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EFFECT OF CORPORATE SOCIAL RESPONSIBILITY PRACTICESON PERFORMANCE OF COMMERCIAL BANKS IN RWANDA: A CASE STUDY OF BANK OF KIGALI, RWANDA

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Abstract: **The main purpose of this study was to determine the effect of Corporate Social Responsibility practices on performance of commercial banks in Rwanda. Specific objective for the study was to; determine the effect of community involvement on performance of Bank of Kigali. The research used descriptive design and was carried out at Bank of Kigali located in Kigali City. The population for this study was 116 staff members involved in Corporate Social Responsibility. A total of 90 staff members were selected through random sampling that constituted the sample size for the study. The research study used a questionnaire as the data collection tool. Statistical Package for Social Science (SPSS) version 21 was used to generate both descriptive and inferential statistics. Descriptive statistics for the study were frequency distribution, percentages, mean and standard deviationwhich were generated through descriptive analysis. Inferential statistics for the study was Pearson correlation that was used to estimate the relationship between the study variables, and multiple regression which showed the amount of change in Bank performance that would be explained by the Corporate Social Responsibility practices. The study findings of the research were presented in form of frequency distribution tables, bar charts and pie charts. The study found out that there exist weak statistically significant positive relationships between; community-based activities and performance ($r = 0.411$, $p>0.05$). The study concludes that Correlation analysis results infer an average positive relationship between community based and organizational performance. The study therefore recommends policy makers should streamline environmental CSR initiatives to ensure their sustainability and enhanced future firm performance.**

Keywords: **Community-based activities, Performance of Bank, Bank of Kigali, Corporate social responsibility practices.**

1. INTRODUCTION

1.1 Background:

Presently enterprises have little or no choice left for speedily engaging themselves in CSR activities that must be reflected in their social report. These are audited and must conform to industrial norms, if the firm wishes to comply and compete globally. Thus, the effort lead in protecting and enhancing a company's reputation. This will additionally establish the management's obligation to resonate ethical behavior at the same time shall raise the stakeholder confidence (Pearce & Robinson, 2008).

Over the decades, the concept of corporate social responsibility (CSR) has continued to grow in importance and significance. It has been the subject of considerable debate, commentary, theory building and research. In spite of the ongoing deliberations as to what it means and what it embraces, it has developed and evolved in both academic as well as practitioner communities worldwide. The idea that business enterprises have some responsibilities to society beyond that of making profits for the shareholders has been around for centuries (Carroll, 2010). Companies engage in social responsibility practices that are relevant to their interests, operations, and actions" CSR will vary between industries. Considering the above, companies will need to be conscious of their interests even as they come up with the CSR strategies of companies. Different industries deal with certain unique issues that are industry specific and as such issues of CSR will also affect them in the same way. Businesses need to fit into the societies they find themselves in and be able to adapt to be sustainable. Given the differences in societies and their concerns then even their views of CSR are also likely to differ. Companies should therefore be able to match their interests with the societal expectations on CSR to be successful (Nejati & Amran, 2009).

Aras *et al*. (2010) argue that CSR has been gathering momentum for the past 10 years. This indicates that corporations' taking social responsibility is not a new phenomenon. Nevertheless, CSR is more in the spotlight now than ever since multinational corporations' power over world economy is stronger than ever and with that society's demands on social and environmental responsibility (Nejati & Amran, 2009). Furthermore, Wahba (2008) claims that globalization heightens society's anxiety over corporate conduct.

Corporate social responsibility views a firm as a group of stakeholders whose purpose should be to manage their interests, needs and viewpoints. Managers, as a result, are given the task of managing relations with stakeholders by maximizing the social welfare of all of Bank of Kigali's constituents. These constituents include shareholders who comprise of employees, customers, suppliers, and the communities in which they operate (Nejati & Amran, 2009). However, Wu and Shen (2013) posit that the "the task of establishing core values such as what a stand for and doing this in a manner that takes into account concerns across and within company heterogeneous stakeholder groups imposes an unrealistic expectation of managers.

Usman and Amran, (2015) argued that the process of creating shareholder wealth involves allocating resources to all constituencies that affect the process of shareholder value creation and this process should only proceed only to the point where the benefits from such expenditures do not exceed their additional costs. Over the years the concept of CSR has been defined by scholars to help give a clear meaning and purpose of the CSR initiative. According to Costa and Menichini, (2013), CSR is formed and defined using the three principles of social legitimacy (institution level), public responsibility (organization level) and managerial discretion (individual level), which link the principles of the CSR to the domains which explains and define the CSR principle which include; economical, legal, ethical and discretionary. Companies can address social responsible issues in a more efficient and effective manner if the companies are allowed to do it in their way, in other words, to do it in a more voluntary basis and not by imposition of the government regulations (Grigoris & Ioannis, 2009).

Regulatory approaches have several undesirable features that can be avoided by companies engaging in the CSR activities. Voluntary actions of organizations when engaging in CSR will follow a code of conduct and adhere to the ethics standard stipulated by the government for companies that want to engage in CSR activities on voluntary basis (Burianová & Paulík, 2014). Gichana (2014) identified the financial benefits CSR have which include enhanced brand image and reputation which consumers are often drawn to brands and companies with good reputations in CSR related issues. Furthermore, a company regarded as socially responsible can also benefit from its reputation within the business community, by having increased ability to attract capital and trading partners. Scholtens (2008) explained that good environmental and social performance will result in good financial performance due to the efficient use of resource and stakeholder commitment which is the reason that customers' loyalty increased, as they perceived Bank of Kigali as a member of the society. Eventually, sales increased leading to better returns. According to Dahlsrud (2008) companies use CSR activities as a prevention strategy to protect them from corporate scandals, unpredicted risks and brand differentiation, which will enable Bank of Kigali, be competitive in the industry. Furthermore, the companies do relate the CSR activities and financial benefits they will get in terms of how many investors they will attract.

There is growing recognition of the significant effect the activities of the private sector have on employees, customers, communities, the environment, competitors, business partners, investors, shareholders, governments and others. It is also becoming increasingly clear that firms can contribute to their own wealth and to overall societal wealth by considering the effect they have on the world at large when making decisions (Shen *et al.*, 2016).

In a global stakeholder society, accountability is among the key challenges of organizations. Responsible leaders are concerned with reconciling and aligning the demands, needs, interests, and values of employees, customers, suppliers, communities, shareholders, nongovernmental organizations (NGOs), the environment, and society at large. A company's track record in terms of CSR accounting will be effective when appropriate CSR measures are included in its internal as well as its supply-chain activities (Robins, 2015).

In Rwanda companies has been involved in CSR over the last decade. Banking industry, telecommunication industry and construction industry are among the industries that are participating in CSR. Rwanda banking sector has seen tremendous growth over the past 5 years and seen increased participation by multinational banks. The sector is comprised of 9 commercial banks, 3 microfinance banks, 1 development bank and 1 cooperative bank (RDB, 2014). The Banking Industry is growing due to the need and demand in the market. Both the existing and new banking institutions face the challenge of competition and the need to have a better performance since this will determine their growth and sustainability. This study conceptualize that Banks would realize improved performance if they could be involved in various community undertakings such as charity work; take part in environmental based activities such as promoting environmental awareness as well as getting involved in educational based activities such as sponsoring students.

Several commercial banks are engaged in CSR, for example, Equity Bank through the Equity Group Foundation focuses on eradication of poverty, hunger and the provision of humanitarian aid, education, gender equality and women empowerment, health, environment sustainability and voluntary service to society by the bank's leadership; KCB through the KCB Foundation engages in CSR activities concerning; environment, enterprise development, education, health and humanitarian intervention. Bank of Kigali is involved in distribution of environmental conservation, education, and health activities. Therefore, Bank of Kigali being a local bank offering CSR activities rendering it a case study

1.2 Statement of the Problem:

With growing social awareness of corporate social responsibility (CSR) within the last decades companies face increasing pressures to address the objectives of various stakeholders, beyond those of shareholders and legal requirements and to create shared value (De Clercq &Voronov, 2011). The increasing adoption of CSR practices is however constrained by the limited resources and capabilities that firms possess. This raises the question of which stakeholders and which CSR practices firms should prioritize when designing their CSR strategy. One answer to this challenge for firms is to focus on those CSR practices that are more likely to contribute to their performance and enhance growth, an approach particularly important for Rwandan Banking sector.

A number of studies have been carried out on Corporate Social Responsibility but on different perspectives. Gichana (2014) analyzed CSR practices by Kenyan Companies. The study sought to identify the Social Responsibility practices of firms listed in the NSE as well as determine the factors explaining the kind of CSR practices adopted by a firm. The study revealed that though the firms were involved in CSR activities, they were mainly involved in health and education.

Gatera (2009) focused on the factors influencing the practice of CSR of financial Institutions in Kenya. This study sought to determine what factors influence the involvement of banks in Corporate Social Responsibility activities as well as determining whether there is any perceived benefit gained as a result. The researcher found out that the banks were involved in various CSR activities varying from bank to bank influenced by corporate image, moral obligations and solving societal problems.

Given the importance of corporate social responsibility, much has been written on it both locally and internationally as a topical issue, cases for and against CSR, the levels and determinants of CSR, management perception and stakeholder analysis by (Ponnu & Okoth 2009; Marcia, Otgontsetseg and Hassan, 2013). Researchers have also given special attention to the link between CSR and a company's financial performance, a firm's corporate strategy and also the link between CSR and competitive strategy (Jamali, Hallal, & Abdallah, 2010).

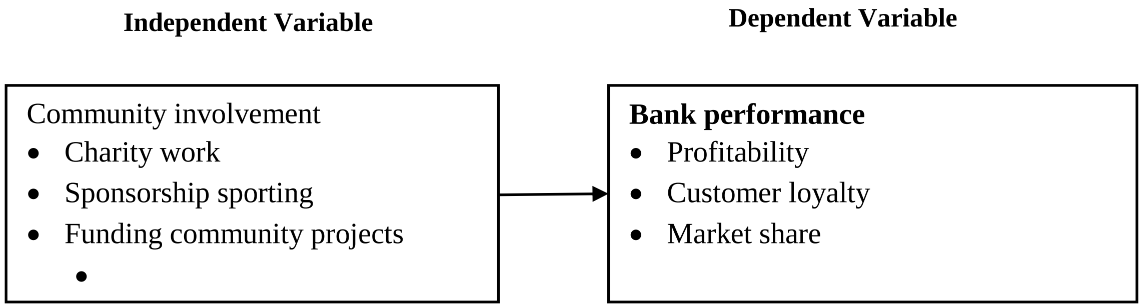
Although sufficient evidence has been provided pointing the positive effect that CSRP has on organizational performance, the concept of CSRP has not been fully embraced by many organizations including banking institutions (Galbreath, 2010). Although many Islamic banks are occasionally undertaking charitable activities as part of their CSRP, Aggarwal and Youssef (2008) found that their practices do not focus on socio-economic development of the communities in which they operate. The study by Scholtens (2008) found that Besides the low level of undertaking CSR practices in banking sectors, banks which are engaged in CSRP do it not as a strategy for improving performance but as a mere responsibility. In this regard, it can be argued that banks are yet to realize the potential for improved performance that can be unlocked by strategically engaging in CSR practice. Currently there is no known study to the researcher that has been conducted to determine the effect of CSRP on performance of commercial banks in Rwanda. This study aims at determining the effect of CSRP on performance of commercial banks in Rwanda and will try to provide the strategic importance of corporate businesses engagement in CSR.

1.3 Objectives of the study:

The general objective of this study was to establish the effect of Corporate Social Responsibility practices on bank performance. To achieve this the study determined the effect of community-based activities on performance of Bank of Kigali

2. CONCEPTUAL FRAMEWORK

In this study the dependent variable is the community involvement of a firm while the independent variable is the bank performance.



2.1 Community based activities:

Companies have been found to enhance their performance by ensuring large market share through (Heugens & Dentchev, 2009). Sponsorship of sports, providing starving communities with relief food are among CSR activities linked with performance of NGOs in India (Jorge et al., 2011). Resettlement of displaced families is one of the areas where companies have used to give back to the community. This has been done by buying food items and blankets for the affected families or communities. In most cases, the involved companies have called the media to cover these events. Children homes and Orphanages have also been a beneficiary of CSR programs (Keffas & Olulu-Briggs, 2011).

2.2 Research Gaps:

A critical review of past literature showed that several conceptual and contextual research gaps existed in the influence of corporate entrepreneurship on the performance. For instance, the studies by Bashir, Cheema and Hassan (2012) aimed at identifying internal impact of the corporate social responsibility activities on the employees of the organizations engaged in these activities in Karachi. There exists an objective gap since this study seeks to determine the influence of corporate social responsibility on organization performance. In addition, there exists a geographical gap since this study is based in Kenya. Bansal and Roth (2010) conducted a qualitative study of the motivations and contextual factors that induce corporate ecological responsiveness. The study focused on United Kingdom and Japan. There exists an objective gap since this study seeks to determine the influence of corporate social responsibility on organization performance. In addition, there exists a geographical gap since this study is based in Kenya. Ali, Rehman, Yousaf and Zia (2010) analyzed the multifaceted influence of CSR on employee's organizational commitment and organizational performance. Despite greater interest on CSR particularly in the area of CSR practices in relation to organizational performance, results of previous studies are indeterminate. This implies that this area is faced with inconclusiveness, this gap motivates the study. Also previous researchers focused more on profitability whereas organizational performance goes beyond profitability thus constituting gap in element. Most of the prior studies were conducted in foreign countries, indicating dearth of studies in African economies.

3. TARGET POPULATION

Mugenda and Mugenda(2009) view population as a complete set of individuals', cases or objects with same observable characteristics. The population of the study consisted of 116 employees of Bank of Kigali.

3.1. Sample Size:

Kombo & Tromp (2009) defines a sample as a small proportion of an entire population; a selection from the population. This is the number of items to be selected from the population to constitute a sample (Kothari, 2011). A total of 90 employees constituted the sample size for the study. This sample size was determined using a sample size determination formula by Slovin (1960).

n = N / (1 + Ne^2

Where;

n-the sample size

N - the population size (116)

e - the acceptable sampling error (0.05)

$$n = \frac{116}{1+116(0.05)^2} = 90$$

3.2 Data Analysis:

Data was analyzed using quantitative techniques. Inferential statistics included Analysis of Variance (ANOVA), Pearson correlation, factor analysis and regression analysis (Zikmund *et al.* 2010). Descriptive statistics was employed to establish the CSR practices of Bank of Kigali through frequency, percentages mean and standard deviation. The strength of the relationship between corporate social responsibility and performance was tested using Pearson's Product Moment Correlation Statistical Technique. Regression analysis was applied to determine the link between CSR practices and bank performance.

The Statistical Package for Social Sciences (SPSS) version 21 was used to analyze the data collected. Descriptive statistics for the study were frequency distribution,percentages, mean and standard deviationwhich were generated through descriptive analysis. Inferential statistics for the study were Pearson correlation that were used to estimate the relationship between the study variables, and regression analysis which showed the amount of change in Bank performance that would be explained by the Corporate Social Responsibility practices.

The coefficient of determination, R squared, measure was used to test the significance of the regression model in explaining the relationship between CSR practices and bank performance. R squared as a measure of goodness of fit showed the percentage variance in the dependent variable that would be explained by the independent variable(s). The higher the R squared the better the model. The following regression equation was adopted for this study,

$$Y' = a + b_1 X_1$$

Where Y' denote the predicted growth of bank performance, a, b_1, are constants. X_1, $a$re the independent variables i.e. community involvement,

4. COMMUNITY BASED ACTIVITIES

To determine community based corporate social responsibility practice in the Bank of Kigali. The respondents were requested to rate items on a five-point Likert scale ranging from 1 strongly disagree to 5 strongly agree as shown in Table 1.

Table 1: Descriptive Statistics on community-based activities

Statements	**N**	**Mean**	**Std. Dev**
Bank of Kigali participates in promoting income generating activities for the community	78	3.452	1.298
Bank of Kigali participates in the provision of clean water and other basic needs to the community	78	2.560	0.968
Bank of Kigali participates in the maintenance of parks, roundabouts and other essentials in towns	78	1.562	0.712
Bank of Kigali organizes entertainment events to the community	78	1.960	0.968
Bank of Kigali sponsors sporting events and charity walks	78	2.360	0.802
Bank of Kigali engages in charity giving to the community activities	78	2.520	0.760

As presented in Table 1, the respondents strongly agree that Bank of Kigali promotes income generating activities (mean = 3.452 SD = 1.298) Community relations moderately practiced from the responses include; sponsors sporting events and charity walks (mean = 2.360, SD = 0.802), engages in charity giving to the community activities (mean = 2.520, SD = 0.706), provision of clean water and other basic needs to the community (mean = 2.560, SD = 0.968) The respondents disagree that Bank of Kigali is involved maintenance of parks and roundabouts and other essentials in towns (mean = 1.562, SD = 0.712) and organizes community entertainment events (mean = 1.960, SD = 0.968).

The study findings are in harmony with the study of Berman et al. (2009) who noted negative relation between CSR towards the community and firm performance, but other studies observed that investments in community development activities help a firm to obtain competitive advantages through tax savings, decreased regulatory burden, and improvements in the quality of local labor (Waddock & Graves, 2009). Also, firms should take initiatives by conducting campaigns, seminars, workshops and giving donation to the society. This enables a company to meet its CSR commitment and indirectly acts as a marketing and promotional strategy. As the result, higher market share can be obtained, which lead to higher revenues from larger sales. Policies, strategies and programmes that are associated with social activities can be used to indicate the level of CSR's commitment of an organization (Chamhuri & Noramelia, 2014).

4.1 Hypothesis testing:

The research used multiple regression analysis to determine the linear statistical relationship between the independent and dependent variables of this study. The null hypothesis as stated in chapter one of this study was tested using regression models

Test of hypothesis: *There is no significant relationship between* community-based practices and performance of Bank of Kigali.

The linear regression model shows $R^2 = 0.425$ which means that 42.5 percent change of performance of Bank of Kigali can be explained by a unit change of community-based practices. The result is shown in Table 2.

Table 2: Model summary on community-based practices

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.660[a]	.438	.425	. 55126
Predictors: (Constant), community-based activities,				

From the results there is an indication that one-unit change in community-based practices translates to 42.5 percent change in performance of Bank of Kigali therefore community-based practices has a positive influence on how Bank of Kigali perform.

Further test on ANOVA shows that the significance of the F-statistic (22.692) is less than 0.05 since p value, p=0.00, as indicated in Table 4.13. This implies that there is a positive significant relationship between community-based practices and banks performance in Rwanda.

Table 3: ANOVA results of community-based practices ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10.049	1	10.049	22.692	.000[a]
	Residual	13.521	43	.335		
	Total	23.57	44			
b. Independent Variable: Community-based activities,						
c. Predictors: (Constant), Bank performance						

Also, further test on the beta coefficients of the resulting model, Community-based activities has a positive and significant relationship with banks performance ($R^2 = 0.438$, $F (1, 43) = 22.692$, $p =.000$). It shows that 43.8% of the variation in banks performance is explained by Community-based activities. Further the Community-based activities has a positive and significant relationship with banks performance ($\beta= 0.425$, $t= 4.754$, $p < .005$) therefore, H_1 is accepted.

Table 4: Community-based activities Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.012	.402		5.071	.000
	Community-based activities	.425	.105	.370	4.754	.000
a. Dependent variable: Bank performance						

Community relations increase organizational productivity. This study finding agree with the study of Chamhuri and Wan Noramelia (2014) indicated that the CSR's policy implementation in business can also be influenced by fair commercial practices such as advertising, aggressive marketing and after-sales services between businesses and customers.

5. CONCLUSIONS

The main aim of this study was to investigate the influence of corporate social responsibility practices and performance of commercial banks in Rwanda. The study was grounded on corporate social responsibility theories that are based on the argument that business and society are interwoven rather than separate entities. While ranking the corporate social responsibility practices, the study identifies on a Likert scale of one to five that amongst the firms, the commonly adopted practices in their ranking order are community-based activities.

Correlation analysis results infer an average positive relationship between community based and organizational performance. These associations were established to be statistically significant.

5.1 Recommendations:

The main aim of this study was to investigate the influence of corporate social responsibility practices and performance of commercial banks in Rwanda.

The study recommends that firm managers should ensure that community projects costs should be initiated to benefit the community in order to feel a sense of belonging. A perception of 'ethical' improves a company's reputation and attracts socially responsive investors. Thus, philanthropy and competitive advantage becomes mutually reinforcing virtuous cycle.

Further, employee relations practices should be encouraged at policy levels to ensure existence of a productive and motivated workforce.

Since variations in CSR practices influence variations in corporate performance, the study recommends that policy makers should provide guidelines and framework for CSR activities for the stakeholders. The guidelines should include motivational schemes to encourage firms to engage in CSR initiatives.

5.2 Areas for Further Research:

This study focused on commercial banks in Rwanda which are considered to be large enterprises. Further studies should focus on small and medium enterprises that also play a role of social responsive initiatives. It may be necessary to carry out a study comparing the performance of large firms and small firms. The further studies should also consider non-financial performance indicators of firms.

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