

ABSTRACT

Sustainable development and reduction of poverty are the key issues that need to be addressed by the governments, mostly in the developing world which include Kenya. Corporate social responsibility (CSR) becomes an element that addresses these issues and therefore it becomes more vital in the daily operations of financial institution in the banking industry who is a key player in sustainable development. According to commercial banking crisis in Kenya survey report (2013), banking industry has been experiencing several challenges including non-performing loans and low credit services among many other challenges. Banks in Homabay County have not been left out of these challenges and despite several strategies being employed to curb the same, the problems continues to exist. CSR can be used to rectify this problem but studies before have not addressed effect of CSR on banks performance. Therefore there is little knowledge on the effect of CSR on banks performance particularly in Homabay County. The main objective of this study was to determine the effect of corporate social responsibility on performance in banking industry within Homabay county. The specific objectives of this study was to investigate the level of influence of philanthropic CSR activities on banks performance, to establish the extent of environmental focused CSR activities on banks performance and to investigate the effect of ethical CSR on performance of these banks. This study used correlation survey design. A population of 150 bank employees and bank management was used. Both primary and secondary data were used. The questionnaires were the main instrument of data collection. Experts and surveyors were used to validate research tools. Reliability was tested by analyzing pilot data obtained by pilot testing. Data was analyzed using multiple regressions. The results were then presented in forms of tables and charts. Results of the study would be useful to the government and policy makers for making some critical decisions and implementing the right policy based on the outcome of this study. The study findings are that $\beta_1 = 0.299$, meaning that an increase in one unit of bank philanthropic responsibility will result to a significant increase in bank performance by 0.212 and $\beta_2 = 0.479$ suggesting that , an increase in one unit of bank ethical responsibility would result to a significant increase in bank performance by 0.412. $\beta_3 = 0.108$ indicating that an increase in unit of environment focused activities would result to an increase of 0.108 in performance of the bank. The study therefore concluded that financial institutions should operate outside their normal business activities to support the community. Improving the livelihood of a community attracts volunteers, investors and sponsors who will help a commercial institution achieve its objectives towards community needs. Finally, the researcher recommends that shareholders views be considered regarding how much the firm should invest on social course annually and the nature of CSR activities to be undertaken.