms work geared towards profits maximization using numerous tactics as a result of the business environment that is dynamic (Afande, 2015). In spite of the information that CSR does not have direct association with firms' financial performance, several firms and to be more specific commercial banks are thinking again on CSR as a tactic of increasing the value of interested parties hence sustained financial performance (Flammer, 2013). Enterprises financial performance as a process to measure monetary financial soundness overall, over a specified time period, a number of Kenyan commercial banks are experiencing an annual profit reduction of 11% (Central Bank of Kenya, 2018). Correspondingly, Karuti (2015) admit that with greater competition, a large number (56%) of Kenyan commercial banks experienced profits annual decrease ranging approximately between 13% to 10%. Sustaining noble relationships with clients continues to be hard owing to elevated loan defaulter cases and cases of unethical employees who connive with in-house or outside parties in defrauding banks (Kipotich, 2016).

Commercial banks are re-strategizing with regard to CRS due to heightened competition, technological influence, finance regulations' change and globalization in order to enhance stakeholders' relations hence enhanced competitiveness financially (Kanwal, Khanam, Nasreen & Hameed, 2013). CSR is recognized by contemporary business environment financial institutions in spite of its indirect or direct repercussion to enterprise productivity. Since 1950's when CSR was pioneered by Howard Bowens, financial institutions continue to be accountable ethically by allotting resources to

support activities of interested parties like environmental conservancy, medical and studies in both developing and developed nations (Bruning, 2014).

Although most financial bodies in some developing and developed nations have their CSR budgets are limited in pursuit of profit maximization, financial institutions often show reduced accomplishments, as many seek to avoid the expenses tied to corporate social responsibility (Angelidis, Massetti & Magee, 2008). According to Otgontsetseg and Hassan (2013), numerous financial entities—particularly U.S. commercial banks—tend to gain indirect financial benefits from engaging in CSR initiatives. Stakeholder confidence is achieved by banks' capacity to dedicate efforts in dispensing to the public financial info. Ohiokha (2016) in Japan acknowledged that in spite of returns linked to banks commercially, largely banks' CSR activities like medical expenditures may cause indirect losses to banks. Additionally, in Nigeria, Okido (2014) upholds that largely, commercial banks with insufficient capital cannot afford CSR activities' associated costs. Nevertheless, the research shows that banks committing funds in CSR probably sustain their edge in the dynamic corporate atmosphere and vice versa.

Considering advancement in technology, rivalry, varied client tastes and demands along with regulations' amendments, financial organizations functioning in the world are determined to maximise revenues in addition to embracing CSR to a number of marketplace actors which may comprise clientele, creditors, dealers, opponents along with government and more (Cornett, Erhemjamts and Tehranian, 2024). Banking sector actors in some first-world nations lead in performance financially and correspondingly tiered top in CSR activities' active involvement in comparison to equals within nations which are developing and to be specific –African (Jerotich, 2013).

Okiro, Omoro and Kinyua (2013) noted that commercial banks in Kenya and to be specific Tier 1 are involved in CSR undertakings like Wings to Fly program by Equity bank for excellent scholars in secondary as well as primary school and have school fees challenges, KCB Bank educational plan (scholarships fund by KCB foundation) and Seeing is believing Marathon by Standard Chartered Bank and training programs where workers volunteer. In spite of widespread research done in Kenya concentrating on CSR and firms' financial performance, CRS aspects resulting to Kenyan Tier 1 commercial banks financial performance are yet to be comprehensively covered by researchers (Mbithi, 2015).

1.1.1 Corporate Social Responsibility

Corporate Social Responsibility (CSR) can be defined as an organization's deliberate commitment to operate in a manner that is ethical, socially conscious, and environmentally responsible, beyond its core profit-making activities. It involves integrating social, environmental, and economic concerns into a company's values, culture, decision-making, and operations in a way that fosters positive impact on stakeholders, including employees, communities, customers, and the environment (Mohammed, 2020). International and local stakeholders have recently strongly emphasized the need for sustainable CSR among firms (Flammer, 2013). CSR in firms perpetually helps in the growth of business enterprises (United Nations, 2015). CSR remains the cutting edge practice of companies performing well in the fickle corporate environment. In comprise the way in which firms achieve balance amid their fiscal, societal, and normal obligations in their responsibilities to meet stakeholders' and diverse partners' interests (Ferry & Foster, 2010).

Otgontsetseg and Hassan (2013) assert that CSR is domiciled in essential ideologies which consist of going past services and goods production for profits, the capability to resolve societal issues, and the capacity to transcend marketplace businesses to uphold human dignity (Ferrell & Fraedrich, 2009). Company sustainability encompasses undertakings by firms that benefit different shareholders, indicative of the amalgamation of economic, social and environmental tasks in industry operations (Okido, 2014). CSR creates long-lasting shareholder worth by admitting opportunities and properly managing environmental, social and economically associated risks.

Corporate Social Responsibility is increasingly seen not merely as a philanthropic initiative, but as a core element of a company's strategic direction. Firms are increasingly recognizing that social and environmental concerns cannot be treated as add-ons to their operations, but rather as integral components of long-term business sustainability (Carroll & Shabana, 2010). As such, corporate social responsibility practices are evolving to encompass broader dimensions such as ethical labor practices, responsible sourcing, climate change mitigation, gender equality, and inclusive community development.

The key corporate social responsibility components addressed in this study include medical costs, environmental costs, and education sponsorship. These elements reflect the comprehensive nature of CSR, which spans employee well-being, ecological stewardship, and social empowerment. Marrewijk (2010) proposes that medical expenditures involve any payment made by a firm in terms of staff medical insurances, which could include outpatient or in patient service and added health-related support extended to close members of the employee's family. By investing in employee health, organizations not only fulfill their moral obligations but also foster a healthier and more

productive workforce. Healthier employees experience fewer sick days, higher morale, and enhanced performance, which directly contributes to organizational success. In a global context, companies such as Google and Johnson & Johnson have been celebrated for their robust employee wellness programs, which have become benchmarks in the CSR landscape.

The key corporate social responsibility (CSR) components addressed in this study include medical costs, environmental costs, and education sponsorship. These elements reflect the comprehensive nature of CSR, which spans employee well-being, ecological stewardship, and social empowerment. Marrewijk (2020) proposes that medical expenditures involve any payment made by a firm in terms of staff medical insurances, which could include outpatient or inpatient service and added health-related support extended to close members of the employee's family. By investing in employee health, organizations not only fulfill their moral obligations but also foster a healthier and more productive workforce. Healthier employees experience fewer sick days, higher morale, and enhanced performance, which directly contributes to organizational success. In a global context, companies such as Google and Johnson & Johnson have been celebrated for their robust employee wellness programs, which have become benchmarks in the CSR landscape.

Furthermore, the inclusion of environmental costs in CSR reflects an organization's commitment to sustainability and its responsibility toward minimizing ecological degradation. These costs may encompass expenses related to pollution control, sustainable waste management, emission reduction technologies, and eco-friendly production practices (Elkington, 2017). Firms that prioritize environmental sustainability not only comply with regulatory standards but also enhance their public

image, reduce operational risks, and often realize long-term cost savings through efficient resource utilization. For example, Unilever has embraced environmental sustainability in its business strategy, committing to zero carbon emissions and promoting circular economy principles, which has significantly bolstered its global reputation (Porter & Kramer, 2021).

Education sponsorship, as a CSR element, demonstrates corporate involvement in societal capacity-building. This may involve scholarships, school infrastructure development, or partnerships with educational institutions. According to Carroll and Shabana (2020), such initiatives empower communities by promoting access to quality education, fostering skills development, and reducing inequality. In Kenya, companies like Safaricom and Equity Bank have established extensive education sponsorship programs, which have enabled thousands of underprivileged students to pursue secondary and tertiary education. These efforts not only enhance the firms' brand equity but also contribute to long-term economic development and social cohesion. CSR initiatives centered around medical care, environmental sustainability, and education are strategic investments that reflect an organization's values and commitment to broader societal welfare. They create shared value by aligning corporate interests with those of employees, communities, and the environment

Environmental costs comprise costs firms incur in supporting and preserving natural resource. Measures that preserve the environment can either be direct, such as reducing emissions and adopting clean technologies, or indirect, such as supporting environmental awareness programs (Angelidis et al., 2008). The adoption of sustainable environmental practices has become an essential aspect of CSR in the wake of the increasing global focus on climate change, pollution, and biodiversity loss.

Corporations which devote their strength in financing rules promoting natural resources are expected to allot additional monetary resources for the like CSR activities in addition to partnering with other firms preserving the environment to protect and promote natural resources for the benefit of the society (Cornett, Erhemjamts & Tehranian, 2014). For example, Unilever assimilated environment conservational sustainability to its main business model by reducing its operations and products' environmental foot print while simultaneously increasing its positive social impact.

In Kenya, companies like Safaricom and Kenya Electricity Generating Company (KenGen) have invested in large-scale environmental CSR programs such as tree planting, clean energy generation, and water conservation. These initiatives not only enhance the companies' brand image but also contribute to achieving the United Nations Sustainable Development Goals (SDGs), particularly SDG 13 (Climate Action) and SDG 15 (Life on Land).

Education sponsorship is a CSR initiative that involves programs aimed at enhancing individuals' skills and knowledge, seeking formal education aiming at their living standards improvement (Okido, 2014). These initiatives target underprivileged or marginalized groups in society and have a long-term impact on poverty reduction and social inclusion. The educational sponsorship series made it possible for the less fortunate society's individuals to get quality education, hence adding to the sustained enterprise development within the socio-economic setup (Flammer, 2013). By supporting education, companies back the growth of human capital, which is essential for the longer-term development of both the enterprise and the wider society.

Global samples comprise Coca-Cola Foundation's "5by20" initiative, seeking to invest in 5 million women entrepreneurs through education and business training by 2020.

Locally, organizations such as Equity Bank, through its Wings to Fly Program, have supported thousands of students from disadvantaged backgrounds to access quality secondary and tertiary education. These programs not only promote educational equality but also create a positive brand image and foster community goodwill.

Another emerging dimension of CSR is its integration with core business strategies. CSR is no longer seen as merely a compliance or public relations exercise but a competitive advantage achievement strategic tool. Firms are embedding CSR into their value chains, innovation processes, and customer relations. Porter and Kramer (2011) presented creating shared value (CSV) concept, underscoring that firms may create financial worth in ways which generate society's value by resolving challenges facing it. This modern approach to CSR emphasizes that social progress and economic success may be mutually reinforcing and not mutually exclusive.

Moreover, corporate social responsibility is also being driven by stakeholder expectations. Consumers are becoming more socially and environmentally conscious and prefer to associate with brands that are responsible. Investors, too, are progressively integrating Environmental, Societal and Governance (ESG) aspects in their investment choices. Regulatory bodies are also tightening CSR reporting requirements. In Kenya, for instance, the Nairobi Securities Exchange (NSE) has developed rules for registered corporations to unveil their sustainability activities.

Internal stakeholders such as employees are also a key driver for CSR. Workers will more likely remain loyal and inspired when they believe their employer is committed to ethical and social causes. According to a study by Deloitte (2020), millennials and Generation Z employees are more attracted to companies that demonstrate a clear

commitment to community and environmental causes. Therefore, CSR has become a vital tool for talent attraction and retention.

1.1.2 Financial Performance

Rajesh and Ramana (2011) viewed that financial performance describes the procedure attempting to discover the monetary standing of an enterprise at a certain time point. Financial analysis' aim is to measure the soundness of an organization performance with regard to its reports and financial records. "In order to comprehend the enterprises' financial state, there needs to be attempts by analysts to quantify firms' liquidity, profitability, among other indicators that the company is operating rationally to make the most of shareholder and investor worth," as said by Gupta, Koshal, and Koshal (2006).

Financial performance remains one of the most critical indicators of the general success and organizational sustainability. It not only offers insight into the best way companies make use of resources and manages its actions, but also determines levels of trust that financiers, creditors, and other interested parties place on the enterprise. It is measured using both qualitative and quantitative metrics, with financial ratios serving as the most widely used tools for evaluation. Among these, profitability ratios (for instance net profit margin, gross profit margin, and return on equity), liquidity ratios (such as the current ratio and quick ratio), and solvency ratios (such as debt-to-equity ratio) are key indicators of financial health (Brigham & Houston, 2012).

The profitability ratios show the best way firms translates transactions into incomes. For instance, the net-profit margin shows the remainder proportion of profits after a total of operating costs, taxes and interest have been subtracted. High profitability ratios

often signal effective cost control and efficient management practices. On the other hand, liquidity ratios assess a firm's capacity in meeting shorter-term commitments, essential for daily operations and maintaining supplier relationships. Solvency ratios reflect the degree to which firms are dependent on debit financing, and whether it is at risk of financial distress (Gitman & Zutter, 2015).

The financial performance concept has in recent years been broadened to include aspects of corporate governance and sustainable development. It is based on the recognition that a company's long-term financial success is intricately connected to its ethical behavior, ecological stewardship, and social impact. Intrinsicly, companies are increasingly being evaluated not only on their ability to generate profits but also on their contributions to society and the environment (Elkington, 1999).

Furthermore, the economic landscape has been significantly influenced by globalization, digitization, and technological advancement, all of which have introduced new opportunities and risks for financial performance. For instance, digital banking, mobile payments, and blockchain technologies have increased efficiency and reduced transaction costs in the financial sector. However, they also require substantial capital investments and are exposed to cybersecurity threats, which must be factored into financial assessments (Brynjolfsson & McAfee, 2014).

Financial performance refers to the degree to which an organization effectively utilizes its resources to generate revenues and profits over a specific period. One of the most widely used indicators for assessing financial performance is Return on Assets (ROA). Return on Assets measures how efficiently a company uses its assets to generate net income. It is calculated by dividing net profit by total assets, and it expresses the percentage of profit a firm earns for every unit of asset owned (Ross, Westerfield, &

Jordan, 2019). A higher ROA indicates better asset utilization and financial health, while a lower ROA may reflect inefficiencies or poor investment decisions.

Return on Assets provides insights into management's ability to deploy company resources effectively. It captures both operational efficiency and the profitability aspect of performance, making it a comprehensive measure in evaluating a firm's overall financial viability (Brigham & Houston, 2021). For organizations in capital-intensive industries, ROA becomes particularly relevant because it reflects how well heavy investments in infrastructure or equipment are translating into earnings. Moreover, ROA is valuable when comparing companies of different sizes within the same industry. Since it standardizes performance relative to assets, it levels the playing field, making benchmarking more accurate (Gitman & Zutter, 2015). However, it is important to interpret ROA within context, as industries vary widely in asset intensity and profit margins.

Financial performance is also highly sensitive to macro-economic variables like interest rates, inflation and foreign exchange fluctuations. Firms operating in volatile economic environments must implement robust financial risk management strategies, including diversification, hedging, and scenario planning, to safeguard their profitability and liquidity. This is especially true for commercial banks, whose earnings depend heavily on interest income and loan performance (Saunders & Allen, 2010).

Another important dimension of financial performance is stakeholder perception. Investors, in particular, rely heavily on financial reports and performance indicators to make informed decisions. Financial reporting dependability and clarity are therefore paramount. Firms are expected to adhere to international accounting standards, such as the International Financial Reporting Standards (IFRS), to make sure credibility and

reliability of financial statements (IFRS Foundation, 2023). Any deviation or manipulation of financial data could result in reputational damage and legal penalties.

In light of these considerations, it becomes evident that financial performance is not a standalone concept but one that is deeply interwoven with operational, strategic, and ethical dimensions of business. Managers must continuously monitor financial indicators while also aligning them with organizational goals and societal expectations. This requires the use of integrated financial planning and performance management tools that combine real-time data analytics with strategic foresight (Horngrén, Sundem & Stratton, 2014).

Additionally, firms must foster a culture of financial discipline and accountability. This involves not only regular financial audits and compliance checks but also employee training on financial literacy and budget management. A financially literate workforce can contribute more effectively to cost control, resource optimization, and profitability enhancement. Moreover, when employees understand how their roles impact financial outcomes, they tend to engage in conducts that support the organization's financial goals (Anthony & Govindarajan, 2007).

It is also crucial to recognize that financial performance is relative rather than absolute. It should be benchmarked against industry standards, historical trends, and peer performance. Such comparative analysis allows organizations to recognize weaknesses, strengths and opportunities for advancement. For instance, a return on equity (ROE) of 10% may be acceptable in a low-growth industry but considered underwhelming in a high-growth sector (Ross, Westerfield & Jordan, 2013).

Financial performance serves as a cornerstone for evaluating the viability, stability, and competitiveness of an organization. While profitability, liquidity, and solvency remain central to financial analysis, the modern business environment demands a more holistic approach that incorporates CSR, ethical practices, and strategic innovation. By adopting integrated frameworks and aligning financial goals with broader societal values, companies can not only sustain themselves financially but also contribute meaningfully to the economy and society at large.

1.1.3 Commercial Banking Sector, Kenya

Commercial banks in Kenya plays a pivotal part in the nation's economic advancement, acting as a catalyst for investment, innovation, and financial inclusion. The Central Bank of Kenya (CBK) oversees the financial sector, with the primary responsibility of maintaining financial stability, promoting prudent banking operations, and safeguarding consumer interests. While the CBK's regulatory frameworks have ensured a more robust and transparent banking environment, they have not been without criticism especially from small and mid-sized banks.

Procedures articulated and executed by the CBK have not only positive implications but negative consequences too, particularly for smaller market share banks and having weaker capital base (KPMG, 2018). For instance, the introduction of prudential guidelines, risk-based supervision, and stringent capital adequacy ratios have disproportionately affected smaller banks, which struggle to meet compliance costs while remaining competitive. This has, in some instances, led to consolidation within the sector, as weaker banks are acquired or merged with more stable institutions (CBK, 2020).

Moreover, compliance with Corporate Social Responsibility (CSR) requirements has added further pressure. While CSR is increasingly viewed as an integral part of sustainable banking practices, many commercial banks in Kenya have yet to align their strategic objectives with such initiatives. According to CBK (2019), compliance with CSR is part of broader environmental, social and governance (ESG) structure that the central bank encourages all financial institutions to adopt. However, integrating CSR activities into the core strategy remains a challenge for many banks. A report by PwC (2021) highlighted that although most large banks have dedicated CSR budgets and departments, many Tier 2 and Tier 3 banks lack structured CSR frameworks.

Despite being primarily driven by profitability; commercial banks are increasingly under pressure to contribute meaningfully to social development. However, CBK (2018) observes that certain regulatory measures such as interest rate caps (repealed in 2019), increased provisioning requirements, and enhanced risk classification—have inadvertently constrained bank revenues and profitability, limiting the flexibility to invest in CSR. This creates a dilemma where banks must balance shareholder expectations with regulatory and societal obligations.

Furthermore, KPMG (2018) indicated that only 29% of commercial banks in Kenya had fully complied with CSR policies by that time, with the remaining 71% struggling due to factors such as high operational costs, low returns on investment in CSR, and lack of internal policy alignment. This situation has not improved significantly, as more recent research suggests that compliance remains patchy. According to a survey by Deloitte (2023), while awareness of CSR and ESG has grown within the banking sector, implementation lags behind, especially among mid-tier banks.

Njogu (2013) observed that commercial banks in Kenya often develop budgets that exclude CSR initiatives, a trend that persists. This is partly due to the unpredictability of the banking environment, influenced by fluctuating interest rates, technological disruption, global economic trends, and increased competition from non-bank financial technology (fintech) companies. The instability and dynamic nature of the sector have forced many banks to prioritize short-term profitability over long-term social investment.

Despite these challenges, there have been positive strides. Heyer (2015) noted a significant improvement in financial inclusion, and recent CBK data shows that Kenya's banking sector continues to innovate through digital channels, agency banking, and mobile banking platforms, which have extended financial services to underserved populations (CBK, 2021). Financial inclusion has become one of the key performance indicators for banks, and some have integrated this into their CSR strategies. For example, Tier 1 banks such as Kenya Commercial Bank, Equity Bank, and Co-operative Bank have launched inclusive products and initiatives targeting SMEs, women, and youth.

The banking sector in Kenya is stratified into three tiers. Tier 1 banks are the largest in terms of asset base, branch network, and customer reach. These banks such as Equity Bank, Kenya Commercial Bank, Co-operative Bank, and NCBA are considered systemically important and are thus subject to more rigorous supervision and reporting requirements (CBK, 2022). These Tier 1 banks have more capacity to comply with regulatory and CSR mandates due to their economies of scale, access to technology, and strong capital buffers. On the other hand, Tier 2 and Tier 3 banks often lack such advantages, making it harder for them to meet the same expectations.

However, while commercial banking industry in Kenya has made strides by improving financial inclusion and regulatory compliance, challenges remain particularly for smaller banks striving to balance profitability with social responsibility. The CBK's evolving regulatory landscape demands adaptability and strategic alignment, especially in areas like CSR and ESG. For sustainable development, both large and small banks will need to embed these principles into their core business models (World Bank, 2024; FSD Kenya, 2023).

1.2 Problem Statement

Tier 1 Kenyan commercial banks play a vital part in the country's financial stability in addition to the financial sector growth due to their large asset base, extensive customer reach, and systemic importance. These banks dominate the banking industry with regards to profitability, lending volumes, and deposit mobilization, thus making them key actors in the financial intermediation process (Central Bank of Kenya, 2023). Because of their national visibility and influence, Tier 1 banks are under increasing public and regulatory scrutiny to demonstrate social responsibility, particularly with regards to environment sustainability, community development and just governance (Ngugi & Mugo, 2020). As such, their corporate social responsibility (CSR) activities are not only expected to address stakeholder concerns but also line up with longer-term finance performance goals. Therefore, understanding the link between CSR activities and financial results in this segment is critical for informing policy, guiding bank strategy, and advancing the discourse on sustainable banking in Kenya.

Despite their significant market share and influence, Tier 1 Kenyan commercial banks continue experiencing fluctuating and in some cases, declining financial performance in recent years. For instance, the Central Bank of Kenya report showed the aggregate

return on assets (ROA) for the banking sector stood at 3.1% in 2022, down from 3.6% in 2021, with Tier 1 banks contributing significantly to this dip (CBK, 2023). Further, among these banks, the non-performing loans ratio rose to 14.9% in 2023, a clear indicator of growing credit risk and deteriorating asset quality (CBK, 2023). These trends have raised concerns among stakeholders about the sustainability of financial performance and the strategic practices being deployed by these institutions in a dynamic economic environment. While CSR gained prominence as a strategic tool for improving brand image, stakeholder loyalty, and long-term profitability, the empirical linkage between CSR and Kenya's banking industry financial performance remains inadequately explored.

Several Tier 1 banks have heavily invested in CSR initiatives ranging from education sponsorships and environmental conservation to health and community empowerment but it is unclear whether such initiatives are yielding financial benefits or placing additional strain on already challenged financial metrics (KPMG, 2022). This knowledge gap necessitates an investigation into whether CSR is a strategic lever for financial resilience or merely a reputational expense with minimal returns, particularly in light of the persistent unfavorable financial performance trends observed across Tier 1 banks.

Karuti (2015) concentrated on conservation of the environment and financial performance of commercial banks, using the CBK as intervening variable. Outcomes showed a prevailing variance between conservation of the environment and financial performance. Nonetheless, the investigation examined the variables individually, and therefore the necessity for the research to investigate variables in a collective way. Afande (2015) observed the influence of ethical, humanitarian, financial and legal

aspects on societal responsibility by Kenya's commercial banks and identified a modest association amid the previously stated factors.

Cherobon (2012) researched on the influence of ethical, unrestricted, economic and legal expenses on the performance of a bank and established the existence of variance between financial, ethical, unrestricted and legal expenses and the performance of a bank. On the other hand, this study's variables could not be totally studied and the pointers could not mirror that of the current research. Additionally, it is obvious that the investigation generalized commercial banks instead of focusing on commercial banks found within Tier 1. Moreover, Mbithi (2015) explored CSR and commercial banks' financial performance recorded in the Nairobi Stock Exchange market and established the presence of variance amid commercial banks' financial performance and CSR. Nevertheless, the investigation made use of secondary data whereas in the current research primary data is utilized. On the other hand, empirical evidence demonstrates that previous investigators marginally addressed study gaps in the area.

1.3 Objectives of the Study

1.3.1 General Objective

This study's general objective was to examine the effect of Corporate Social Responsibility on financial performance of Tier 1 commercial banks in Kenya.

1.3.2 Specific Objectives

The specific objectives of this study were:

- (i) To determine the effect of medical cost on financial performance of Tier 1 commercial banks in Kenya
- (ii) To establish the effect of environmental cost on financial performance of Tier 1 commercial banks in Kenya
- (iii) To assess the effect of education costs on financial performance of Tier 1 commercial banks in Kenya

1.4 Research Hypotheses

This study tested the following null hypotheses:

H₀₁ Medical cost does not have a significant effect on financial performance of Tier 1 commercial banks in Kenya.

H₀₂ Environmental cost does not have a significant effect on financial performance of Tier 1 commercial banks in Kenya.

H₀₃ Education cost does not have a significant effect on financial performance of Tier 1 commercial banks in Kenya.

1.5 Significance of the Study

The research findings from the investigation would be important to several groups. The Kenyan Commercial Banks' management would be capable to identify the way varying CSR facets affect financial performance and additionally determine the extent these together with additional factors may be exploited to minimize elevated operational expenses. Outcomes of the investigation would offer ground for ethics amongst bank workers and assist them create resilient relations with different shareholders for instance clients, sellers and rivals. The CBK would benefit as the anticipated fiscal procedures would be executed devoid of restraints. Commercial banks' customers would profit from enhanced delivery of services and efforts of employees to maintain longer-term relations for a sustained productivity.

Reliable info will be available to policy makers to assist in facilitating suitable policies that would standardize participation of shareholder in concerns pertaining to CSR. Exploration results would complement fresh knowledge to current work on CSR and firms' financial performance. Outcomes would assist academicians besides investigators to come up with new concepts and hypotheses consequently enriched literature for the industry practitioners and scholars.

1.6 Scope of the Study

The investigation narrowed to Tier 1 Kenyan commercial banks. It considered Tier 1 commercial banks operational in Kenya concentrated on capital sufficiency besides Kenyan market operational years. This study collected Tier 1 commercial banks' data for the 2013-2024 period. Independent variables comprised educational cost, medical cost and environmental cost whereas Kenyan Tier 1 commercial banks' financial performance was the dependent variable. Six months was the study's set time-period period. The study used cross-sectional research design, the target population was 10 tier 1 commercial banks in Kenya. The questionnaire was the data collection instrument and multiple-regression analysis as data analysis technique.

1.7 Limitations of the Study

The investigator anticipated that majority of respondents may fail to give efficient responses by timely filling questionnaires because of their busy schedules. This was dealt with by dispensing inquiry forms in weekends when workers get flexible schedules. Insufficient assistance from participants because of alarm as well as victimization from senior management would affect the facts gathered. Such cases were dealt with by clarifying to respondents on the research objectives and warranting them privacy besides data confidentiality. Financial institutions' secondary data access was

an anticipated study challenge. However, the constraint was addressed by getting authorization and a letter from the University authorizing the research.

1.8 Organization of the Study

The investigation is structured into 5 distinct chapters, each handling a key research section. Chapter One introduces the study, outlining the background, key concepts such as CRS and financial performance, the context of Kenyan Tier 1 commercial banks, the problem statement, research objectives and questions, as well as study's importance, scope, and limits. Chapter Two presents review of previous literature, encompassing both empirical and theoretical perspectives, a brief of reviewed literature, identified knowledge gaps, and the conceptual framework. Chapter Three details the utilized study research methodology. Chapter Four provides the analysis, interpretation, and discussion of the data collected. Lastly, Chapter Five offers a brief of results, draws inferences and suggests recommendations for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Chapter two consists of review of literature. The chapter summaries models that support the examination and deliberates the significant principles informing study objectives. Additionally, the research describes empirical studies done world over thereby emphasizing outcomes which may agree with or oppose previous writings on organizational financial performance and CSR. Besides, the chapter gives a summary of methodological, contextual as well as conceptual gaps the investigation wants to deal with and lastly offers a conceptual framework diagram.

2.2 Theoretical Review

The main theory that guided this research was the agency theory. It was supported by other models which included social view theory and theory of stakeholders’.

2.2.1 Agency Theory

The theory was introduced in 1973 by Ross and Stephen, and it is based on the concept of contract formation, which requires the involvement of two distinct parties (Lorraine, 2009). Concerning businesses for example commercial banks, employees and employers are the two parties’ representative of firms in reaching longer-standing objectives. Performance of a business in the dynamic environment is governed by the principal (employer) and agent (employee) relationship. It explains the way effectively formed associations have a single controls activities as work is done by the other party (Margolis, 2007).

Marrewijk (2010) stresses that management of finances entails taking of risk and every stakeholder has a different open-mindedness for risk. In agency relationships,

probabilities are great that agents and principals possess diverse tolerance to risk, which may potentially cause confusions as well as the disagreement on choices to invest (Muthuri and Gilbert, 2011). As Njogu (2013) asserts, not all the time agents work on some objectives for the principals that means of doing them go along with the principals' levels of risk acceptance. It is eminent agents are lawfully obligated and bound to defend principals' interests (Okido, 2014).

In recent years, Agency Theory has evolved to address challenges within corporate governance, especially in the financial services sector. According to Kiarie (2019), misalignments between the goals of bank executives (agents) and the expectations of shareholders and regulators (principals) continue to create inefficiencies that affect both performance and compliance. For example, some executives may focus on short-term profitability to enhance their performance bonuses, while shareholders may prioritize long-term value creation and stability. These conflicts often necessitate the implementation of incentive structures and monitoring mechanisms to align interests (Mutunga & Ochieng, 2021).

Furthermore, the issue of information asymmetry—where agents typically possess more operational knowledge than principals—remains a core concern. Nyambura and Wanjiru (2020) argue that in Kenyan Tier 1 commercial banks, this asymmetry can result in suboptimal decisions if board members and shareholders lack the transparency and disclosures necessary to hold executives accountable. Consequently, banks have adopted rigorous reporting frameworks and compliance audits to ensure transparency and minimize the risk of agency loss.

The dynamic nature of the banking sector also requires agents to exhibit ethical behavior, professionalism, and accountability. According to Wekesa and Njoroge

(2022), ethical leadership is a mitigating factor against agency conflicts. Leaders who emphasize integrity, open communication, and stakeholder engagement foster stronger relationships with both employees and customers that in turn enhances commercial banks' performance. This aligns with Agency Theory's recommendation for governance mechanisms that reduce the likelihood of opportunistic behavior.

This study is anchored in the idea that Kenyan Tier 1 commercial banks are more expected to sustain longer-term relationships with customers and employees when proper agency structures are in place. These structures include providing accurate market information to clients, timely salary reviews for employees, provision of medical and retirement benefits, and maintaining customer-centric policies. Kinyua and Maina (2023) observe that banks with strong governance structures and agent accountability exhibit improved customer retention and employee satisfaction.

In addition, board characteristics have gained increased attention in recent literature as key influencers of strategic decision-making. According to Mwangi and Kiragu (2023), diversity in board composition such as gender, age, educational background, and industry experience enhances the quality of board decisions, reduces groupthink, and ensures that multiple perspectives are considered. In commercial banks, such diverse boards are better equipped to evaluate risks, review policy implications, and supervise management, thereby reinforcing the principal-agent framework.

Moreover, digital transformation has reshaped the agency relationship in banks. With the rise of fintech and digital banking platforms, principals now require agents to adapt to rapid technological changes and uphold cyber-security standards. Kimani and Waweru (2024) emphasize that digital literacy among agents, coupled with a clear

delegation of responsibilities, improves the quality of service delivery and reduces operational risks.

Therefore, it is evident that effective agency relationships, supported by strong governance, ethical leadership, and technological adaptation, contribute to sustained organizational performance in Tier 1 commercial banks. When agents (executives and bank employees) act in the principals' (shareholders and owners) best interests, guided by appropriate incentives and oversight, customer and employee relations are significantly enhanced. This justifies the integration of Agency Theory into the study framework, particularly in evaluating how the characteristics of board members influence institutional success.

2.2.2 Stakeholders' Theory

Stakeholder Theory was introduced by Edward Freeman in 1984. In managing organizations, standards and morals are agreed upon via professional ethics and organization management according to the theory (Freeman, Harrison, Wicks, Parmar & Colle, 2010). (Bruning, 2014) holds, stakeholders' method distinguishes and represents corporation's shareholders, and equally define and recommend the best techniques to assist the supervision to provide due concern to the wellbeing of the groups. Instead, the stakeholder theory believes there are other parties who take part, alongside workers, clients, investors, suppliers, society, trade associations, trade unions, government institutions and political groups (Carmen Rosa & Lisa, 2011).

A stakeholder is defined by Freeman (2010) as a group of persons or an individual affected by the organization. Stakeholders may be external or internal which comprise investors, society, clients, workers, government stockholders, government, among others. Ferrell and Fraedrich (2009) recommend that organizational success is

interconnected to best managing of stakeholders. Freeman *et al.* (2006) says, organizations are merely consortiums of stakeholders whose interest need to be the singular drive of the organization fronted by managers. Kiprotich (2016) asserts “management need to manage the firm for stakeholders’ advantage ensuring their rights besides decision making participation.” According to Gathungu and Ratemo (2013), there is a need for management to operate as an agent of stakeholders for the firm to survive and safeguard each group’s lasting interests. This theory is pertinent due to the reality that commercial banks within Tier 1 exist as enterprises addressing players’ interest, for instance employees, general public, financiers, government, the media, suppliers and clients. They also offer quality products and services which exceed the profitability objective.

The stakeholder theory has evolved beyond its original framework to encompass a more dynamic and inclusive view of modern organizational governance. In today’s complex and interconnected business environment, firms are increasingly judged not solely by their profitability but also by how well they balance the diverse expectations of their stakeholders. Harrison *et al.* (2019) argues that stakeholder theory has matured into a foundational framework for sustainability and CSR, guiding corporations to embrace ethical considerations in their strategic planning and operations. As a result, many firms, particularly in finance industry like Tier 1 commercial banks, are under constant scrutiny to demonstrate accountability to shareholders and to a bigger network of stakeholders.

The theory underscores the moral obligation of firms to engage stakeholders in decision-making processes and to consider their interests in corporate strategies. As Elkington (2020) emphasized, businesses that embrace stakeholder inclusivity tend to

exhibit more sustainable performance and stronger reputational equity. The role of management, therefore, transcends traditional profit-maximization to include stakeholder engagement, longer-term value generation and ethical conduct. This aligns with the view of Mitchell et al. (2019), who argue that stakeholders possess varying degrees of power, legitimacy, and urgency, and firms must continuously adapt their strategies to meet evolving stakeholder demands.

In the context of banking institutions, the relevance of stakeholder theory has become even more critical due to heightened regulatory expectations, digital disruption, and social accountability. According to Wanyonyi and Simiyu (2021), stakeholder-oriented governance practices in Kenya's commercial banks have a direct influence on operational efficiency and public trust. This is especially important in Tier 1 commercial banks, which operate under intense scrutiny due to their systemic importance in the economy. Engaging stakeholders such as customers, regulators, community members, and environmental groups helps these banks to not only comply with regulatory requirements but also to foster a sense of corporate citizenship and community trust (Ngugi & Kariuki, 2020).

Moreover, stakeholder theory emphasizes that the success and legitimacy of any business are tied to its relationships and responsibilities towards non-financial stakeholders. This contrasts sharply with the shareholder primacy model which often neglects broader societal and environmental considerations. For instance, Husted et al. (2022) posit that stakeholder engagement leads to innovation, resilience, and adaptability—critical attributes in times of economic or social crisis. They argue that firms that co-create value with stakeholders can better navigate uncertainty and enhance organizational agility.

In recent years, advancements in digital technologies and increased global interconnectivity have further broadened the stakeholder base. Social media, for example, has empowered customers, employees, and civil society organizations to influence corporate behavior and demand transparency. According to Mutuku and Njiru (2023), stakeholder management in Kenyan banks must now address digital engagement strategies and online reputation management. This adds an additional layer of complexity and opportunity, necessitating new forms of stakeholder dialogue and feedback mechanisms.

Furthermore, stakeholder theory aligns with global movements toward environmental, social and governance (ESG) standards. Banks and other institutions that embed ESG considerations into their operations are perceived as more responsible and forward-thinking. The Kenya bankers association (KBA, 2022) argues that adoption of sustainability reporting and green banking principles is a direct response to stakeholder pressures and expectations. Stakeholder theory thus provides the theoretical underpinning for such shifts, reinforcing the idea that stakeholder well-being is integral to long-term organizational performance.

Finally, the relevance of stakeholder theory is evident in corporate resilience. As demonstrated during the COVID-19 pandemic, firms that prioritized stakeholder welfare particularly employee safety, community support, and transparent communication—were better positioned to recover and rebuild (Omondi & Mwangi, 2021). This reinforces the argument that stakeholder-centric management is not only a moral authority but also a strategic need for contemporary enterprises. The stakeholder theory offers a comprehensive lens through which organizations, including Tier 1 commercial banks in Kenya, can align business success with societal value. It promotes

inclusivity, accountability, and ethical governance as core components of sustainable organizational performance.

2.2.3 The Social View Theory

Max Weber founded the social view theory in the 20th century and in the meantime it has underwent reviews by various sociology experts like Baert, Patrick; Silva and Filipe Carreira da (2010). The social view theory shows organization's tasks happen within social environs and should therefore be dealt with as social establishments by taking up ethics promoting society's interests at large (Kanwal et al., 2013). The existence of firms is attached to the wish of the society for them to dwell that way or individuals to address objectives of the 2 parties. Social view theory perspectives projected by Otgontsetseg and Hassan (2013) comprise: social contract which comprise implicit societal consensus prevailing amongst society and business, ideology/history arguing that societies are on no occasion constant and therefore the said party interests keep shifting.

Ongolo (2012) recognizes that "companies are creatures of law which exist solely to fulfil the law and therefore created by the society for social permission, common good" arguing that organizations may be compelled by societies with their legal right to accomplish a task. Corporate citizenship, arguing that the corporation's charter turns out to be a legal body having obligations, rights and freedoms; social influence, that emphasizes that a firm has power to transform the social order and should mirror social obligation; and social interpenetration arguing that business is intertwined with the public and cannot avoid social obligations (Rajesh & Ramana, 2011).

This theory applies the reality that Tier 1 commercial banks are social bodies reliant on their stakeholder relation, for instance, the workers along with the community by offering workers with medical insurances which improve their firm output. Moreover, providing educational aid to members of the society who are less privileged normally adds to an educated populace hence least clashes amid enterprises and the community.

Recently, the social view theory became progressively more relevant as businesses are no longer perceived merely as profit-making entities but also as agents of social transformation. According to Al-Shammari et al. (2020), businesses that actively engage in addressing societal needs such as environmental sustainability, education, and health not only enhance their brand image but also enjoy increased legitimacy from the community. This legitimacy is critical for long-term survival, especially in volatile economic and political environments.

The rise of CSR and environ, social and governance (ESG) frameworks further underlines the relevance of the social view theory. As observed by Mensah et al. (2021), corporations are now expected to respond to complex societal problems like inequality, digital transformation and climate change, not just through compliance, but through proactive engagement with the communities they serve. The theory implies that businesses should incorporate stakeholder expectations into their strategic planning and operational practices.

Additionally, empirical studies show that the social view theory can be used to explain stakeholder engagement practices across industries. For instance, commercial banks in Kenya have embraced financial inclusion initiatives targeting marginalized groups through mobile banking platforms, community empowerment programs and SMEs

support (Njagi & Kihoro, 2023). These initiatives reinforce the notion that businesses are inseparably linked to the operational society's socio-economic advancement.

Moreover, the theory supports the idea of a dynamic and evolving relationship between organizations and their external environment. As society's expectations shift due to global trends such as digitalization, demographic change, and environmental crises, organizations must continually adapt their roles and responsibilities. According to Osei and Mensah (2022), businesses that ignore societal expectations face reputational damage, regulatory sanctions, and even boycotts, which can ultimately threaten their sustainability.

The social view theory also intersects with stakeholder theory, particularly in recognizing the moral and ethical responsibilities businesses owe to all parties affected by their operations—not just shareholders. Social legitimacy, therefore, becomes a form of capital that organizations can use to build trust, loyalty, and a positive public image (Kim & Lee, 2019). The social view theory offers a link towards this present investigation for understanding modern corporations' role within the society. By acknowledging that businesses are social institutions with embedded responsibilities, the theory encourages ethical conduct, social engagement, and search for the common good. In the context of Tier 1 commercial banks, this theory supports practices such as employee welfare programs, environmental conservation, community education initiatives, and inclusive financial services all of which contribute to sustainable organizational performance and societal wellbeing.

2.3 Empirical Review

The empirical review comprises of analysis of the worldwide, regional, together with local empirical researches associated with this present research as argued.

2.3.1 Medical Costs and Financial Performance

Kipotich (2016) examined the association amid Kenyan commercial banks financial performance and ethics and found out that majority commercial banks workers medical expenditures exceeded legal obligation as suggested by the National Hospital Insurance Fund, as well as the Work Injury Benefit Assurance (WIBA). It appeared that 71% of bank workers feigned illness for them to make use of medical covers. Some offered medical insurance to relations against the firm's moral code. Additionally, it was seen that huge expenses sustained by commercial banks were linked to worker deceitful use of their medical cover. Conversely, some banks added to the sum of member of staff medical insurance past necessary amounts which resulted to bigger losses instead of returns. However, it's obvious the research was restricted to ethics, whereas it did not study CSR.

Marcia, Otgontsetseg and Hassan (2013) concentrated on investigating whether U.S. commercial bank (collectively) were making required steps for implementation social responsibility, if the social responsible activities of the banks were dissimilar from the time of the financial crisis, besides whether their engagements reimbursements were being made. Results showed the larger the bank the greater the CSR abilities and concerns, and this appeared to surge with the happening of the cash linked emergency. Specialists uncovered that management having more ladies together with minorities on the executive committee had fundamentally superior CSR qualities. At the same time, the exploration was constricted to USA commercial banks not focusing on Kenyan commercial banks.

Lorraine (2009) concentrated on linkage within CSR and monetary application using ancillary form indicative of and uncovered that info of the term CSR was without doubt not well pronounced or comprehended by organizational employees. It was perceived

that more or less employees supposed the term “corporate” to mean the notion of big companies’ not small organizations. It was pointed out that CSR was supposed to be intricate and a number thought the expression ‘social’ tended toward the social line therefore their CSR actions narrowed to such. To the extent that SMEs were understood, CSR was led by topmost level managers, informal and un-incorporated to all institution’s sectors distinct from their counter parts in big organizations. Despite that, the research assumed factor analysis technique and in place of regression analysis as the study strove to realize the connection’s strength amid variables.

World Health Organization (2015) established that fiscal bodies, especially commercial banks recorded losses owing to the incapability to unveil financial info to the public. It came out that majority of organizations posted a decline in proceeds owing to expenses sustained by firms on matters of medical covers of employees and risk stipends. It was also noted that employees’ life assurance impacted positively on firms’ financial performance because of compensation assurance in the occasion of death or accident. Other banks take part in contributing funds for medical bills for peoples with eye sight problems. The health costs although are admissible expenditure hence decreasing the company’s tax obligation and lessen company profitability.

Mwangi and Kamau (2019) investigated the influence of CSR expenditure, specifically employee medical benefits, on Kenyan manufacturing firms’ financial performance. Their discoveries showed that while firms that invested more in comprehensive medical coverage experienced higher operational costs, they also reported improved employee productivity and reduced absenteeism. However, the study revealed cases of abuse where employees misused medical benefits, leading to increased claim costs. The researchers concluded that although CSR in medical costs can contribute positively to

financial performance through enhanced workforce health, the lack of stringent controls sometimes results in inflated expenses. The study was constrained by its focus on manufacturing firms only and did not explore other CSR dimensions beyond medical costs.

Otieno (2020) examined the relationship between medical-related CSR activities and profitability among east African commercial banks. The examination established that banks offering extended medical benefits above statutory requirements showed mixed financial outcomes; some experienced reduced profits due to escalating medical claims, while others benefited from increased employee loyalty and reduced turnover costs. The authors noted a prevalent challenge of medical claim fraud, which inflated costs and negatively impacted financial results. Despite highlighting these issues, the study concentrated largely on medical CSR and did not investigate broader corporate governance practices that might influence financial performance.

Adhiambo et al. (2021) concentrated on CSR initiatives effects related to staff health insurance on Kenyan insurance companies returns. The exploration revealed that companies which strategically aligned their medical benefits with employee wellness programs reported better financial performance by lowering overall healthcare-related claims. Nonetheless, it was observed that some employees exploited the system by submitting false claims, which eroded the anticipated benefits of CSR spending. The authors emphasized the need for stronger monitoring mechanisms to safeguard CSR investments. The study's scope was limited to health insurance CSR and did not incorporate other social responsibility areas such as environmental or community initiatives.

Kimani and Wambua (2023) explored how CSR practices concerning medical cost support affected Kenyan telecommunication firms' profitability. Their research established that while enhanced medical benefits improved employee morale and reduced sickness-related downtime, some firms experienced increased financial strain due to fraudulent medical claims and overutilization of benefits. The research highlighted that companies that integrated rigorous internal controls alongside medical CSR reported better financial outcomes. However, the study was limited to telecommunication companies and never considered the impact of other CSR areas like education or environmental conservation on financial performance.

2.3.2 Environmental Costs and Financial Performance

Okido (2014) investigated profitability and environment-related costs of Nigerian industrial firms and established that non-adherence to environmentally friendly rules by industries impacts a firm's financial performance negatively. It was found out that 83% of environment-friendly regulations non-compliant firms were probable to pay hefty penalties resulting in reduced profits in the longer term. Additionally, it was identified that the manufacture of environmentally friendly commodities by manufacturing organizations similarly brought about declined firms' profitability and the other way round. The study revealed that such firms faced high production costs due to the adoption of green technologies and compliance measures. However, despite short-term profitability decline, long-term reputational benefits and improved stakeholder trust could offset these losses. The study emphasized the importance of balancing compliance with profitability through innovation and efficient resource use. Nonetheless, the study was restricted to the Nigerian and not the Kenyan setting, hence limiting its generalizability across varying regulatory environments and economic contexts. Further research is needed in other regions.

UNEP (2014) investigated the environmental management systems and their effect on Kenyan firms' financial performance, revealing a positive association between environmental management practices and company performance, particularly in turbulent industry atmospheres. The manufacture of green goods and environmental thoughtfulness by organizations directly affects firm performance and stakeholder satisfaction. An organization's engagement in ecology preservation, such as protecting wildlife, rivers, forests, and biodiversity, can translate into sustained organizational profitability and long-term value creation. However, expenses incurred while educating the community on environmental preservation may be overstated by companies if no suitable accountability and tracking mechanisms are put in place. On the other hand, it is noted that the scrutiny was focused solely on environmental conservation methods of Kenyan manufacturing firms and did not extend to Corporate Social Responsibility (CSR) programs or to Tier 1 banks, which play a critical role in financing environmentally sustainable initiatives and shaping corporate environmental responsibility practices. Future research should thus broaden the scope to include the financial sector and CSR activities.

Mwangi (2019) investigated the relation amid environmental costs and large-scale Kenyan manufacturing firms' financial performance. It was noted from the study that firms incurring higher environmental management costs, such as waste treatment and pollution control, experienced short-term reductions in net profit margins. However, in the long-term, these firms reported enhanced financial performance due to improved regulatory compliance and brand reputation. The study highlighted that about 70% of the firms adopting proactive environmental strategies gained access to new markets. Furthermore, these firms also attracted environmentally conscious investors and

customers, strengthening their competitive edge. Despite these insights, the research was limited to large manufacturing firms and did not consider small and medium enterprises (SMEs), which often operate under tighter financial constraints and limited capacity for environmental investment. The exclusion of SMEs presents a gap in understanding how environmental costs influence financial outcomes across diverse firm sizes. Future studies should therefore incorporate SMEs to offer a more comprehensive view of the impact of environmental management practices on overall financial performance within Kenya's manufacturing sector.

Chen and Zhang (2021) explored environmental expenditures influences on financial outcomes of listed Chinese chemical corporations from 2018 to 2020. Their outcomes exposed a negative relationship between excessive environmental costs and immediate profitability, as firms faced increased operational expenses. Nonetheless, firms that strategically invested in sustainable technologies saw a positive effect on return on assets (ROA) after two years. Approximately 65% of the firms that embraced green innovation witnessed improved investor confidence. The study was constrained by its focus on a single industry, limiting the generalizability across other sectors.

Rodriguez et al. (2022) inspected the effect of ecological compliance costs on European manufacturing firms' financial performance between 2018 and 2021. Their analysis showed that firms struggling with regulatory compliance paid significantly higher fines, which directly reduced net earnings by an average of 12%. Conversely, firms that integrated environmental costs into their operational strategy reported enhanced financial stability and improved stock performance. The study concluded that balancing environmental responsibility with cost management is critical but acknowledged the

limitation of not addressing emerging economies where environmental regulations and enforcement vary significantly.

Carmen, Rosa and Lisa (2011) established that CSR strategy implementation, facet of corporations' fiscal enhancement of a nation and organization's size, describe a business's return on investment. Therefore, corporations having wholly additional social attentive endeavors enhance the coming of financiers by recognizing greater CFP. Alongside these line, companies in increasingly established states obtain altogether preferred finances linked execution over varied organizations set in less established states. Nevertheless, scrutiny wanted to study use of a CSR approach and the degree of financial progression.

Kitzmuellery and Shimshack (2012) examined financial views on CSR. The research resolved that particular inclinations were absolutely a key motivation associated with any CSR kind in firms. In the view of social partner inclinations, corporations may make use of essential CSR to increase benefits, while not-for benefit may take up CSR to realize the investors' social interests. If managers take CSR previous basic extents or stockholders predispositions does CSR entail ethical risk. This examination exposed that offering underground gifts give exposed merchandise, for example in the case of donations, there could be many needs impelling such decisions apart from charitableness. Kind heartedness, fault, social weight or basically the yearning for a "warm luminosity" might altogether be significant. The system has 2 opposing CSR standpoints. To start with, CSR creates an infrequent responsibility into improvements that may result in negative outlays or net benefit at the end. Moreover, financiers regard enlargement as a rule, at the same time as profit increase specifically, may boost CSR. Allies can be capitalized with distinctive moral, social or natural tastes. CSR believes that ecological or social outlooks are exogenously arranged and centers on cooperation

amongst corporations along with associates. The examination determined that such tarnished aid properly and made up an extensive strategy of proposals.

Okiro, Omoro and Kinyua (2013) deliberated CSR investment and its consequence on constant advancement of Nairobi County commercial banks. Investigation results showed an increasing positive attitude on CSR in investment terms. CSR is vital in the success of a company. Banks make profits through quality service provision to customers, they therefore might perhaps offer appropriate care to keep the clients. Spending in CSR undertakings positively impacts persistent banks' growth. Nevertheless, there exists a positive relation showing only eleven percent of examined commercial banks had advancement sustained, therefore this might be credited to CSR investment.

2.3.3 Education Costs and Financial Performance

According to a study by the National Environmental Management Authority (2014), incorporating eco-conscious education in the workplace may initially lower profits due to higher training expenses. However, the research concluded that long-term financial performance can improve significantly when organizations implement effective strategies to retain sustainably trained employees. Incorporating environment education in curricula at school and in companies' public relations can improve firms' profitability.

Njogu (2013) examined communal programs on Kenyan companies' performance and maintained that educational aids and environment preservation initiatives had a direct relationship with the finance performance of firms. It appeared that organizations need to see beyond the profit objective when articulating corporate social rules. Additionally, it was identified that organizations which invested enormous sums of money in CSR

were probable to make more profits due to interested party's confidence and contentment.

Gathungu and Ratemo (2013) established that corporate social responsibility undertakings exposé by businesses turned out to be advantageous as a valuation scheme of accomplishment as in importance in CSR practices. It was proposed that as more resources are availed, the greater the reverence a firm has attributed to beneficiaries. Although CSR was perceived as a component of the activities of firms, its impact on firm's funds associated execution was somewhat not like that of assorted capabilities, for example, conception, fund, sales and appropriation. In this way, on bad chance that it could not be imaginable to make a clear association between performance and CSR, the societal as well as the expected obligation of the relationship may perhaps continue being at the aspect of worthless statements of purpose and inadequate added activities that can impact the presentation of an association. Research outcomes disclosed that CSR activities go in line with the strategic aim of the firm. On a larger extend, the CSR strategies realized the yearned reps, adventurers and neighboring links. Ongolo (2012) scrutinized if CSR affects Kisumu city 2006 to 2010 period grocery stores. The study purposed to discover factors that stimulated CSR in stores in Kisumu City. The findings publicized the presence firms' association amid CSR and piece of the grocery business. Companies which contributed extra in CSR had greater revenue. Thus, a positive relation exists between CSR and piece of the pie.

According to Okoth (2012), CSR is useful in money related execution of large as well as medium-sized banks along with failed effect the Return On Assets of small-sized banks. More so, CSR positively and substantially impacted on ROA and ROE of banks. All the same, when well thought-out on market appraisal, the CSR improves budgetary

application in huge and median-sized banks, but the impact on ROA of small banks was immaterial. It was settled, CSR positively backs cash linked performance of huge and middle size banks and showed no noteworthy influence on monetary exposition of small banks.

2.4 Summary of Literature and Research Gaps

Different inquiries done reveal that organizations are satisfied on foundation of decent rapport with interested parties but the outcomes are inconclusive. The gathered data evokes diverse association which may not be there completely, may be negative or positive. Furthermore, a closure look brings out more dissimilarities in the info sources, the independent variables as well as control variables and dependent variable. Outcomes were not substantial concerning the impact of CSR to financial performance. Earlier stated observation inquiries showed that there exists an association between execution of budgets and CSR but have mainly tended towards subjective methods in measuring CSR.

Though there exists substantial connection amid CSR and performance in finance of companies, it is established that methodological breaches, conceptual gaps and contextual breaches are existent as regards the area of study. The notion of CSR continues to be a big problem amongst companies due to inconsistent outcomes from researchers. Financial literature shows that less is well-known concerning CSR and financial performance of carefully selected Kenyan Tier 1 commercial banks. First of all, researchers embarked upon other variables like worker integrity, beliefs and standards did not study these research variables. Additionally, other focused on insurance firms, higher institutes of education and industrial firms but not Kenyan commercial banks. Thirdly, methodologies used in research varied from the design of

research, techniques in getting samples, tools or instruments, in addition to tools used to analyze data, such as, cluster, discriminant and factor analysis method.

Table 2.1 offers a brief of key empirical enquiry relevant to the study, highlighting the scholars, study emphasis/focus, research gaps, key results and the present study's focus.

Table 2.1: Summary of review of Literature and research gaps

Author(s)	Focus of the Study	Findings	Research Gaps	Focus of this Study
Kipotich (2016)	Ethical values and financial performance of commercial banks in Kenya	High medical costs due to employee misuse of benefits reduced profitability	Focused on ethical values, not CSR or specific CSR cost dimensions	To examine the impact of medical costs as a CSR dimension on the financial performance of Tier 1 commercial banks in Kenya
Marcia, Otgontsetseg & Hassan (2013)	CSR in U.S. commercial banks post-financial crisis	Larger banks had higher CSR engagement; diversity on boards improved CSR quality	Focused on U.S. banks; not contextually relevant to Kenya	To evaluate CSR practices and their financial impact in Kenyan Tier 1 commercial banks
Lorraine (2009)	CSR and financial performance	Poor understanding of CSR among employees limited its integration and impact	Used SEM method; not regression; lacked clear financial linkage	To assess the strength of the relationship between CSR and financial performance using regression in Tier 1 Kenyan banks
WHO (2015)	Financial implications of employee medical benefits in banks	Employee life assurance supports performance; medical cover reduces tax but affects profitability	Lacked direct focus on CSR framework; generalized to financial institutions	To analyze how employee medical CSR expenditures influence profitability of Tier 1 banks
Okido (2014)	Environmental costs and profitability in Nigerian	Non-compliance with environmental laws reduced profits; green	Focused on manufacturing firms in Nigeria, not financial	To assess the relationship between environmental CSR costs and financial

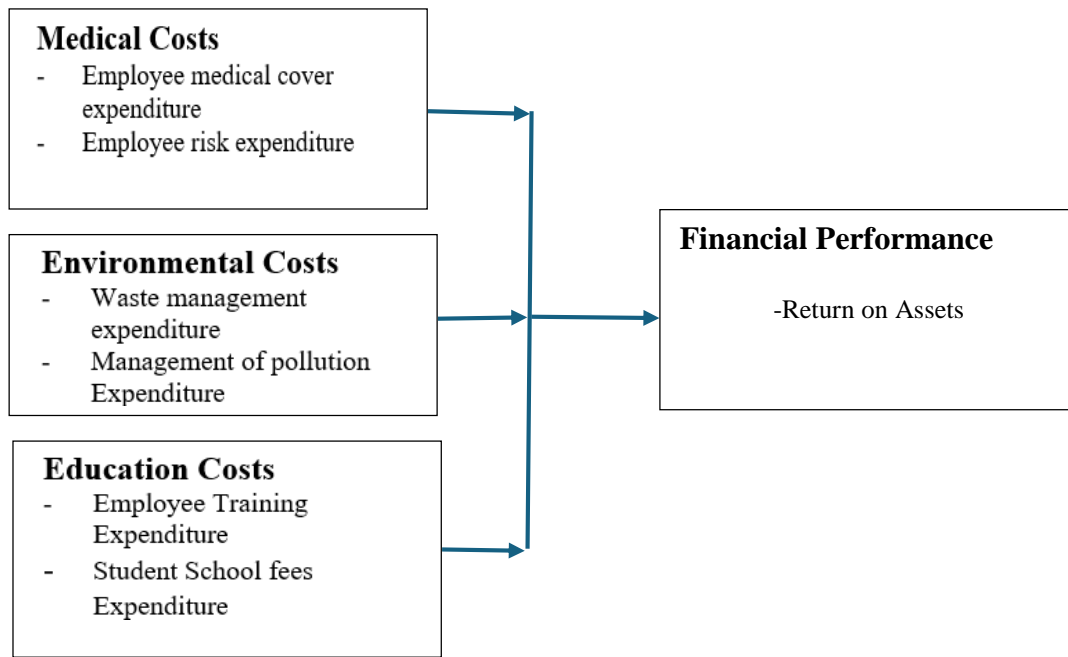
Author(s)	Focus of the Study	Findings	Research Gaps	Focus of this Study
	manufacturing firms	production lowered short-term profits	institutions in Kenya	performance in Kenyan Tier 1 banks
UNEP (2014)	Environmental management systems and firm performance in Kenya	Eco-friendly practices improve stakeholder satisfaction and firm performance	Focused on manufacturing; not CSR or commercial banking	To examine the effect of environmental conservation as a CSR activity on Tier 1 bank financial outcomes
Carmen, Rosa & Lisa (2011)	CSR strategies and firm size on ROE	Larger, more socially engaged firms performed better financially	Focused on ROE and macroeconomic context, not Tier 1 Kenyan banks	To determine if CSR strategy adoption influences ROE and overall financial performance in Tier 1 banks
Kitzmuellery & Shimshack (2012)	Financial perspectives and motivations behind CSR	CSR motivated by social pressures and stakeholder expectations	Focused on CSR theory and motivation, not empirical financial outcomes	To investigate CSR motivations and their financial implications in the Kenyan banking sector
Okiro, Omoro & Kinyua (2013)	CSR investment and growth of banks in Nairobi	CSR positively impacts sustained bank growth but relationship is weak	Found only a weak correlation; limited generalization	To evaluate CSR's influence on financial sustainability in Tier 1 banks
NEMA (2014)	Environmental education and organizational performance	Training reduces short-term profits but supports long-term gains	Focused on environmental education, not broader CSR context	To investigate educational CSR (training, awareness) impact on financial results in banks
Njogu (2013)	Social programs and company performance in Kenya	CSR in education and environment linked to higher profits	Did not disaggregate CSR dimensions; lacked bank-specific focus	To explore CSR investments in education and their financial effect on Tier 1 banks
Gathungu & Ratemo (2013)	CSR disclosure and firm performance	CSR enhances firm value and aligns with strategic goals	Did not isolate impact of specific CSR components on finances	To determine how CSR disclosure practices affect financial

Author(s)	Focus of the Study	Findings	Research Gaps	Focus of this Study
				performance in Tier 1 banks
Ongolo (2012)	CSR and market share in supermarkets	Higher CSR spending linked to greater market share	Focused on retail, not financial institutions	To analyze how CSR spending affects market position and profitability in Tier 1 banks
Okoth (2012)	CSR and financial performance of banks by size	CSR positively impacts ROA and ROE in large/medium banks, not small ones	Did not explore CSR cost categories (education, environment, health)	To assess CSR dimensions (education, medical, environment) and their effect on financial metrics of Tier 1 banks

Source: Researcher (2025)

2.5 Conceptual Framework

Figure 2.1 shows the conceived relation between the combined 3 independent CSR and the target Kenyan Tier 1 commercial banks financial performance. The figure theoretically exhibits that medical expenses antecedents which influence financial performance comprise; staff medical cover costs and worker risk overheads. Additionally, environment cost aspects affecting the dependent variable comprises; expenses on management of wastes and pollution management and lastly educational costs aspects affecting financial performance staff training expenses and learner school fee expenses.



Independent Variables

Dependent Variable

Figure 2.1: Conceptual Framework

Source: Researcher (2025)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research approach, detailing the study's design framework, target population, sampling strategy, data collection methods, ethical considerations, measures to ensure the reliability and validity of the research instruments, and the techniques employed for data analysis. The chapter evokes specifics about how the researcher's data generation and the way analysis was done. This chapter also looks at the population details together with the sampling from which the researcher the researcher will draw data.

3.2 Research Design

Fisher (2010) propose that a research design entails an outline used data collection, interpretation, analysis and retrieval decision making that is effective. A cross-sectional research design was adopted for the study. It helped the collection of enormous identical data with little or no manipulation. It helped the investigator in quantitative data analysis and as a result enhance precision of results. Furthermore, a cross sectional research design helps to identify the link between specific predictor variables on the dependent variable. Furthermore, it facilitated analysis of data centered on empirical researches' findings along with doctrines of theories that exist.

3.3 Target Population

Guest (2010) postulates that population is a collection of units about which conclusions should be made. Castillo (2009) defines target populace as a whole cluster of persons or items to which conclusions should be summed up. The research target population

comprised of sixty respondents nominated from 10 Kenyan Tier 1 commercial banks. The participants in this study included one Chief Executive Officer, two branch managers, one finance manager, and two marketing managers from each Tier 1 commercial bank. Information on staff employed within these banks was obtained through records maintained by the human resource departments. The study focused on Tier 1 commercial banks in Kenya as the unit of analysis, while the managers within these banks served as the unit of observation.

3.4 Sampling Design

The research obtained a typical sample from 10 Tier 1 commercial banks. Purposive sampling method helped in nominating respondents from registers existing in the human resources department. The investigation considered the respondents since these had enough info in addition to know-how regarding the study topic. The study targeted specific individuals from each of the ten (10) Tier 1 commercial banks, comprising one Chief Executive Officer, two branch managers, one finance manager, and two marketing officers per institution. This selection resulted in six participants from each bank, bringing the total sample size to 60 respondents.

3.5 Data Collection Instrument

The participants in this study were surveyed using a structured questionnaire (see Appendix I), which utilized a 5-point Likert scale to gather primary data. The responses ranged from 1 to 5, representing the degree with which respondents admit each statement, from the lowest to the highest degree. The inquiry form was separated into four subdivisions. Section 'A' captured general info on participating banks and respondents. Section B collected data on corporate social responsibility (CSR) observes embraced by Tier 1 commercial banks in Kenya, addressing the study's first objective. The data collection form gathered data on the financial performance of these banks.

The questionnaires were administered using a “drop-and-pick-later” method, targeting branch managers, CSR officers, finance officers, and other relevant professionals within Tier 1 commercial banks in Kenya.

3.5.1 Validity Test

In research, validity concerns the degree that an instrument gathers the necessary statistics (Mertler & Vannatta, 2010). The pilot sample data gave a foundation for the questionnaire’s proper alteration later. Measurement of this research’s content and face validity was through the opinions of lecturers in the university and the banking sector financial management experts. This study used 10% sample for piloting which was excluded in the main study’s sample size as recommended by Guest (2010).

3.5.2 Reliability Test

Reliability “the extent a research tool yields steady outcomes following repetitive experiments (Novikov & Novikov, 2013). Cronbach’s alpha coefficient was used in assessing instrument’s internal consistence. Values more than 0.7 were deemed as dependable and the other way round as proposed by mertler and vannatta (2010). Thus, every alpha coefficients above 0.7 was deemed appropriate for this research’s further analysis of the data.

3.6 Data Collection Procedure

Closed ended questions on questionnaire were utilized in collection of primary data. They were applicable since the information was gathered in an organized way. Moreover, it enables data gathering devoid of respondents’ identity disclosure. The participants in this study were engaged during their free time, with the questionnaires being self-distributed and completed outside of their official working hours. The research respondents were needed to give facts regarding objective of the study where

5 sub-divisions contained info about individual data, medical, environmental and education costs. A Likert-point scale for gauging responses was implemented. The gauge ranged from 1 to 5, where one (1) represented strongly disagree and five (5) represents strongly agree. Additionally, human resource account offered secondary data other than financial statements.

3.7 Data Analysis and Presentation

After information gathering, questionnaires were counterchecked, amended and organized to expedite analysis of data. Questionnaire responses were computer system coded to enable analysis of quantitative data. SPSS version 24 was utilized in quantitative analysis of data. Information was deduced using of descriptive statistics where means, standard deviations, percentages, frequency distribution tables and graphs were utilized. Descriptive statistics are essential in the study as they help summarize and present data patterns, trends, and central tendencies in a clear and meaningful way, facilitating improved comprehension of the association between CSR activities and financial outcomes (Alabi & Bukola, 2023).

The multiple-regression analysis was done at 95% significance level in addition to 5% confidence level to identify the association between this research's variables. Multiple regression permits the valuation of the simultaneous impact of several dimensions of CSR on Kenyan Tier 1 commercial banks financial performance, allowing for a more comprehensive understanding of their relationship (Keith, 2019). The regression model is given below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where:

Y= Financial Performance

β_0 = Y intercept

β_1 to β_3 = regression coefficients

X_1 = Medical Costs

X_2 = Environmental Costs

X_3 = Education Costs

ϵ = Error term

3.8 Diagnostic Tests

Diagnostic tests like, multicollinearity, normality; homogeneity and linearity were done to find out data conformity to statistical presumptions before running the regression analysis. These are discussed in subsequent sections:

3.8.1 Multicollinearity Test

Multicollinearity is a condition where no less than one or more research predictor variable are closely interrelated with one another. In the study, Variance of Inflation Factors (VIFs) were calculated to identify the existence of data multicollinearity. According to Bayman and Dexter (2021), VIF numbers ranging from between 1 to 10 indicate the data lacks multicollinearity symptom.

3.8.2 Normality Test

Regression analysis assumes there is normal data distribution and hence the need to conduct normality tests. While there are so many methods of achieving this, this study employed skewness and kurtosis. As indicated by Hatem, Zeidan, and Goossens (2021), values ranging from $-/+3$ provide an indication that the data has the qualities of normality. This is important because regression outcomes' reliability and/or validity heavily depend on the assumption of normal distribution being met.

Skewness gauges data distribution symmetry, with zero indicating perfect symmetry, whereas kurtosis evaluates the distribution's "tailedness", where values closer to zero suggest a normal level of peakedness. If the values for skewness and kurtosis fall outside the acceptable range, it may suggest that the data is either heavily skewed or has extreme outliers, thereby violating the assumption of normality. Such violations can significantly distort statistical estimates, leading to inaccurate conclusions. Therefore, ensuring that the data meets the normality assumption through these statistical tests is a crucial preliminary step before performing regression analysis.

3.8.3 Homogeneity Test

Homogeneity Test is performed to determine if two or more populations have the same distribution or variance. This is particularly important in statistical analysis because many parametric tests, such as ANOVA, assume equal variances across the groups being compared. In the current research, the Levene test was applied in assessing presence of homogeneity of variances. The Levene test is preferred because it is less sensitive to departures from normality than other similar tests.

As demonstrated by Emerson (2022), explanation of the Levene test depends on the p-value obtained. When the p-value is larger over 0.05, it indicates that the null hypothesis of equal variances cannot be rejected, signifying homogeneity exists among the groups. This outcome is favorable and indispensable for guaranteeing validity of subsequent statistical analyses. Conversely, a p-value below 0.05 would indicate significant differences in group variances, violating the assumption of homogeneity and potentially requiring alternative non-parametric methods or data transformation techniques. Ensuring homogeneity enhances the robustness and reliability of the conclusions drawn from the study.

3.8.4 Linearity Test

It is assumed during regression analysis, a linear relation exists amid the research variables. To test for linearity, the research made use of correlation analysis. Values of Pearson Correlation Coefficients (r) were interpreted appropriately to ascertain the presence of this assumption in the research data set. Ali-Abd-Al-Hameed (2022) noted that the r value in correlation analysis can be positive or negative, it can be strong (above 0.5), moderate (0.29–0.4), or even weak (less than 0.3), respectively. A strong positive association points out that increase in one variable results in other increases at a consistent rate, whereas a strong negative association shows that one variable's increase results to the other's decrease. When r is close to zero, it implies a very weak or nonlinear association amid variables.

Testing for linearity is essential in regression analysis because the accuracy and validity of the regression model heavily depend on this assumption being met. If the relation amid variables that are independent and dependent is nonlinear, outcomes obtained from regression might be misleading or unreliable. Visual tools such as scatter plots and residual plots can also support the interpretation of linearity by showing whether the data points form a discernible linear pattern. In this study, correlation analysis provided preliminary evidence on whether a linear model was appropriate before conducting more advanced inferential statistical tests. Ensuring the linearity assumption enhances sturdiness of the regression analysis and improves credibility of the research results.

3.9 Ethical Considerations

The scholar tried to find authorization from Kenyan Tier 1 commercial banks' administrations, national commission for science, technology and innovation (NACOSTI) and Kenyatta University, preceding data collection process. Study

participants were asked for informed consent. Respondents were briefed on the objective of the research. Voluntary involvement was embraced. Privacy of information on the questionnaire was assured to respondents. Printed data was recognized by quoting the authors. Publication of results was guaranteed to respondents to boost transparency and confidence investigation outcome.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.1 Introduction

Data analysis is an integral part of a research report that helps to report the findings from the collected data in the field. Therefore, the analysis of the findings is carried out in this chapter. It covers the response rate, descriptive statistics, diagnostic tests and regression analysis findings. Descriptive statistics such as means and standard deviations were employed to outline the key features of the study variables, whereas multiple regression analysis was conducted to generate p-values that facilitated the formulation of meaningful conclusions. Diagnostic tests were appropriately in testing the assumptions of regression analysis before analysis. The findings from analysis in this chapter are supported by literature that was reviewed in this study.

4.2 Response Rate

Out of the total sixty questionnaires distributed to participants involved in the study, forty-three were duly filled and retrieved for data analysis. This yielded a response rate of 71.7%, which was considered adequate and aligned with the recommendation by Yin (2017), who emphasized that a response rate exceeding 70% is appropriate for drawing meaningful conclusions. This high return rate strengthened the credibility of the findings and ensured a representative sample for statistical evaluation, enhancing the validity and generalizability of the research outcomes across the targeted population.

4.3 Descriptive Statistics

This part offers findings of descriptive statistics guided by the objective variables of the study.

4.3.1 Medical Costs

Table 4.1 is a itemization of findings of descriptive statistics on medical costs.

Table 4.1: Medical Costs

	Mean	Std. Dev
My bank constantly offers staff life assurance plans	3.76	.718
My bank offers worker medical full medical covers that consist of third-parties	3.87	.808
My bank has technologies of checking member of staff use of medical covers	3.55	.841
My Bank has got initiatives that aid in saving costs related to medical covers	4.09	.717
Medical covers given out to single staffs are not overstated in amount.	3.69	.702
Average	3.79	0.757

Table 4.1 indicate that respondents agreed that their bank incurred medical costs to financial health related CSR activities (M=3.79). While a vast majority of the studied banks had interventions that helped them to save costs associated with medical covers (M=4.09), the least had mechanisms of monitoring employee utilization of medical covers (M=3.55). An open ended question was provided to respondents to indicate other ways through which medical costs influenced financial performance of their banks. Respondents disclosed the medical costs which their bank incurred resulted into an improvement in corporate image which translated to better financial performance. Another respondent shared that medical costs allowed them to access funds from global

markets easily because of improved corporate image and these were used to financial operations that enhanced financial performance.

4.3.2 Environmental Costs

Table 4.2 is a collapse of the results on environmental costs.

Table 4.2: Environmental Costs

	Mean	Std. Dev
My bank continuously partakes in environment protection enterprises e.g. tree planting exercise	4.06	.840
My bank constantly promotes organizations protecting ecosystems	3.83	.652
My bank assigns resources to inform the public on the worth of environment protection	3.65	.841
My bank possesses yearly budgets allotted for initiative that conserve the environment	3.69	.599
My bank trains workers on ISO 1400 regulations which give emphasis to protection of ecosystems	4.01	.932
Average	3.85	0.773

Table 4.2 show that most of the studied banks had invested in environmental CSR activities and thus incurred environmental related costs (M=3.85). However, compared with medical costs, it can be noted that environmental costs were relatively high among the studied banks due to the difference in average. Participating in environment preservation enterprises e.g. tree planting exercise (M=4.06) and training of employees on ISO 1400 practices that emphasized of ecosystem protection (M=4.01) were among the environmental aspects that consumed significant costs in most of the studied banks

compared to the allocation of budget towards sensitization of the general public on the value of environmental conservation (M=3.65). An open ended question provided to respondents sought to establish other ways through which environmental costs influenced financial performance of their banks. Respondents noted that investing in environmental CSR activities hence the costs incurred on the same provided assurance to the prevailing generation that the current environment would be safe for the future generations because of such proactive step like plantation of trees and this improved the corporate image thus better financial performance.

4.3.3 Education Costs

Table 4.3 is a summary of descriptive statistics on education costs:

Table 4.3: Education Costs

	Mean	Std. Dev
My bank is dedicated to making the public aware on conservation of environs using electronic and print media	3.74	.953
My bank aids learners intending to pursue studies on environment in institutions of higher learning	3.52	.597
My bank constantly arranges for public relations actions as music, sports, etc. to educate people on environment	3.69	.876
My bank sponsors programs on environment planned by national environment management authority	3.57	.993
My bank holds and strives for investment in green energy	3.65	.831
Average	3.63	0.850

The findings in Table 4.3 show that education costs were incurred by the studied banks (M=3.63). However, compared to medical and environmental costs, education cost was

significantly low. While sensitization of the general public on environmental protection through the print and electronic (M=3.74) was the highly practiced aspect of education costs by the banks under consideration, the least one was the bank sponsoring learners who were attracted to pursuing studies on the environment in institutions of higher learning (M=3.52). Respondents who participated in this research were requested to specify other means through which education costs affected financial performance of their bank. The findings were that education costs allowed the banks to fund health projects like funding the acquisition of medical equipment which in turn improved living outcomes.

4.3.4 Analysis of Secondary Data on Corporate Social Responsibility

The examination sought after establishing the overall medical costs, environmental costs and education costs incurred by the studied firms on a period from 2013-2024.

The findings were provided and given in brief as shown in Table 4.4.

Table 4.4: Analysis of Secondary Data on Corporate Social Responsibility

Year	Medical cost	Environmental cost	Education costs	Total
2013	49,427,171.00	90,346,905.90	69,167,490.60	208,941,567.50
2014	36,781,582.00	33,845,797.00	43,755,313.10	114,382,692.10
2015	42,909,115.00	55,125,866.00	57,381,617.40	155,416,598.40
2016	27,207,321.00	37,107,049.60	43,410,081.80	107,724,452.40
2017	46,242,077.00	42,126,331.40	50,862,993.00	139,231,401.40
2018	38,739,385.00	42,166,492.00	58,434,650.40	139,340,527.40
2019	39,567,453.00	43,998,565.00	49,776,764.00	133,342,782.00
2020	40,467,345.00	38,776,738.00	42,998,345.00	122,242,428.00
2021	47,345,666.00	40,776,564.00	45,889,672.00	134,011,902.00
2022	45,775,882.00	43,887,993.00	48,552,991.00	138,216,866.00
2023	46,887,547.00	38,665,345.00	55,889,334.00	141,442,226.00
2024	49,778,449.00	35,887,561.00	45,999,235.00	131,665,245.00
Total	511,128,993.00	542,711,207.90	612,118,487.30	1,665,958,688.20

Table 4.4 indicate that across the 12-year period (2013-2024), the total medical costs, environmental costs and education costs among the studied banks averaged at Kshs.

511,128,993.00, Kshs. 542,711,207.90 and Kshs. 612,118,487.30 resulting into

cumulative total of Kshs. 1,665,958,688.20. This implies that education accounted for the greatest cost followed by environment and lastly medical costs across the 12-year period reviewed. This however differs with earlier findings on average means and the reason for this difference is because while secondary data was panel in nature, primary data was cross sectional in nature.

4.3.5 Financial Performance

Financial performance was the study’s dependent variable represented by ROA. Thus, values of ROA were computed and presented as shown in Figure 4.1:

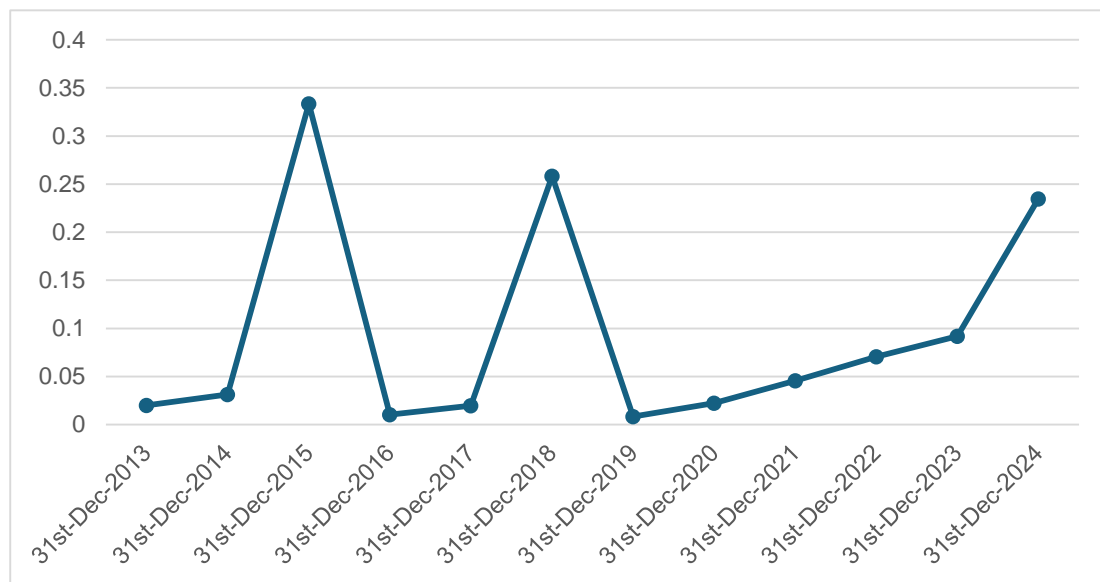


Figure 4.1: Trend in Financial Performance

The findings in Figure 4.1 indicate that there was erratic fluctuation in financial performance of the studied banks especially from 2013 reaching off-peak in 2019 immediately after COVID-19 was reported in Kenya. From there, the trend has been on an upward trend reaching peak in 2024, attributed to aggressive marketing and perhaps heavy investment in CSR initiatives. The implication of these findings is that the banking industry in Kenya is on a positive growth trajectory and only require sound

regulatory framework that can support its further growth and contribution to financial inclusion and intermediation role in the economy.

4.4 Diagnostic Tests

Normality, homogeneity, multicollinearity, and linearity were conducted to establish conformity of data to statistical assumptions before conducting regression analysis.

4.4.1 Multicollinearity Test

Table 4.5 is an array of results on multicollinearity test

Table 4. 5: Multicollinearity Test

	Collinearity Statistics	
	Tolerance	VIF
Medical Cost	.359	2.787
Environmental Cost	.201	4.963
Education Costs	.400	2.497
Average	.320	3.416

The findings presented in Table 4.5 indicate that the mean Variance Inflation Factor (VIF) value is 3.416, which lies within the acceptable range of 1 to 10. This outcome suggests that multicollinearity is not present among the predictor variables used in the study's dataset. Such an observation aligns with the conclusions of Bayman and Dexter (2021), who asserted that VIF scores falling between 1 and 10 demonstrate the absence of multicollinearity concerns. These results validate the reliability of the regression analysis, reinforcing the robustness and independence of the explanatory variables applied in the model.

4.4.2 Normality Test

Values of Skewness and Kurtosis were computed to test for normality assumption in the data and Table 4.6 is a breakdown of the findings.

Table 4.6: Normality Test

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Medical Cost	43	.948	.365	2.118	.717
Environmental Cost	43	.953	.365	-.735	.717
Education Costs	43	.596	.365	-.941	.717
Financial Performance	43	-.658	.365	-.682	.717
Average	43	0.460	0.365	-0.06	0.717

Table 4.6 indicates the average value for Skewness and Kurtosis as 0.460 and -0.06 which all happen to fall in the range of $-/+3$. This is an indication that there was normality assumption in the sample data that was adopted and used in the present study. The result agrees with Hatem, Zeidan, Goossens (2021) who noted that when testing for normality through skewness and kurtosis, values ranging from $-/+3$ provide an indication that the data has the qualities of normality.

4.4.3 Homogeneity Test

The findings of Homogeneity Test were determined and summarized as indicated in Table 4.7.

Table 4.7: Homogeneity Test

	Levene Statistic	Sig.
Medical Cost	1.170	.286
Environmental Cost	40.858	.234
Education Costs	38.969	.456

Table 4.7 shows that all the p-values under Homogeneity test were all above 0.05, meaning that the presence of Homogeneity in the data was assumed. This finding is supported by Emerson (2022) who indicated that when using Levene test for testing Homogeneity, p-value over 0.05 signify that Homogeneity is present in the sample data which is a desirable condition.

4.4.4 Linearity Test

Linearity was conducted and tested through correlation analysis and the matrix is as provided in Table 4.8.

Table 4.8: Linearity Test

		Financial Performance	Medical Cost	Environmental Cost	Education Costs
Financial Performance	Pearson Correlation	1			
	Sig. (2-tailed)				
	n	43			
Medical Cost	Pearson Correlation	.570	1		
	Sig. (2-tailed)	.030			
	n	43	43		
Environmental Cost	Pearson Correlation	.590	.784	1	
	Sig. (2-tailed)	.020	.000		
	n	43	43	43	
Education Costs	Pearson Correlation	.719	.591	.757	1
	Sig. (2-tailed)	.000	.001	.000	
	n	43	43	43	43

Table 4.8 shows that there exists a strong positive linear relationship between environmental costs ($r=0.590$), medical costs ($r=0.570$) as well as education costs ($r=0.719$) and financial performance. Thus, there was linearity in the sample data that was adopted and used in this study.

4.5 Regression Analysis and Hypotheses Testing

To derive meaningful insights, a regression analysis was conducted, and the results are summarized in Table 4.9, which presents the model's statistical overview. Additionally, this analysis helps determine the extent to which the independent variables explain the variation in the dependent variable, guiding further interpretation and decision-making.

Table 4.9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.760 ^a	.578	.545	.37107

Table 4.9 indicate that 54.5% alteration in financial performance of Kenyan Tier 1 commercial bank is described by their CSR (Adj. $R^2=0.545$). The ANOVA findings were determined and presented as shown in Table 4.10.

Table 4.10: ANOVA Findings

	Sum of Squares	df	Mean Square	F	Sig.
Regression	7.172	3	2.391	17.820	.000 ^b
Residual	5.232	39	0.134		
Total	12.405	42			

The ANOVA findings in Table 4.10 generally point out that the overall regression model adopted within the investigation was significant (F=17.820, p<0.05). Table 4.11 is an overview of the beta coefficient and significance.

Table 4.11: Coefficients and Significance

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	8.115	1.631		4.975	.000
Medical Cost	.404	.116	.158	3.483	.037
Environmental Cost	.359	.161	.523	2.228	.032
Education Costs	.665	.107	1.033	6.203	.000

From Table 4.11, the fitted regression model become as follow:

$$Y = 8.115 + .404X_1 + .359X_2 + .665X_3$$

Where:

Y = Financial Performance

X₁ = Medical Costs

X₂ = Environmental Costs

X₃ = Education Costs

ε = error term

The discoveries in Table 4.11 show that education cost (β=0.665) exerted the highest positive influence on financial performance of Tier I banks ensued by medical costs (β=0.404) and lastly environmental cost (β=0.359) respectively. This means that on overall, investing in corporate social responsibility positively contributes towards

financial performance. This finding agrees with Karuti (2015) who showed differences which exist between environmental conservation and financial performance. Afande (2015) scrutinized the influence of humanitarian, ethical, legal and financial aspects on societal responsibility by commercial banks in Kenya and identified a modest association amid afore stated influences. Cherobon (2012) considered the influence of ethical spending, discretionary, economic, legal and ethical spending on the performance of a bank and realized that differences exist amid ethical spending, discretionary, legal and economic and the performance of a bank. Additionally, Mbithi (2015) explored CSR and commercial banks' financial performance recorded in the Nairobi Stock Exchange market and testified a difference exist between commercial banks financial performance and CSR.

4.5.1 Medical cost and financial performance

The initial hypothesis stated: H_{01} Medical cost does not significantly influence the financial performance of Kenyan Tier 1 commercial banks. However, Table 4.11 indicates a p-value of 0.029 (i.e., $p < 0.05$), leading to the rejection of H_{01} . This suggests that medical costs have a statistically significant impact on financial performance. The findings indicate that the more a bank invests in medical-related expenditures, the stronger its corporate social responsibility (CSR) engagement becomes—especially during periods of financial instability. This trend gained prominence amid emerging financial crises. According to the World Health Organization (2015), financial institutions, particularly commercial banks, experienced notable losses due to inadequate transparency in disclosing financial information to the public, further undermining trust and sustainability.

4.5.2 Environmental cost and financial performance

The study hypothesized that H_{02} environmental cost lacks a substantial effect on Kenyan Tier 1 commercial banks financial performance. The findings in Table 4.11 indicate the p-value of environmental cost as 0.000 which is less than 0.05. Therefore, the research rejected hypothesis H_{02} and inferred that environmental costs had substantial influence on financial performance. The finding contradicts Okido (2014) who distinguished that manufacture of environmentally friendly merchandises by industries also caused reduced firm's profitability and vice versa. UNEP (2014) established that manufacture of green products and environmental thoughtfulness by organizations directly impacts firm's performance and investor contentment. Carmen, Rosa and Lisa (2011) found that corporations having wholly additional social attentive undertakings grow the influx of stakeholders by recognizing greater CFP.

Carmen, Rosa, and Lisa (2011) found that implementing a Corporate Social Responsibility (CSR) strategy, along with a company's contribution to national economic growth and its market share, plays a pivotal role in determining its Return on Equity (ROE). Similarly, Okiro, Omoro, and Kinyua (2013) explored the relationship between CSR investments and the sustainable growth of commercial banks in Nairobi County. Their findings revealed a growing positive perception of CSR from an investment standpoint. CSR remains essential for corporate success. Since bank profits depend heavily on delivering quality customer service, focusing on client satisfaction can improve retention. Supporting CSR initiatives fosters long-term growth, brand trust, employee morale, stakeholder relations, and community development, all of which contribute to continuous advancement in the banking sector.

4.5.3 Education Cost and Financial Performance

The final hypothesis of the study, labeled H03, posited that education costs do not significantly impact the financial performance of Kenyan Tier 1 commercial banks. However, as presented in Table 4.11, the p-value for education cost was found to be 0.013, which is below the conventional threshold of 0.05. Consequently, this led to the rejection of hypothesis H03, affirming that education costs have a statistically significant effect on financial performance. These findings align with the conclusions of NEMA (2014), which examined the role of environmental education on organizational outcomes. That study indicated that although training-related expenses might initially lower profits, they have the potential to generate long-term financial benefits when institutions implement effective employee development and retention strategies.

Moreover, continuous investment in employee learning can enhance skills, innovation, and operational efficiency, thereby improving overall organizational sustainability and competitiveness in a dynamic business environment. Gathungu and Ratemo (2013) established that CSR undertakings disclosure by businesses became advantageous as a valuation device of accomplishment as in the importance in CSR practices. According to Okoth (2012), CSR is useful in money related execution of large as well as medium-sized banks along with failed effect the ROA of small-sized banks. More so, CSR positively and significant impacted on ROA and ROE of banks. Njogu (2013) established that organizations ought to see past the profit objective while articulating company social rules.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter captures a brief of the analyzed results basing on the specific objectives. The summary begins by the general objectives followed by the specific ones and then a description of the methodology used to achieve the objectives of this investigation. Conclusion is also provided basing on key outcomes and as per research objectives. Provided recommendations have suggestions on policy, practice and theory. The chapter also captures parts requiring more exploration basing on present research's identified gaps as well as limitations.

5.2 Summary

The general study objective was to determine the effect of corporate social responsibility on Kenyan Tier 1 commercial banks finance performance. More precisely, the examination was set out to identify the effect of educational, medical and environmental costs on Kenyan Tier1 commercial banks financial performance. A cross-sectional research design was adopted targeting sixty selected respondents from 10 Kenyan Tier 1 commercial banks that were selected purposively as the sample size. Structured questionnaires assisted in primary data collection and analysis done through mean and standard deviation besides multiple regression analysis.

On the first objective, it was noted that while a vast majority of the studied banks had interventions that helped them to save costs associated with medical covers. Regression analysis showed that medical costs had substantial influence on financial performance. Most of the studied banks had invested in environmental CSR activities and thus incurred environmental related costs. Taking part in initiatives regarding conservation

of the environment e.g. planting of trees exercise and training of workers on ISO 1400 observances which emphasized protection of the ecosystem were among the environmental aspects that consumed significant costs in most of the studied banks compared to the allocation of budget towards sensitization of the general public on the value of environmental conservation. From regression analysis, environmental costs were significant predictors of financial performance.

Education costs were incurred by the studied banks. While sensitization of the general public on environmental protection through the print and electronic was the highly practiced aspect of education costs by the banks under consideration, the least one was the bank sponsoring learners interested to study environment in institutions of higher learning. As per regression analysis, education costs had noteworthy influence on financial performance.

5.3 Conclusion

On the first objective and from regression analysis, medical costs were found to be significant. Thus, it was concluded that medical costs allow an institution to generate more profits and thus better financial performance. In other words, institutions can maximize the wealth of their owners through incurring of medical costs to support CSR activities. Therefore, the costs incurred by a financial institution in funding medical corporate social responsibility activities in the society contribute to long term profitability and hence financial performance. Thus, investing in health related corporate social responsibility activities is an opportunity for financial institutions to generate more revenues and thus improve on their financial performance.

In regard to second objective and in line with regression results, environmental costs were significant. Thus, the study concludes that investing in environmental CSR

activities would create costs to the firm but same will be compensated by the resultant increase in financial performance. The urgent call for developed and developing countries to achieve sustainable development goals by 2030 has heightened environmental sustainability practices. Thus, investing in environmental corporate social responsibility activities is one of supporting realization of SDGs besides allowing banks to improve on their brand image, generate more revenues and thus enhance their financial performance.

On the basis of the last objective and in line with regression analysis, education costs were noted to be significant. Hence, thus study concludes that the decision to invest in medical CSR activities would come with costs that are however offset by the improved financial performance position of the firm. Education has long been recognized as pillar in poverty eradication contributing to economic development. Supporting education activities especially among the bright but needy students can open up valuable employment opportunities in future translating to an increased customer base which in turn enhances their financial performance.

5.4 Recommendations

The subsequent sections provide discussion on recommendations of the study for policy, practice and theory:

5.4.1 Recommendations for Policy

Policy-makers that work within Kenya's commercial banks should pull conclusions of this research to design review of rules guiding corporate social responsibilities of these institutions. Policies at the Central Bank of Kenya should be designed to support investment in CSR practices within Kenyan commercial banks. Policy makers working with the government should design sound policies to guide and refine CSR practices

within Kenyan commercial banks. Policies at the Kenya Bankers Association (KBA) should seek to encourage respective banks as members to invest heavily in corporate social responsibility since doing so would enhance their financial performance.

5.4.2 Recommendations for Practice

Finance managers working with commercial banks in Kenya should raise expenditures in education CSR since in so doing own financial performance is enhanced. Senior leaders who work with Kenyan commercial banks need to review their strategic goals as well as intents to align with environmental component of Sustainable Development Goals (SDG) and doing so would lead to an improvement in their financial performance. There is need for more investment in health CSR undertakings by Kenyan commercial banks to support the government's National Health goals. This can be done increasing funding of medical equipment and supporting the Government to stock some of the leading hospitals with drugs.

5.4.3 Recommendations for Theory

The agency theory requires managers of commercial banks as agents to undertake actions that seek to exploit shareholders' wealth who are the institutions' principals. Such actions as established in this study include investing in medical, environmental and education corporate social responsibility activities. Thus, leveraging the agency theoretical lens, the study recommends that double up their investment in the aforementioned activities in order to enhance on their financial performance.

5.5 Contribution of the Study

The study will significantly enrich finance theory and literature by bridging the gap between social impact initiatives and economic outcomes in the banking sector. Traditional finance theories such as shareholder value theory often focus on profit maximization as the primary goal of firms. However, this study challenges and extends these views by exploring how CSR initiatives such as environmental stewardship, medical support and education welfare can contribute to improved financial outcomes like increased return on assets, and market competitiveness. In the context of Kenya's emerging economy, where social and environmental issues are increasingly influencing business operations, this research adds contextual depth to global CSR-finance discourse by offering empirical evidence from a developing country.

It also contributes to stakeholder theory by demonstrating how banks that prioritize broader stakeholder interests can achieve sustainable financial performance. Furthermore, the study adds to existing literature by exploring sector-specific dynamics in banking, such as reputational risk, customer trust, and regulatory compliance, and how these are influenced by CSR engagement. By integrating CSR into the financial performance framework, the study promotes a more holistic view of value creation, thereby influencing both academic thought and practical financial strategy. Overall, this contribution helps finance scholars and practitioners better understand the strategic importance of CSR in enhancing long-term firm value within the unique socio-economic landscape of Kenya's banking industry

5.6 Areas for Further Research

Besides focusing on financial performance as the dependent variable, the attention of future studies should be on other aspects like profitability or liquidity. Future studies

can also be done covering firms in the entire financial sector in general including insurance firms, SACCOs and microfinance institutions for comparative purpose. The focus of prospective researches should cover all Kenya's commercial banks or those ones cross listed across East Africa stock market.

REFERENCES

- Afande, O. F. (2015). Drivers for Participation in Corporate Social Responsibility by Commercial Banks in Kenya. *International Journal Article*, 5 (2), 1-15
- Alabi, O., & Bukola, T. (2023). Introduction to Descriptive statistics. In *Recent Advances in Biostatistics*. IntechOpen.
- Ali Abd Al-Hameed, K. (2022). Spearman's correlation coefficient in statistical analysis. *International Journal of Nonlinear Analysis and Applications*, 13(1), 3249-3255.
- Archie, C. (1991). The pyramids of Corporate Social Responsibility. *Towards the moral management of the organizational stakeholders*.
- Baert, Patrick, Silva & Filipe Carreira da (2010). *Social Theory in the Twentieth Century and Beyond*. Cambridge, UK: Polity Press. ISBN 978-0-7456-3981-9.
- Bayman, E. O., & Dexter, F. (2021). Multicollinearity in logistic regression models. *Anesthesia & Analgesia*, 133(2), 362-365.
- Bell, David (2008). *Constructing Social Theory*. Lanham, MD: Rowman & Littlefield. ISBN 978-0-7425-6428-2.
- Black, K. (2010). *Business Statistics: Contemporary Decision Making*; 6th edition, John Wiley & Son
- Bruning, K. C. (2014, April 12). *What Is the Role of Business Ethics?* Retrieved from Wise Geek: <http://www.wisegeek.com/what-is-the-role-of-business-ethics.htm>
- Carmen - Pilar, M. B., Rosa, R. M. & Lisa, G. J. D. (2011). Do the Best European Socially Responsible Companies Perform Better Financially? Project, University of Barcelona.
- Central Bank of Kenya (2018). *Bank Supervision Annual Report 2018*,50-60
- Cherobon, R. (2012). Effects of corporate social responsibility spending on a firm's performance: a survey of banks in Nakuru County. *Published MBA Project*. Kisii University
- Cornett, M. M., Erhemjants, O., & Tehranian, H. (2014). *Corporate Social Responsibility and its Impact on Financial Performance: Investigation of US Commercial Banks*. Boston, USA: Boston College.
- Dowling, P. W. (2002). Corporate Reputation and Sustained Superior Financial Performance. *Strategic Management*.
- Emerson, R. W. (2022). ANOVA assumptions. *Journal of Visual Impairment & Blindness*, 116(4), 585-586.

- Ferrell, O. C., & Fraedrich, F. (2009). *Business Ethics and Social Responsibility*. McGraw-Hill.
- Ferry, J., & Foster, M. (2010, April 12th). Back to the Drawing Board. Wall street Journal.
- Flammer, C. (2013). *Does Corporate Social Responsibility Lead to Superior Financial Performance? A Regression Discontinuity Approach*. Cambridge, USA: MIT Sloan School of Management.
- Freeman, E. R., Harrison, J. S., Wicks, A. C., Parmar, B. L., & Colle, S. (2010). *Stakeholder Theory*. Cambridge: Cambridge University Press.
- Freeman. (1984). *Strategic Management*.
- Gathungu, L. & Ratemo, H. (2013). CSR activities and economic value on firms. *International Journal Article*, 3 (2), 12-17
- Gichana H. (2004). CSR practice by Kenyan companies listed in the NSE. *American Economic Review*, 62, 134-139.
- Gupta, A., Koshal, M. & Koshal R. (2006). *Women managers in India: Challenges and opportunities*. New Delhi: Response Books.
- Hatem, G., Zeidan, J., Goossens, M., & Moreira, C. (2022). Normality testing methods and the importance of skewness and kurtosis in statistical analysis. *BAU Journal-Science and Technology*, 3(2), 7.
- Heyer, A. a. (2015). *Kenya's Financial Transformation in the 21st Century*.
- Howard, B. (1953). *Social Responsibility of the Businessman*.
- Jerotich, M. &. (2013). International Journal of Business Humanities and Technology. *The Relationship between Corporate Social Responsibility Practices and Financial Performance of Firms in the Manufacturing, Construction and Allied Sector of the Nairobi Securities Exchange*.
- Kanwal, M., Khanam, F., Nasreen, S., & Hameed, S. (2013). Impact of Corporate Social Responsibility on the Firm's Financial Performance. *IOSR Journal of Business and Management*, 67-74.
- Karuti, K. J. (2015). Influence of corporate social responsibility activities on the financial performance of commercial banks in Meru town, Kenya. *International Journal of Economics, Commerce and Management*, 3 (5), 9-23
- Keith, T. Z. (2019). *Multiple regression and beyond: An introduction to multiple regression and structural equation modeling*. Routledge.
- Kipotich, M. R. (2016). Effect of ethical values on financial performance Commercial Banks in Kenya. *MBA project*. Kenyatta University

- Kitzmuellery & Shimshack (2012). Economic perspectives on CSR and firm Performance. *International Journal of Accounting Research (IJAR)*, 2 (95), 1-17
- KPMG (2013). *From Burden to Competitive Advantage. Regulatory Change and Transformation in Financial Services*. Transformation Survey, 3-5.
- Lorraine, Y. T. (2009). Relationship between CSR and financial performance of Firms in the United States of America. *Business and Society Review*, 105(1), 145-169.
- Mohammed, S. (2020). Components, theories and the business case for corporate social responsibility. *International Journal of Business and Management Review*, 8(2), 37-65.
- Margolis, E. &. (2007). Does it pay to be good? *A Meta- Analysis and Redirection of research on the relationship between corporate social responsibility and financial performance*.
- Marrewijk, M. (2010). The Cubrix, an Integral framework for managing performance improvement and organizational development. *Technology and Investment*.
- Mathews, H. H. (1978). *The Company's Act*.
- Mbithi. (2015). Effect of Corporate Social Responsibility on Organization's Profitability of the banks listed on Nairobi stock exchange.
- Mclaughlin, K. R. (1996). Management Science. *The impact of Environmental Management on Firms Performance*.
- Miles, F. &. (2006). *Stakeholders Theory*.
- Muthuri, J. N., & Gilbert, V. (2011). An Institutional Analysis of Corporate Social Responsibility in Kenya. *Journal of Business Ethics*, 1 (4), 467–483.
- Mwaura, K. (2007). The Failure of Corporate Governance in State Owned Enterprises and the Need for Restructured Governance in Fully and Partially Privatized Enterprises: The Case of Kenya. *Fordham International Law Journal*, 34-75.
- National Environmental Management Authority (2014). *The effect of environmental education on organization performance*. Free Press
- Njogu, P.Y. (2013). *Social Programs on performance of companies in Kenya. Published MBA Thesis*. University of Nairobi
- Ohiokha, F. O. (2016). Corporate Social Responsibility and Corporate Financial Performance. *International Journal of Accounting Research (IJAR)*.

- Okido, J. T. (2014). Influence of environmental costs on the profitability of manufacturing firms in Nigeria. *Published Journal Article. University of Lagos, Nigeria*
- Okiro, Omoro and Kinyua (2013). The relationship between investment in CSR and sustained growth of commercial banks in Nairobi County. *International Journal Article, 5 (2), 14-16*
- Okoth, T. K. (2012). The role of CSR and financial performance among large and medium sized firms in Kenya. *MBA Thesis. University of Nairobi*
- Onderi., M. C. (2013). The Relationship between Corporate Social Responsibility Practices and Financial Performance of Firms in the Manufacturing, Construction and Allied Sector of the Nairobi Securities Exchange. *International Journal of Business, Humanities and Technology.*
- Ongolo J. (2012). The relationship between CSR and market share of supermarkets in Kisumu City for the period 2006 to 2010. *MBA Thesis. Kenyatta University*
- Orlitzky, S. &. (2003). *Corporate Social and Financial Performance:*
- Otgontsetseg, B. & Hassan, R. (2013). Relationship of CRS practices between United States Commercial Banks and financial performance. *Academy of Management Review, 20 (1), 43-64.*
- Rajesh, M. & N.R.V. Ramana Reddy, (2011). *Impact of working capital management on firms' profitability.* Global J. Finan. Manage. 3(1): 151-158.
- Richard, K. J. (1991). Foundational Considerations in the Corporate Responsibility Debate. *Business Horizons.*
- Roger, B. A. (1991). Corporate Responsibility and Good Society. *Business Horizons.*
- Saunders, M., Lewis, P. & Thornhill, A. (2012). *Research Methods for Business Students;* 6th edition, Pearson Education Limited
- Sekaran, U. (2011), *Research Methods for Business: A Skill Building Approach,* Southern Illinois University New York.
- UNEP (2014). *Environmental Management Systems on financial performance of firms in Kenya.* Free Press
- United Nations. (2015). *Sustainable Development Goals (SDG).* United Nations Resolution A/RES/70/1.
- World Health Organization (2015). *Employee productivity and organization output.* Free Press

APPENDICES

Appendix 1: Introductory Letter

C/O

Kenyatta University

TO WHOM IT MAY CONCERN

Dear Respondent,

REF: POSTGRADUATE STUDY

I welcome you to take part in research work titled “*CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE OF TIER 1 COMMERCIAL BANKS IN KENYA*”. I am a scholar taking a Master’s degree in business administration of Kenyatta University. I am conducting a research for my MBA Thesis. The reason of conducting this research is for academic ends only. Information provided by respondents will be utilized for singular research objective.

Your involvement is fully deliberate and if you accept to take part in the research, please respond to questions on the inquiry form correctly. The obtained information will be kept confidential and solely for purposes of research. Your support in responding to question on this form will be greatly valued.

Yours faithfully,

Sheila Nyawira Mwangi

D53/EMB/PT/31555/2015

Thank you in advance.

Appendix 2: Research Questionnaire

SECTION A: BACKGROUND INFORMATION

Please fill appropriately blank spaces provided or by marking using a tick [√] beside the best suited answer.

1. Specify your bank name

.....

2. Identify your gender

a) Female []

b) Male []

3. State your education level

a) Certificate []

b) Diploma []

c) Degree []

d) Masters []

e) PhD []

4. How long have you worked in your bank?

a) Over 10 years []

b) 6 to 10 years []

c) 1 to 5 years []

d) Below 1 year []

5. Please briefly explain the corporate social responsibility (CSR) cost allotment of your bank

.....
.....

6. In your opinion, does CSR have substantial impact on your bank's financial performance?

7. In brief, how do you understand corporate social responsibility (CSR)?

.....
.....

8. Briefly, what association exists between CSR and your commercial bank's financial performance

.....
.....

PART B: CORPORATE SOCIAL RESPONSIBILITY

Kindly tick the statements that follow on a Likert scale which ranges from strongly agree to strongly disagree: where: 5 represents (strongly agree) 4 represents (agree) 3 represents (not agree nor disagree) 2 represents (disagree) and 1 represents (strongly disagree)

SECTION A: MEDICAL COSTS

9. Show the degree of your agreement with the statements that follow regarding the influence of medical costs and your bank's financial performance. Where; 5 represents (strongly agree) 4 represents (agree) 3 represents (not agree nor disagree) 2 represents (disagree) and 1 represents (strongly disagree)

Statements	1	2	3	4	5
My bank constantly offers staff life assurance plans					
My bank offers worker medical full medical covers that consist of third-parties					
My bank has technologies of checking member of staff use of medical covers					
My Bank has got initiatives that aid in saving costs related to medical covers					

Medical covers given out to single staffs are not overstated in amount.					
---	--	--	--	--	--

10. In what other ways do medical cost affect your bank’s financial performance?

.....

Source from account books the incurred medical costs by your bank covering employees’ health per year in the below table:

	2013	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Medical costs (Kshs)											

SECTION B: ENVIRONMENTAL COSTS

11. Specify the degree of your agreement with the statements that follow regarding the influence of environmental expenses on your bank’s financial performance. Where: 5 represents (strongly agree) 4 represents (agree) 3 represents (not agree nor disagree) 2 represents (disagree) and 1 represents (strongly disagree)

Statements	1	2	3	4	5
My bank continuously partakes in environment protection enterprises e.g. tree planting exercise					
My bank constantly promotes organizations protecting ecosystems					
My bank assigns resources to inform the public on the worth of environment protection					
My bank possesses yearly budgets allotted for initiative that conserve the environment					
My bank trains workers on ISO 1400 regulations which give emphasis to protection of ecosystems					

12. Explain other ways that your bank’s financial performance is influenced by the environmental costs.

Pull from your bank’s accounts books the yearly incurred expenses to furnish the environment in the below table:

	2013	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Environmental costs (Kshs)											

SECTION C: EDUCATION COST

13. Specify the degree of your agreement with the statements that follow regarding the influence costs associated with on your bank’s financial performance. Where; 5 represents (strongly agree) 4 represents (agree) 3 represents (not agree nor disagree) 2 represents (disagree) and 1 represents (strongly disagree)

Statements	1	2	3	4	5
My bank is dedicated to making the public aware on conservation of environs using electronic and print media					
My bank aids learners intending to pursue studies on environment in institutions of higher learning					
My bank constantly arranges for public relations actions as music, sports, etc. to educate people on environment					
My bank sponsors programs on environment planned by national environment management authority					
My bank holds and strives for investment in green energy					

14. In what other way is your bank’s financial performance influence by education costs?

.....

.....

Source from your bank's accounts books your bank's yearly educational incurred expenses for the staff educational fee in the below table:

	2013	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Education costs (Kshs)											

SECTION D: FINANCIAL PERFORMANCE

15. Specify the degree of your agreement with the statements that follow regarding the used indicators to gauge your bank's financial performance. Where; 5 represents (strongly agree) 4 represents (agree) 3 represents (not agree nor disagree) 2 represents (disagree) and 1 represents (strongly disagree)

Statements	1	2	3	4	5
Expenses sustained in payment of workers medical bills mirror my bank's soundness financially					
Submitted medical claims by distinct employees reflect my bank's financial soundness					
Expenses met in programs on planting of trees by my bank reflect through financial performance					
Incurring cost by my bank in sensitizing people about conservation of the environment transforms to financial performance					
Incurring expenses in solid waste management by my bank bring about to financial performance					
My bank's expenditure on loans for employee education translate to financial performance					
My bank's budgets spent in training employees reflect through bank's financial performance					

16. Write down other indicators your bank utilizes to gauge financial performance.

.....

Appendix 3: financial performance secondary data collection sheet

	2013	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Net income											
Total Assets											

Appendix 4: List of Selected Tier 1 Commercial Banks in Kenya

1. Kenya Commercial Bank Group
2. National Bank of Kenya
3. Standard Chartered Bank of Kenya
4. Equity Group Holding Limited
5. National Industrial Credit Bank
6. Cooperative Bank of Kenya
7. I&M Holding Bank
8. Diamond Trust Bank Group
9. Barclay Bank of Kenya
10. Cfc Stanbic Holding.

Source: www.centralbank.go.ke

Appendix 5: Permit from NACOSTI

 REPUBLIC OF KENYA	 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
Ref No: 424055	Date of Issue: 12/July/2021
RESEARCH LICENSE	
	
This is to Certify that Ms. Sheila Mwangi of Kenyatta University, has been licensed to conduct research in Nairobi on the topic: Corporate social responsibility and financial performance of Tier 1 commercial banks in Kenya, for the period ending : 12/July/2022.	
License No: NACOSTI/P/21/11707	
424055 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 6: Kenyatta University Graduate School Data Collection Approval Letter



KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke

Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 4150

Internal Memo

FROM: Dean, Graduate School

DATE: 2nd June, 2020

TO: Sheila Nyawira Mwangi
C/o Accounting and Finance Dept.

REF: D53/EMB/FT/31555/2015

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 20th May, 2020 approved your Research Project Proposal for the M.B.A Degree Entitled, "**Corporate social responsibility and financial performance of tier 1 commercial banks in Kenya**".

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and progress report Forms per semester. The Forms are available at the University's Website under Graduate School webpage downloads.

Thank you.

ELIJAH MUTUA
FOR: DEAN, GRADUATE SCHOOL

c.c. Chairman, Accounting and Finance.

Supervisors:

1. Dr. Job Omagwa
C/o Department of Accounting and Finance
Kenyatta University

EM/Inn

2/2

Scanned with CamScanner

HI/Inn