

**CORPORATE SOCIAL RESPONSIBILITY AND
COMPANY'S PROFITABILITY
AN EQUITY BANK KENYA
CASE STUDY**

**BY
KINYA DOREEN KIAMBI
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DECLARATION

I, Kinya Doreen, declare that this research report is my own work and that it has never been submitted before by any other researcher, in any other institution of higher learning for any purpose

Name: Kinya Doreen

Signature:

Date:

APPROVAL

I, the undersigned certify that I have read and here recommend the acceptance by Kampala international university a research project entitled impacts or corporate social responsibility on a company's profitability, an equity bank Kenya case study, in partial fulfillment of the degree in international business administration at Kampala international university.

Name: Mr Baliruno John Baptist (supervisor)

Signature: 

Date: 24/07/09

DEDICATIONS

This research report is dedicated to my beloved parents (dad) Mr. Griffith Kiambi Kiugu and mum Mrs. Priscilla Kajuju Kiambi, my brothers Eric Gitobu Kiambi and Steven Mugambi Kiambi, my sister Caroline Rima Kiambi, my grandmother Edith Muthoni Kiugu, all my uncles, aunties, cousins and friends for the contributions and continuous support they have offered towards the writing of this book. It's also dedicated to all my classmates for the criticisms, support and guidance they gave me during the writing of this book.

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LIST OF ABBREVIATIONS

CSR – corporate social responsibility

HR - human resource

CSP- corporate social programs

ABSTRACT

Corporate social responsibility (CSR) is an issue that is receiving top attention in most organizations in Kenya today. Many organizations have taken CSR as a competitive tool and they are using their social responsibility reports to market themselves and gain more market share. In contrast some organizations today still believe that the only corporate social responsibility and that is to maximize profits within the law. They argue that CSR costs money and is not good business.

This study was undertaken to determine impacts of CSR on a company's profitability. The study covered the employees, managers and share holders of EQUITY BANK KENYA. A sample of respondents (employees' managers and share holders) was selected through random sampling method and used in this study. The employees and managers came from different departments such as finance and accounts, marketing, customer relations, human resource, and other departments in the bank and questionnaires were distributed. When returned these questionnaires were analyzed and later a report was compiled.

After analysis the data was presented in tables and charts. It was found out that most respondents (employee's managers and share holders) believed that CSR improved a company's profits in the long run. The majority of the respondents supported corporate social programs conducted by the company and had actually taken part in corporate social responsibility programs.

The major challenge that was facing the implementation of corporate social programs was cost factor and also lack of qualified personnel to perform some of the social programs that required specialized expertise.

The study revealed that CSR improves profitability.

CHAPTER ONE

1.0 INTRODUCTION

This chapter entailed the brief background of the topic which was under study, a brief background of the case study, a statement of the problem, objective of the study, scope of study, significance of study as well as limitations of study. It also justified the significance of corporate social responsibility (CSR) and its impacts on a company's profits.

1.1 Background of the study

Corporate social responsibility is a concept with decades old roots. In the 19th and early 20th centuries, the prevailing view among many industries was that business had only one responsibility: to make profits, "the public be damned" said railroad tycoon William Vanderbilt "I am working for the share holders." Caveat emptor was the rule of the day_ "let the buyer beware." If you bought a product you paid the price and faced the consequences. No consumer group or government agencies could help you if the product caused any harm or was defective. Mescom, Thill and Boove (2001: 49)

By the early 20th century, however reforms were beginning to push politicians and government regulators to prevent citizens from abuses by businesses. Their efforts paid off and laws were passed to ensure purity of foods and drugs, limited the power of monopolies and this prevented unfair business practices among other reforms. Mescom, Thill and Boove (2001: 49)

During the great depression, which started in 1929, 2590 of the workforce was unemployed. Many people lost their faith in capitalism and the pressure mounted for government to fix the system. At the urging of President Franklin D Roosevelt, congress passed laws in the 1930s and 1940s that established the social security system, allowed employees to join unions and bargain collectively, set minimum wage and limited the length of workweek. The new laws prevented unfair competition and false advertising and stated the Securities and Exchange Commission (SEC) to protect investors. Mescom, Thill and Boove (2001: 49)

Public confidence in business revived during world war II and throughout 1950s the relationship between business, government and society was relatively tranquil. However the climate shifted in the 1960s as activism exploded four fronts, environmental protection, national defense, consumerism and civil rights. The movements have drastically altered the way business is conducted. Many changes have been made willingly by socially responsible companies and others have been forced by the government action and still others have come about because of pressure from citizen groups. Mescom, Thill and Boove (2001: 49)

Today's businesses are about more than just making products and profits. Organizations are subsystems of society thus they owe the society certain responsibilities and one of them is to ensure that they don't cause any damage to the society but instead contribute to its development. Kristina et al (2001)

In Kenya there are a wide variety of social problems raging from different kinds of pollution to others such as: poverty, HIV/AIDS, insecurity, famine, discrimination, and child labor. Some companies still produce substandard goods and harsh working conditions for their employees.

It has been observed today that many organizations have adopted CSR as a competitive advantage. Companies that have adopted this line of thinking link the pursuit of socially responsible goals with their over all strategic planning. Such socially responsible companies are just as dedicated to building a viable profitable business as they are to hewing to a mission and they think strategically to make both happen. Increasingly companies and communities are caring about communities and want to be part of the grater cause. They want to be good corporate citizens and satisfy share holder needs for a return on their investments. Still finding the right balance can be challenging.

1.2 Background of the case study

Equity Bank Group has continued to deliver strong growth in revenue and profitability amid prevailing global recession. Equity Bank Limited was established as Equity Building Society in 1984 under the Building Societies Act, Chapter 489 of the Laws of Kenya. In December, 2004 the Society was converted into a banking institution and registered under the Banking Act, Chapter 488 of the laws of Kenya.

Equity's core business is mobilizing savings and term deposits and its niche market comprises micro and small enterprises, salaried employees and small scale farmers. Currently, the bank has a client base of about 500,000 account holders and 80,000 borrowers; a deposit base Ksh 6 billion and a loan portfolio of Ksh 3.5 billion. of 22 branches as well as a mobile network of 44 units operating once a week. Equity is currently the biggest bank in Kenya in terms of accounts-over 2.8 million accounting for over 48% percent of all bank accounts in the country supported by a 90 branch network, 350 automatic teller machines and 2500 Points of Sales.

Equity Bank has continued to obtain strong ratings both locally and internationally. In 2008 both the Bank Survey and the Renaissance Capital Awards in Kenya ranked Equity Bank as the best bank in Kenya among 41 other banks. Equity Bank has continued to pursue its vision and mission of taking affordable banking services closer to the people by constantly developing innovative products and services and spreading its presence to all parts of the country, and now East Africa. Solid capital base, robust IT system, growing customer base, strong liquidity and good corporate governance are among factors cited for the bank recognition both locally and internationally

Stakeholders

- Shareholders
- Depositors
- Clients
- Employees
- Regulatory authorities

- The Government of Kenya
- Financiers
- Development Partners
- The Community

Vision

To be the preferred micro-finance services provider contributing to the economic prosperity of Africa.

Mission

To mobilize resources and offer credit to maximize value and economically empower the Microfinance clients and other stakeholders by offering customer focused quality financial

Service

Core values

- Professionalism
- Integrity
- Creativity and innovation
- Teamwork
- Unity of purpose
- Respect
- Effective corporate governance

1.3 Statement of the problem.

Equity bank has been taking part in corporate social responsibility programs yet it has misunderstood the whole concept of CSR just like many businesses in the business world today, it views it as a stalking horse for an anti-corporate agenda. Something which, like original sin they can never escape. They fail to link social responsibility with profitability which is the main objective of their existence. Therefore it's not surprising that the company may sometimes act irresponsibly towards customers and other stake holders in it's zeal to please investors.

1.4 Objective of study

The main objective of this study was to establish the relationship between corporate social responsibility (CSR) and a firm's profitability. The other objective was to find out both the positive and negative impacts of corporate social responsibility on firms resources as it strives to achieve its goals which are profit maximization, share holder wealth maximization and cost minimization. Others were:

- To find out the social responsibilities of businesses
- To find out attitudes of managers, stake holders and employees towards CSR and its impacts on a firms profitability.
- To find out obstacles that prevented firms from taking part in CSR programs.

1.5 Research questions

- 1 What are the social responsibilities of businesses?
- 2 What are the impacts of CSR programs on the organizations profits?
- 3 How does the companies stake holders view CSR?
- 4 How can resources be allocated to solve social problems?

1.6 Research hypothesis

- 1 CSR programs greatly impacts a companies profits.

- 2 Companies that take part in socially responsible activities improve their corporate image and use that as their competitive advantage against those companies who don't take part

1.7 significance of study

In the past decade there has been a lot of debate on what CSR is and its relevance in businesses. Many companies have failed to see its relevance and merely see it as the responsibility of the government.

This study was intended to review the impacts of CSR on profitability. This was to ensure companies feel motivated to go beyond obligations required by law contract and do it voluntarily. Today people don't only look at what business does for the community but also what it can do for the society. Therefore this study is important to:

1. Business managers and stock holders because it as to enable them know the social responsibilities of their companies and the impacts on their companies profitability.
2. It was important to the external stakeholders (customers, suppliers and the society as a whole) because it was to enable them know the business obligations to their well being.
3. It was important to the business community as a whole especially the banking sector as it would increase awareness and show the need for CSR as it boosts profitability
4. It was also important to the other researchers, learning institutions, and individuals who would like to further the research on the impacts of corporate social responsibility on a company's profits.

1.8 scope of study

The study was conducted at EQUITY BANK (Kenya) and it mainly focused on employees, stock holders, and management view of CSR and its impacts on the company's profits.

The findings were expected to show how managers, employees and stock holders attitudes towards CSR and its impacts on profits.

They were also expected to evaluate how stake holders perceived socially responsible companies.

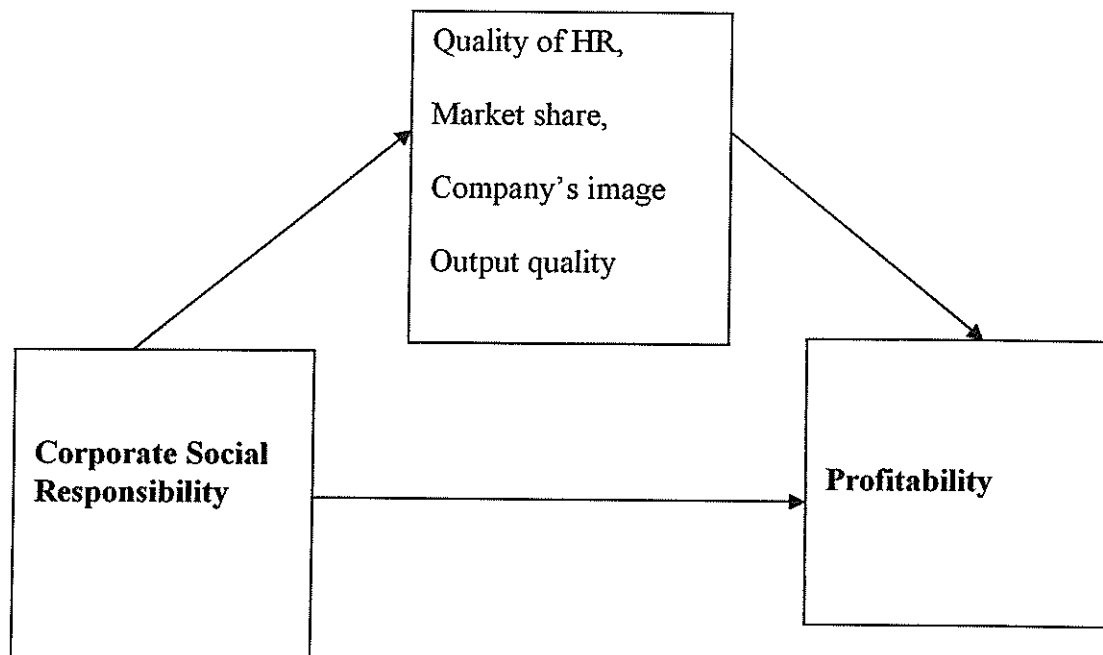
1.9 limitations of study

While carrying out this research project, I faced a number of constraints such as the limited finances which limited my data collection process as I traveled to obtain data and distribute my questionnaires. Short research period is also compromised my findings since I was expected to submit my dissertation by August. Biased feedback from my respondents may also have limited the accuracy of my findings.

1.10 Conceptual framework

CSR generally calls upon organizations to improve the welfare of the organization as a whole and it can either be internally focused. If internally focused it centers on all HR functions while when it's externally focused it's broken into two; community based and environmentally based CSR. This research focused on the impacts of both externally focused CSR and internally focused CSR on a company's profits. In relation to the topic of study the researcher was trying to investigate and find out the extent to which a company's profitability depended upon CSR activities. Therefore, CSR was the independent variable while profitability was the dependent variable.

Fig 1 Conceptual Model



2.11 Definition of terms and abbreviations

CSR (CORPORATE SOCIAL RESPONSIBILITY) Lord Holme and Richard Watts used the following definition. "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large"

HR (HUMAN RESOURCES) these are the workers in the organization. They represent one of the organization's most important assets because they directly influence the quality of output

STAKEHOLDERS are any group or individuals who can affect or can be affected by the achievement of organizations objectives. They include investors, workers, suppliers, customers and the society at large.

SHARE HOLDERS are the people who own shares in an organization

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter justified the concept of social responsibility by businesses. Corporate social responsibility (CSR) can help create and maintain effective relationships with stakeholders. It isn't about being "right on", or mounting an expensive publicity exercise. It means taking a responsible attitude, going beyond the minimum legal requirements and following straightforward principles that apply whatever the size of the business. It's a way businesses give back to the community by helping them solve problems that affect them such as poverty, pollution drought HIV/ADS, etc.

2.1 RELATED LITRATURE

Social responsibility is management acceptance of the obligation to consider profits, customer satisfaction, and societal well being of equal value in the evaluation of a firm's performance. It is the recognition that business must be concerned with qualitative dimensions of customer employee and societal benefits as well as quantitative measures of sales and profits by which business performance is traditionally measured. Boone and Kurtz (2003:60)

It's the attempt of businesses to balance their commitment to relevant groups and individuals in its social environment including customers, other businesses, employees, investors, and local communities. Ronald and Ricky w griffin (2005:45)

Goyder argues "industries in the 20th century can no longer be regarded as a private arrangement for enriching shareholders. It has become a joint enterprise in which workers, management, consumers, the locality, government and trade officials all play a part. Francis cherunilam (2001)

Corporate social responsibility involves considering all stakeholders while making business decisions that manage stakeholder's relationship and interest in balance with the profit motive of the enterprise. This concept is intended to help business managers to

understand the growing leverage of social issues and aspirations in the corporate environment. Leo Kibirango (2005).

Corporate social responsibility takes various names and forms depending on the organization. The most common include; work place welfare, environment stewardship, community engagement, and government and work place responsibility. Jane Gitau (2005)

Government regulation and public awareness are external forces that have increased the social responsibilities of businesses. Decisions are however made within the firm and their social responsibility begins with the attitude of management. Two contrasting philosophies or models define the range of management attitudes towards corporate social responsibility; the economic model and social economic model.

According to the traditional concept a firm exists to provide quality goods and services, earn responsible profits and provide jobs. In line with this concept the economic model of corporate social responsibility holds that the society will benefit most when business is left alone to produce and market profitable products that the society needs. Managers who concentrate on profits believe that they fulfill social responsibility through taxes paid by their firms.

In contrast some managers believe that they have responsibility not only to stock holders but also to customers, employees, suppliers and the general public. Recently increasing numbers of managers are adopting the social economic model and they do so for at least three reasons

1. Business is a dominated form of ownership and the corporation is a creation of a society. If a corporation does not perform as a good citizen, society can and will demand changes.
2. Many companies have begun to take pride in their social responsibility records

Many businesses believe that it is in their best interest to take initiative in this area.

2.1.1 Theories of corporate social responsibility

According to Joseph Desjardins (2002) the following are the theories of corporate social responsibility.

- The classical theory of CSR pioneered by Milton Friedman and Adam Smith says businesses have only one responsibility, “maximizing profits.”
- New classical theory of CSR (the moral minimum) _doing good is something businesses should be encouraged to do but not obliged to do.
- The social contract theory of CSR arises from terms and conditions of the contract between businesses and the society. This theory holds that share holders have a predominant right over and control of the organization because they are the residual risk bearers behind the conduct of businesses.
- Stake holders’ theory of CSR_ Corporation should be operated for the benefit of all who have stake holders’ direct claim in the enterprise. Joseph Desjardins (2002)

2.1.2 Social responsibilities of businesses

Businesses have a number of responsibilities, At the same time as a business pursues profit (economic responsibility), it is expected to obey the law (legal responsibility); to do what is right, just and fair (ethical responsibility) and also to be a good corporate citizen (corporate social responsibility). Ferrell and Hirt (1996

Below is a pyramid of the corporate social responsibilities of businesses.

Fig 2 corporate social responsibilities of businesses



Ferrell and Hirt (1996)

The CSR represents the voluntary responsibilities of companies that is being good corporate citizens and contributing to community and quality of life, under it is the ethical responsibilities of businesses which means doing what is right, just and fair, next is the legal responsibility of businesses: obeying the law (society's codification of what is right and wrong) and finally the economic responsibility: being profitable. Ferrell and Hirt (1996: 62).

Responsibilities of businesses to the general public, customers, employees and investors

Business responsibilities to the general public

Business responsibilities to the general public are classified into four: public health issues, protecting the environment, developing quality workforce and corporate philanthropy.

Public health issues: This is the most complex issue facing business as it addresses its social responsibilities to the general public. Questions of what the business should do about products that are inherently dangerous like tobacco, alcohol and hard drugs are yet

to be answered and the onslaught AIDS that has forced companies to educate their workers about how to deal with employees and customers who are infected.

Protecting the environment: businesses consume a lot of energy which increases the use of fossils like coal and oil for energy production, this introduces carbon dioxide and sulfur into the earth's atmosphere causing air pollution; companies are trying to find alternatives to toxic solvents. Companies are introducing recycling and reusing as well as green marketing strategy that promotes environmentally safe products and production methods.

Developing quality workforce: Companies face enormous responsibilities for helping women, members of various cultural groups and those who are physically challenged to contribute fully to the economy; Failure to do so devastates' a firms public image.

Corporate philanthropy: this includes cash contributions, donations of equipment and products to social and charitable organization and volunteerism

Business responsibilities to customers:

Business responsibilities to customers: one of the responsibilities of businesses is to satisfy customers by providing them goods and services of real value. This responsibility is not as easy as it seems. Products should be produced to ensure safety; proper warning labels should be attached to products to prevent accidents that could result from misuse. For some products possible side effects should be provided. Firms should also avoid using aggressive sales strategy or deceptive advertising in order to boost sales.

Business responsibilities to stock holders

Business responsibilities to stock holders Businesses need to satisfy their owners' wants by maximizing profits ethically. Sometimes employees are tempted to make decisions that satisfy their own interests than those of their owners. For example employees may use the firm's money to purchase personal computers for their own use rather than for the firm.

Business responsibilities to employees:

Business responsibilities to employees firms have the responsibility to ensure work place is safe by closely monitoring the production process. Some obvious safety precautions are to check machinery and equipment for proper working conditions. Firms are responsible to ensure that employees are treated properly by other employees. Two of the key issues are diversity and the prevention of social harassment. Also employees who apply for position at a firm should not be discriminated because of their national origin, gender or religion

2.1.3 Steps to corporate social responsibility

Below are the ten step suggested to help a firm practice corporate social responsibility

- Involve employees in decision making
- Create opportunities for employees ownership and profit sharing
- Promote from within and institute fair and open management practices
- Develop an employee volunteer program
- Practice the 3 R' _reduce, reuse and recycle
- Develop a ethical purchasing policy
- Donate 1% of pre-tax profit back to the community
- Work in partnership with the community groups to achieve mutual goals
- Audit social and environmental performance
- Be profitable

2.1.4 Arguments supporting corporate social responsibility

Advocates of CSR argue that companies must pursue a wide range of goals including social responsibility that ultimately lead to the survival of the organization. A narrow focus on producing goods and services for profit may impair a company's performance in the long run and may result in failure to survive. In fact corporate social responsibility can have a positive impact on a firm's performance. Research indicates that CSR is related to higher financial performance and ability to recruit better quality application. That's according to Gomez-Mejia and balking (2002)

Business helped create many of the social problems that exist today such as pollution and so it should play a significant role in solving them. Businesses should take part in solving social problems because they in one way or the other contribute to them. Ferrell Hirt (1996)

Business has technical, financial and managerial resources needed to tackle today's complex social issues. By helping resolve social issues, business can create a more stable environment for long-term profitability. Ferrell Hirt (1996)

Business is part of the society so it cannot ignore social issues. Companies should contribute to healthy social conditions to ensure that the society from which they earn their profits will remain so in future. Ferrell Hirt (1996)

Business must not only enjoy its social environment but also work to sustain the social home in which it lives. In so doing it builds a hospitable environment for tomorrow's business. Companies with high social consciousness further their own goals when they help strengthen social structure. Ferrell Hirt (1996)

Social responsibility is necessary to ensure economical survival. If businesses want educated, health employees, customers with money to spend and suppliers with quality goods and services in years to come they must take part to solve the social problems that exist today. Ferrell Hirt (1996)

Socially responsible decision making firms can prevent government interventions which would force businesses do what they fail to do.

2.1.5 Arguments against increased social responsibility

Business managers are primarily responsible to stock holders, so management must be concerned with providing returns on owners' investment. Ferrell Hirt (1996).

Corporate time, money and talent should be used to maximize profits not to solve societal problems.

Social problems affect society in general so individual business should not be expected to solve these problems.

Social issues are the responsibility of the government officials who are elected for that purpose and who are accountable for votes for their decisions.

It sidetracks managers from the primary goal of business _earning profits. Any dollar spent in solving social problems is a dollar less for owners and investors. Ferrell Hirt (1996)

2.1.6 Effects of social responsibility on a firms profitability

Positive effects of corporate social responsibility on a company's profitability:

Limiting the waste produced by a factory, creating safer working conditions for personnel or introducing products to the market that have not involved child labor are all matters that affect company profits. The other side of the coin is that corporate social responsibility (CSR) increases the value of a company and responsible business practices can prove profitable in the long run. Lammertjan Dam (2008).

Goodwill

Current literature reveals a paradox by differentiating between the profits and the value of an enterprise. CSR costs money and thus reduces profits, but there is another type of value that should also be taken into account. 'There is no trade value in a healthy environment or better working conditions, but there is appreciation. That appreciation can influence market forces via investors.' Investors prefer not to invest in companies who engage in child labor or ignore environmental factors. This is not always because

investors themselves consider these matters important, but also because 'irresponsible' behavior is actually very risky behavior. Responsible entrepreneurs will thus create some form of goodwill with investors. As a result, although CSR may not result in instant profits for a company, in the long run it will increase the final value of the enterprise. Lammertjan Dam (2008).

Image

Business will gain better public image by being socially responsible, this means more customers, more sales of products, better employees, better stock market performance and easier access to capital market to raise funds for expansion. This business will gain competitive advantage over its rivals who don't have good public image. All these will boost the profitability of a company.

Customers

Customers will eventually find out which firms are acting socially responsible and which are not and just as easily as they cast their dollar votes for a product produced by a company that is socially responsible, can they cast against a firm that is not. This also boosts profits.

In conclusion, firms that are ranked highest in terms of their records on variety of social issues have greater financial performance as well as better operating income growth, sales-assets ratio, sales growth, returns on equity, earnings to asset growth return on investment, returns on assets and asset growth. The role of corporate businesses is not for business alone but also in the sense of sales, profit, share of the market and responsibility. CSR provides a mechanism where aspects of business can be sustained and supported. It also helps consider the ethical considerations of the wider society framework in which they operate.

In the end the organization should end with a social audit document of its performance in the respective CSR programs and should try to fulfill its social obligations. Most organizations notably haven't been successful in carrying out social auditing hence the need arises to assess uptake of the CSR projects. This counts for both internally and externally focused CSR

CHAPTER THREE

METHODOLOGY

3.0 Introduction

The focus was on equity bank limited (Kenya) because it was the most convenient for the researcher to collect both descriptive and explanatory data on its involvement in corporate social responsibility and the impacts that involvements has had on its profitability.

This design was selected since it was economical in time and funds that were available.

3.1 Population

The total population comprised of all the personnel at equity bank. This included the employees, managers and other shareholders (investors) who formed part of the population.

3.2 Sampling design and technique

A sample of employees' managers and share holders was selected through random sampling method and were used in this study. These (employees and managers) come from different departments such as finance and accounts, marketing, customer relations, human resource, and other departments in the bank.

Names for each department were obtained after authorization and from these names a sample was selected randomly from an alphabetically arranged list of each of the departments.

3.3 Data collecting technique

Both primary and secondary data was obtained for this study. The primary data was acquired through questionnaires that were administered to the respondents while the secondary data was obtained from company's publications records and the company's official website.

The instrument that was used to gather data for this study was questionnaires that were designed to include structured and unstructured questions which were scaled so as to get

the respondents opinion on effects of CSR on a firm's profitability and beliefs on CSR programs.

3.4 Data collection procedure

Primary data was collected for the study using self administered questionnaires which were handed down to the various departments and offices through the company's communication channel.

3.5 Data analysis and presentation

Data collected was analyzed using descriptive and statistical techniques such as tables, frequencies and means. In measuring the respondents' attitudes toward the impacts of CSR on the firm's profitability, a score of numbers were developed from researcher's data which indicated the respondent's answer by using scale type questions.

To do the analysis, the weights for the attitudes scale were:

- Strongly agree with the statement (5)
- Agree with the statement (4)
- Neutral attitude (3)
- Disagree with the statement (2)
- Strongly disagree with the statement (1)

In the end an attitude index was calculated by subtracting the percentage (%) of the respondents who agreed with the statement (4&5) from those who disagreed with the statement (1&2). The neutral score (3) was ignored since it was indifferent.

CHAPTER FOUR

ANALYSIS

4.0 Introduction

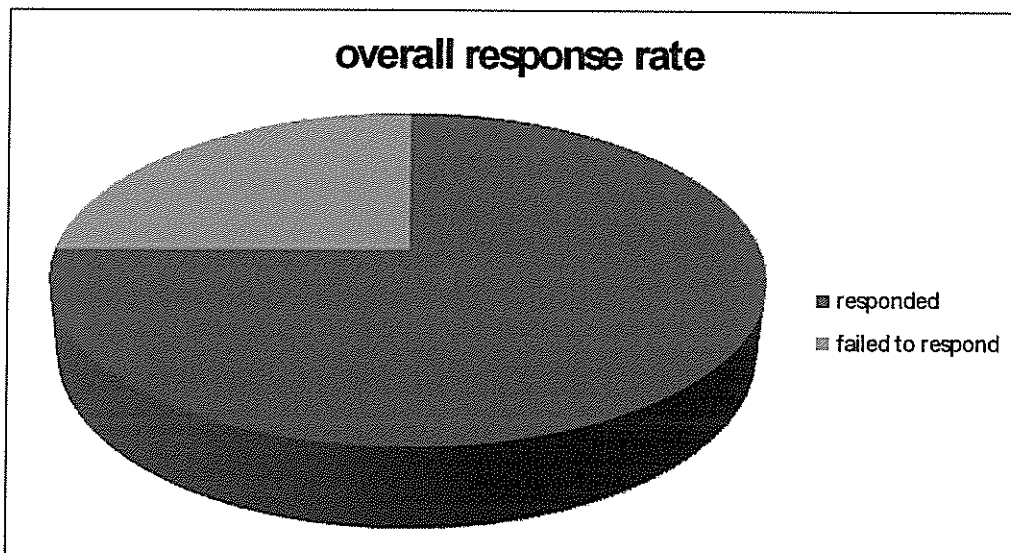
In this chapter, the data from filled and completed questionnaires was summarized and presented in form of figures to test hypothesis. The population comprised of 20 respondents, (5 departmental managers, 10 employees and 5 share holders). The researcher gave 20 copies of the questionnaires. Only 15 respondents returned full filled questionnaires in good time. This represented an overall response rate of 75%.

The failure to get 100% response could be attributed to the short notice of two weeks that was given for them to fill and return the questionnaire.

4.1 over all response rate

Below is a pie chart representing the overall response rate

Fig 3: Overall response rate



Source: respondents of equity bank (2009)

4.1.1 Response rate from different departments

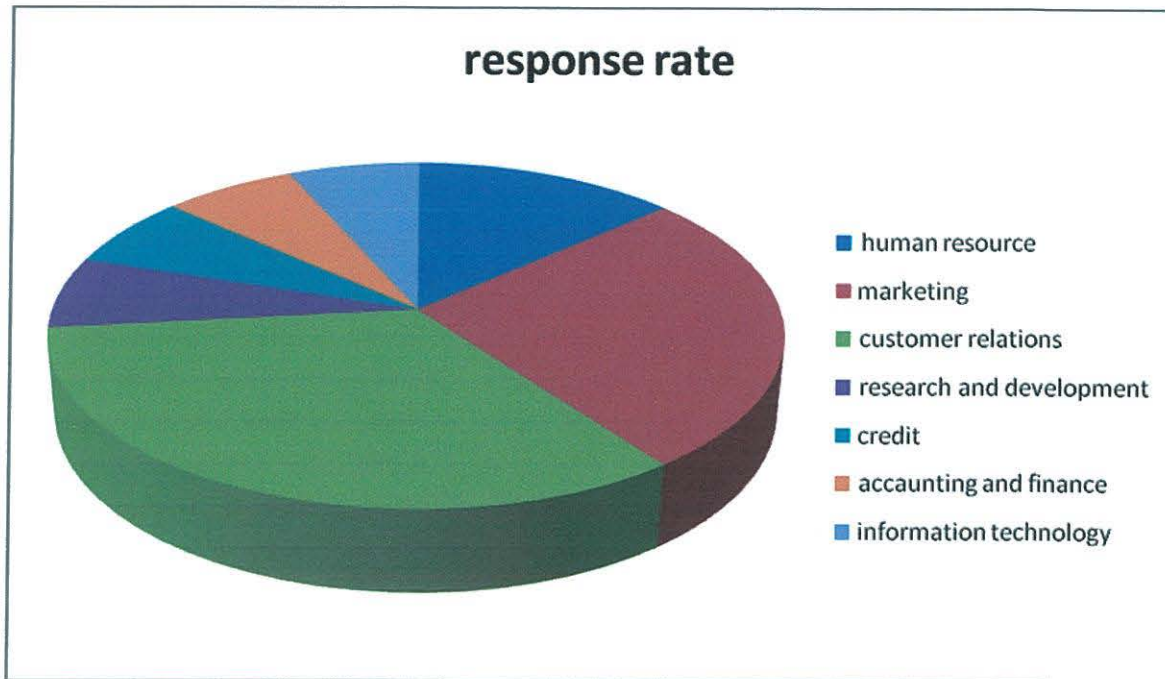
The table below shows how respondents responded in the various departments at Equity bank. The total number of questionnaires distributed to employees were 20 any only 15 questionnaires were returned fully filled and on time.

TABLE 1 Response rate from different departments

DEPARTMENT	FREQUENCY	PERCENTAGE
Human resource	2	13.33
Marketing	4	26.66
Customer relations	5	33.33
Research and development	1	6.66
Credit	1	6.66
Accounting and finance	1	6.66
Information technology	1	6.66
TOTAL	15	100

Source: respondents of equity bank (2009)

Fig 4 response rates at different departments



Source: respondents of equity bank (2009)

From the above illustrations it's evident that the highest response rate came from the customer relations department (33.33%) followed by marketing department (26.66) and then human resource department (13.33%) followed. In the other departments the response rate was 6.66%. when this data is closely examined it can be established that the customer relation department and the marketing department as well as the human resource department response was high because these are the departments that take part directly in CSR activities and also interact directly with stake holders who act as watch dogs watching out for socially responsible as well as socially irresponsible companies.

4.2 Respondents attitude towards CSR and their view on its impacts firms profitability

In accessing the respondents (management, employees and share holders) attitude towards corporate social responsibility and their view on its impacts a firm's profitability, 20 statements were generated and a five point scale was used to assess their attributes. Those respondents who (strongly agreed) and (agreed) with the statement scored (5) and (4) respectively while those who (strongly disagreed) and (disagreed) with a statement scored (1) and (2) respectively. To gauge the respondents attitude, an attitude index in the last column of the table was calculated by subtracting from each attitude statement the percentage of respondents who agreed with the statement (scores 4&5) from the percentage of respondents who disagreed with the statements (scores 1&2). The neutral score was ignored for the purpose of this calculation because it was indifferent.

A positive index indicated that the respondents found the statement favorable.

Taking statement (f) "in helping to resolve social issues businesses can create a more stable environment for long-term profitability" from table two below as an illustration, 40% and 40% (a total of 80%) scoring 5 and 4 while 10% and 0% of respondents (a total of 10%) agree with the statement, scoring 2 and 1 respectively. Thus by subtracting 10% from 80% an attitude index of 70% which concluded that in general the respondents found the statement favorable. The 10% or respondents who had a neutral attitude were left out of this calculation of attitude because they were indifferent.

TABLE 2: Respondents attitude towards corporate social responsibility

STATEMENTS	5	4	3	2	1	INDEX
a) All companies have corporate social responsibilities.	30%	40%	10%	0%	0%	80
b) I like being associated with a company that takes part in CSR	40%	40%	10%	0%	0%	80
c) the only social responsibility of businesses is to make profits	10%	20%	10%	30%	30%	-30
d) Businesses have technical, financial and managerial resources needed to solve today's social problems.	20%	30%	30%	10%	0%	40
e) social problems affect the society in general and so individual businesses should not be expected to solve these problems	10%	20%	10%	20%	40%	-30
f) In helping to resolve social issues businesses can create a more stable environment for long-term profitability	40%	50%	10%	0%	0%	90
g) Companies with high social consciousness further their own goals when they help strengthen the social structure	30%	40%	10%	10%	0%	60
h) social problems can be seen as business opportunities	20%	20%	40%	10%	0%	30
i) businesses have contributed to social problems and so they are obliged to solve them	20%	30%	10%	20%	10%	20
j) Organizations engage in social	20%	30%	10%	10%	10%	30

programs not to generate customers but to promote the well being of the society						
k) I support the companies contributions towards solving social problems	30%	40%	0%	10%	0%	60
l) I have been involved in social responsibility activities	30%	40%	0%	10%	0%	60
m) the governments need to set the minimum corporate social responsibility conditions and standards	20%	40%	10%	10%	0%	50
n) social problems are the responsibility of government agencies and officials who can be held responsible by voters	0%	10%	40%	20%	20%	-30
o) taking part in social responsibility has improved the companies public image	40%	30%	10%	0%	0%	80
p) corporate social responsibility is a program that firms should be encouraged to take part in but not what they are obliged to do	10%	10%	10%	20%	30%	-20

Source: respondents of equity bank (2009)

5 = strongly agree

4 = agree

3 = neutral

2 = disagree

1 = strongly disagree

The computed attitude for the sixteen statements indicated that the respondents had a positive attitude towards corporate social responsibility since all indexes of statements supporting corporate social responsibility are positive. From the above table it is evident

that most of the respondents in equity have a positive attitude towards CSR. The strongest positive attitude is that which states that “In helping to resolve social issues businesses can create a more stable environment for long-term profitability” this shows that majority of respondents (employees, managers, and stake holders) believe that CSR ensures long-term profitability. This statement scored an index of 90.

The negative indexes found in analyzing the statements indicate that respondents supported CSR that’s the reason why all the statements that were against CSR scored a negative index. The respondents were aware of the importance of the CSR programs the company engages in hence the positive attitudes towards the same.

4.3 Types of CSR programs that the company takes part in.

While carrying out the research, the researcher discovered that equity bank Kenya has both internal social programs and external ones

4.3.1 The internal social programs

The internal social programs are the programs that the company offers internally to fulfill its social obligations to its employees. The company’s social responsibility to employees is that it ensures that the work place is safe by checking machinery and equipment for proper working conditions; it also ensures that employees are treated properly by other employees and avoids any form of discrimination, as well as social harassment.

Table 3 internal social programs

SOCIAL PROGRAM	YES	NO	INDEX
Insurance	70%	30%	50
Training	90%	10%	80
Compensation	70%	30%	50
Staff appraisal	50%	50%	0
Health schemes	80%	20%	60

Source: respondents of equity bank (2009)

From the above it seems that the social program that employees are involved in most is training which has a 90% and an index of 80. This could be attributed to the fact that the

bank offers training to its prospective employees before being employed as well as on job training. When employees are to take part in a social program, they are trained how to deal with the many challenges they are likely to face. Health schemes had the second with 80%, it was followed by compensation and insurance both with had 70% and the lastly one was staff appraisal with had 50% which is an average.

4.3.2 External social responsibility programs

The external social responsibilities are programs that the company takes part in directed to stake holders. They are listed in the table below.

TABLE 4 External social responsibility programs

SOCIAL PROGRAM	YES	NO	IDEX
Environmental sustainability	80%	20%	60
Health	50%	50%	0
Eradication of poverty, hunger and the provision of humanitarian aid	80%	20%	60
Education	90%	10%	80
gender equality and women empowerment campaigns	70%	30%	40
Bank Leaderships Voluntary Service To Society	60%	40%	20
Sports and culture	50%	50%	0

Source: respondents of equity bank (2009)

From the above data it is evident that the company takes part most in education with a 90% followed by Environmental sustainability and Eradication of poverty, hunger and the provision of humanitarian aid which both have 80%. The gender equality and women empowerment campaigns follow with 70% followed by Bank Leaderships Voluntary Service to Society with 60%. This is followed by health and sports and culture which both have 50% which is an average. This suggests that corporate social responsibility programs play a significant role in the bank. Equity vision is to champion the socioeconomic prosperity of the continent of Africa. To realize this vision, the Bank has focused on providing inclusive financial services to all consumers regardless of their race, gender, ethnic group, religious conviction or locality. Through its work, the Bank has transformed the lives of a large number of customers who had previously been

excluded from the formal economic sector given them hope, dignity and economic empowerment. For Equity Bank, investing in society and giving back is a key part of its corporate strategy. The Bank will therefore continue to support corporate social responsible initiatives.

Below are some of the principles of good corporate governance at equity

1.21 Social responsibility

Members shall Endeavour to ensure that the Bank is a responsible corporate citizen and that it has due regard to the interest of all stakeholders and the community within which they operate.

3.1 Commitment to being a good corporate citizen

The Bank underscores its commitment to being a good corporate citizen and ensuring that it effectively balances the need for long-term viability and prosperity of the Bank with that of the society on which it relies for its ability to generate economic value with the requirement for short term competitiveness and financial gain.

Principle 19: Social and Environmental Responsibility

The Board shall recognize that it is in the enlightened self-interest of the corporation to Operate within the mandate entrusted to it by society and shoulder its social responsibility. For this reason, the Bank will not fulfill its social responsibility by short-changing beneficiaries or customers, exploiting its labor, polluting the environment, failing to conserve resources, neglecting the needs of the local community, evading taxation or engaging in other anti-social practice

Directors' charter

Article 2: core values

Each director subscribes to the Bank's values-to always act in the interests of society in Promoting effective and efficient use of resources in a manner based on integrity, transparency, accountability and responsibility and commits to upholding them and ensuring, their implementation. Consequently, directors undertake to take into account not only the possible financial impact of their decisions but also their consequences for

sustainable development, their effect on relations with stakeholders and the general interest of the communities in which the Bank operates

4.4 Factors that hinder the effectiveness of corporate social responsibility programs

The factors mentioned by respondents as those that hinder the effectiveness of the CSR programs in equity include the ones listed in the table below

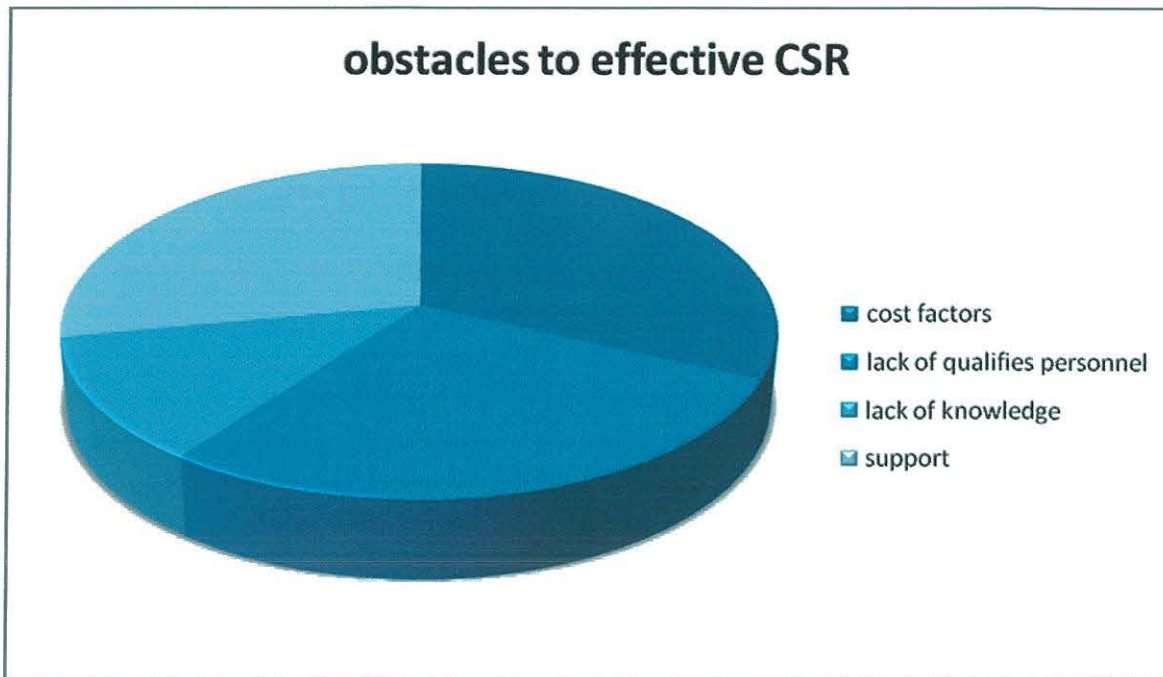
Table 5 obstacles that hinder the effectiveness of corporate social responsibility programs

FACTORS	PERCENTAGES
Cost factors	32
Lack of qualified personnel	28
Lack of knowledge	13
Support	27
TOTAL	100

Source field data (2009)

The researcher also came up with a diagrammatical presentation of the factors that hinder the effectiveness of corporate social responsibility programs

Fig 5 obstacles that hinder the effectiveness of corporate social responsibility programs



Source: respondents of equity bank (2009)

From the figure, most respondents 32% cited cost factor as the major factor affecting the effectiveness of corporate social responsibility. This was because most of CSR programs were expensive to implement and the company incurred additional costs in implementing them hence reducing its short term profits. The Second most factors were lack of qualified personnel (human resources) 28% of the respondents supported this factor. This was because some of the CSR projects required specialized knowledge and expertise to implement and the company's personnel sometimes lacked this expertise knowledge. The lack of support for the programs was a factor supported by 27% of the respondents. Most shareholders did not support most of the social programs because their aim was normally to maximize on wealth. The other factor supported by 13% of the respondents was lack of knowledge on the part of implementers. They did not know which areas required immediate attention.

4.5 Effects of corporate social responsibility on a company

TABLE: 6 Effects of corporate social responsibility on a company

STATEMENT	YES	NO	INDEX
Increasing productivity	90%	10%	80
Increasing quality	75%	25%	50
Increasing sales	95%	05%	90
Increasing the stability of the work force	80%	20%	60
Making a more efficient branding possible	70%	30%	40

Source: respondents of equity bank (2009)

From the table above it's clear to see that most of the respondents positively on the impacts of CSR on a company. 95% claimed it increased sales, 90% of the respondents by increasing quality, increasing productivity, increasing sales, increasing stability of the workforce and also by making a more efficient branding possible.

4.6 Impacts of CSR on a company's profitability

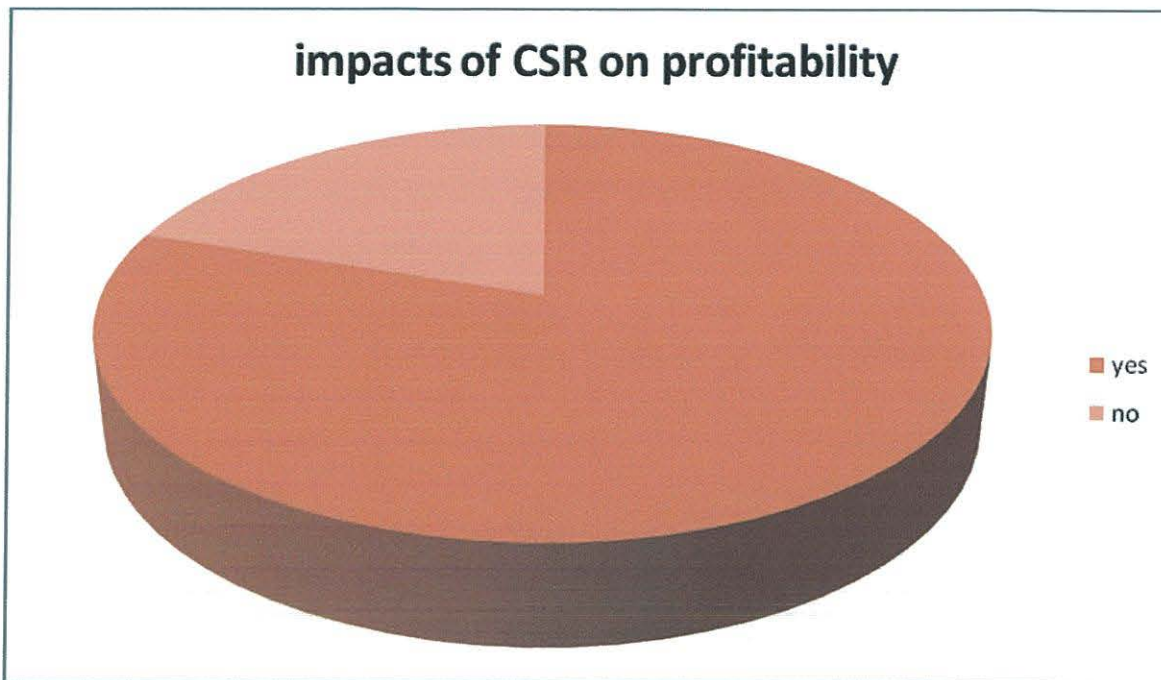
Below is a Table which represents respondents' response towards the statement "corporate social responsibility increases profitability."

Table 6 impacts of corporate social responsibility on a company's profits

STATEMENT	YES	NO
Corporate social responsibility increases profits	80%	20%

Source: respondents of equity bank (2009)

Fig 6 impacts of CSR on profitability



Source: respondents of equity bank (2009)

From the table above it can be concluded that CSR indeed contributes to a company's profitability. 80% of the respondents agreed with the statement that CSR contributes to a company's profitability. When the researcher further inquired from the respondents how they thought CSR contributed to profitability and yet it cost the business extra cost spent on non-business matters they had this to say; CSR increased productivity because of fewer lost working days caused by illness and injuries and hence less compensation and fines are paid, it increased quality because the products of companies investing in CSR are generally more innovative and of a higher standard because these companies give more room for creative thinking and are able to attract more qualified staff, it increased sales because a working environment of a high standard is necessary to gain access to markets and customers who do not want to buy products that are likely to harm their health or the health of the people producing them, it increased the stability of the work force and attracted the best and most qualified staff who when satisfied happy and healthy have a higher working morale. People like to be part of a company with a healthy working environment. Also it increases profitability by making a more efficient branding possible this is because CSR activities equal good publicity.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 Summary

This study was designed to analyze the impacts of corporate social responsibility on a company's profitability. This chapter hence summarizes the whole study by synthesizing the findings as presented by respondents. This study sought to answer a number of objectives: The main objective of this study was to establish the relationship between CSR and a firm's profitability. The second was to find out both its positive and negative impacts on firms resources as it strives to achieve its goals which are profit maximization, share holder wealth maximization and cost minimization. Others were to find out the social responsibilities of businesses and also to find out attitudes of managers, stake holders and employees towards CSR and its impacts on firm's profitability.

In relation to the objectives to establish if there was a relationship between CSR and profitability, it was found out in general that most respondents believed that CSR improved the company's profitability. Most respondents strongly agreed with the statement "CSR increases profitability." The respondents showed great interest in terms of involvement in various social programs. Consequently management ought to initiate more social programs since they have good will of the company's stake holders. However planning and implementation of such programs most involve the entire human resource of the company to strengthen their attitudes for successful implementation of the same.

5.2 Conclusion

The findings in this research have brought forward a number of issues with regard to corporate social responsibility programs addressed by the company. First it was established that most respondents interviewed had a positive attitude towards corporate social responsibility despite the fact that they had different attitudes toward social programs supported by the organization. Although most employees had a positive attitude towards corporate social responsibility programs, employee based programs were ranked last. This implied that most programs were externally focused consequently resulting to employee job satisfaction being moderate.

Another very important finding was that employees attitude towards CSR programs greatly affected the successful or unsuccessful implementation of social programs. This was because more than any other stake holders, the employees were the ones who were directly involved in the actual implementation of the CSR programs for example environmental clean ups ,etc. therefore this implied that for any implementation of CSR program to be successful, the attitudes of employees had to be assessed first.

In relation to the topic of study the researcher found out that most respondents believed that CSR programs greatly influenced a company's profitability. Most respondents argued that CSR programs reduced the company's profits in the short-run but in the long-run it boosted a company's profitability and therefore the company can use the records of its CSR programs as a competitive tool against its competitors who do not take part in CSR programs.

5.3 Recommendations

- i. To overcome the challenge of lack of qualified personnel to carry out some of the CSR programs, there is need for training of employees as well as that of hiring staffs who are experts in areas of community development. There is also the need for companies to setup departments that will entirely be concentrated on CSR issues. This will greatly alter the employee's attitude towards certain social programs and ultimately increase the successful implementation of the same.
- ii. There is also the need for the company to improve its internal social programs because only a well motivated employee will be dedicated enough to productively take part in corporate social responsibility programs.
- iii. The company should do enough and extensive research so as to be able to indentify areas that need attention in its social environment. This research will enable it indentify areas that are more vital than others and also to indentify some important sensitive areas that the competitors have overlooked so as to target them and gain the needed publicity.

In conclusion, corporate social responsibility is not all about publicity and building a company's image so as go gain a market position and maximizes profits, rather, it all

about giving back to the community. Therefore the businesses should attempt to balance its commitment to relevant groups and individuals in its environment including customers, its other businesses, employees, investors and the local communities as well.

There is need for further research especially on

- a) Conditions that must be considered for adoption of corporate social responsibility programs. Perhaps knowing these factors could generate the successful implementation of corporate social responsibility

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APPENDIX 1

QUESTIONNAIRES USED FOR DATA COLLECTION

Dear respondent,

I am a student of Kampala International University pursuing a Bachelor of International Business Administration. I am currently carrying out a research titled an analysis of the impacts of corporate social responsibility on a company's profitability a case study of equity bank Kenya. I therefore request you to provide accurate information that will enable me to obtain quality data for analysis. All the information gathered shall be treated with confidence and shall be used for academic purposes only.

INSTRUCTIONS

Fill in the blank spaces and tick (✓) the correct statement

1. Which category listed below do you belong?

- ☐ Share holder ()
- ☐ Manager ()
- ☐ Employee ()
- ☐ Others () specify.....

2. If a manager or employee, which department do you work for and for how long?

- ☐ Human resource () years of service.....
- ☐ Finance and accounting () years of service.....
- ☐ Customer relations () years of service.....
- ☐ Marketing () years of service.....
- ☐ Research and development () years of service.....
- ☐ Information technology () years of service.....
- ☐ Others () specify.....years of service.....

3. Does your organization design and implement corporate social responsibility programs?

.....
.....
.....

If yes, which ones?

.....
.....

4. For the following, statements indicate how strongly you agree or disagree by ticking the appropriate numbers that represent your level of agreement as coded below.

5 - Strongly agree, 4 - Agree, 3 - Neutral, 2 - Disagree, 1- Strongly disagree

- a) All companies have corporate social responsibilities. [5 4 3 2 1]
- b) I like being associated with a company that takes part in CSR
[5 4 3 2 1]
- c) The only social responsibility of businesses is to make profits
[5 4 3 2 1]
- d) Businesses have technical, financial and managerial resources needed to solve today's social problems. [5 4 3 2 1]
- e) Social problems affect the society in general and so individual businesses should not be expected to solve these problems
[5 4 3 2 1]
- f) In helping to resolve social issues businesses can create a more stable environment for long-term profitability [5 4 3 2 1]
- g) Companies with high social consciousness further their own goals when they help strengthen the social structure [5 4 3 2 1]

- h) Social problems can be seen as business opportunities [5 4 3 2 1]
- i) Businesses have contributed to social problems and so they are obliged to solve them [5 4 3 2 1]
- j) Organizations engage in social programs not to generate customers but to promote the well being of the society [5 4 3 2 1]
- k) I support the companies contributions towards solving social problems [5 4 3 2 1]
- l) I have been involved in social responsibility activities [5 4 3 2 1]
- m) The governments need to set the minimum corporate social responsibility conditions and standards [5 4 3 2 1]
- n) Social problems are the responsibility of government agencies and officials who can be held responsible by voters [5 4 3 2 1]
- o) Taking part in social responsibility has improved the companies public image [5 4 3 2 1]
- p) Corporate social responsibility is a program that firms should be encouraged to take part in but not what they are obliged to do [5 4 3 2 1]

5. Which corporate social responsibility activities is your company involved in internally? Tick yes or no

- | | | |
|----------------|---------|--------|
| ○ Insurance | yes () | no () |
| ○ Training | yes () | no () |
| ○ Compensation | yes () | no () |

- | | | |
|-------------------|---------|--------|
| ○ Staff appraisal | yes () | no () |
| ○ Health schemes | yes () | no () |

6. Which corporate social responsibility activities is your company involved in internally? Tick yes or no

- | | | |
|--|---------|--------|
| ○ Environmental sustainability | yes () | no () |
| ○ Health | yes () | no () |
| ○ Eradication of poverty, hunger and the provision of humanitarian aid | yes () | no () |
| ○ Education | yes () | no () |
| ○ gender equality and women empowerment campaigns | yes () | no () |
| ○ Bank Leaderships Voluntary Service To Society | yes () | no () |
| ○ Sports and culture | yes () | no () |
| ○ Others specify..... | | |

7. Does your organization evaluate social programs? Yes () no () if yes, how?

.....
.....

8. Give reasons for favoring or not favoring social programs

.....
.....
.....
.....

9a. Do you agree with the statement "corporate social responsibility increases profitability" yes () no ()

b. Explain your answer in 9a above

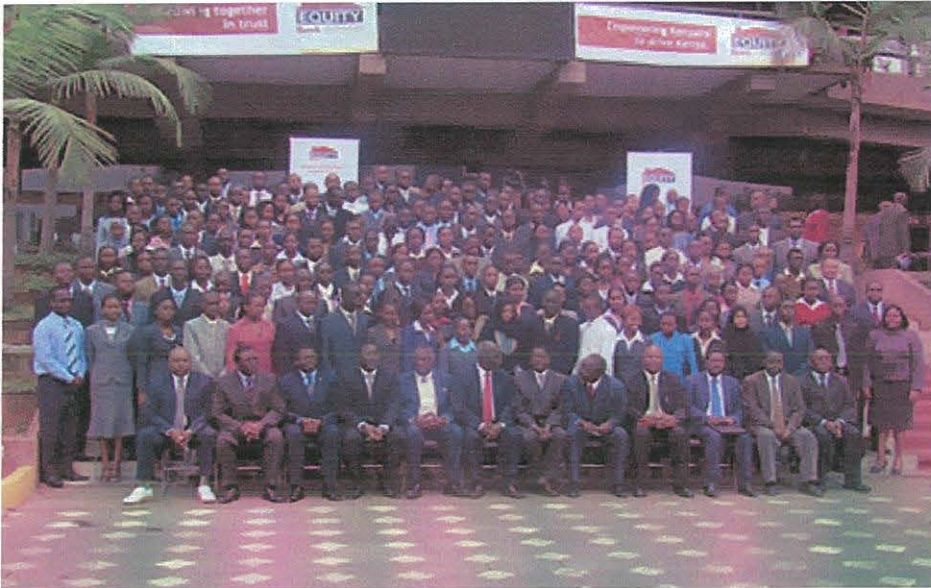
.....
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.....

10. Which factors hinder effective corporate social responsibility programs in your company? Explain

.....
.....
.....

APPENDIX 2

Pictures showing some of the CSR programs at equity bank Kenya



Hon. Professor Sam Onger-Minister for Education (front row, red tie), ***Hon. Professor Olweny***-Assistant Minister, ***Dr. James Mwangi***-CEO Equity Bank, ***Peter Munga***-Chairman Equity Bank and other dignitaries ***with 2007 Pre-University Programme beneficiaries.***



Equity Bank staff helping in environmental clean-up

APPENDIX 3

INTRODUCTION LETTERS

KINYA DOREEN,
P.O BOX 54,
NKUBU, MERU,
KENYA.
CELL: +254726068501.
DATE: 12/03/2009.

TO: THE HUMAN RESOURCE MANAGER,
EQUITY BANK LIMITED,
NHIF BUILDING 14TH FLOOR,
P.O BOX 75104-00200,
NAIROBI. KENYA.

Dear sir/ madam,

RE: ASSISTANCE WITH INFORMATION AND DATA FOR MY RESEARCH PROJECT

I am a student at Kampala International University pursuing a degree in bachelor of international business administration. I am currently carrying out a research project titled "IMPACTS OF CORPORATE SOCIAL RESPONSIBILITY ON A COMPANY'S PROFITABILITY" AN EQUITY BANK KENYA CASE STUDY as a partial fulfillment for the award of a BACHELORS DEGREE IN INTERNATIONAL BUSINESS ADMINISTRATION.

I am kindly requesting your esteemed office to assist me with relevant information and data that might help me in my project in respect to the organization, and also the corporate social responsibility programs that your company undertakes. This information will be gathered through questionnaires and interviews.

I will be very grateful if the organization assists me with the relevant data and information.

All information gathered will be used for academic purposes only and shall be treated with utmost confidence.

Thank you in advance.

Yours faithfully

Kinya Doreen

**OFFICE OF THE DEAN
SCHOOL OF BUSINESS AND MANAGEMENT
KAMPALA INTERNATIONAL UNIVERSITY**

Date: 11th June, 2009

Our Ref: KIU/SBM/RL/002-06/09

THE HUMAN RESOURCE MANAGER,
EQUITY BANK,
KENYA.

Dear Sir/Madam,

RE: KINYA DOREEN REG.NO.BIB/9553/61/DF

This is to confirm and inform that the above referenced is a bonafide student of Kampala International University pursuing a Bachelor of International Business Administration degree in the School of Business and Management of the University.

She is currently conducting field research and the title of the Research project is "EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON A COMPANY'S PROFITABILITY" A CASE STUDY OF EQUITY BANK.

As part of her studies (research work) she has to collect relevant information through questionnaires, interviews and other relevant reading materials from your place.

In this regard, I request that you kindly assist her by supplying/furnishing her with the required information and data she might need for her research project and also by filling up the questionnaire.

All and any information shared with her will be used for academic purposes only and we promise to share our findings with your institution.