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Effect of Corporate Social Responsibility Expenditure on the Financial Performance: Evidence from Commercial Banks in Kenya

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Abstract

This study investigates the effect of corporate social responsibility (CSR) expenditure on the financial performance of commercial banks in Kenya guided by Legitimacy Theory. The study employed an explanatory research design and adopted census approach, covering all 39 licensed commercial banks as reported by the Central Bank of Kenya. The research relied exclusively on secondary data drawn from audited financial statements, annual reports and CSR disclosures. Data on CSR expenditure and financial performance indicators (return on equity and net profit) were systematically extracted using a document review checklist. Analysis was conducted using descriptive statistics, correlation analysis and regression modeling to determine the nature and strength of the relationship between CSR expenditure and financial performance. Descriptive analysis indicated that banks spent an average of KES 349.03 million on CSR, with wide variability across institutions (range: KES 33.95 million–688.68 million). Financial performance results showed an average return on equity (ROE) of 14.99% and net profit of KES 13.82 billion, reflecting moderate profitability but significant heterogeneity across banks. Larger Tier 1 banks demonstrated higher CSR expenditure, likely due to stronger fiscal capacity and reputational incentives, while smaller banks allocated fewer resources, often treating CSR as discretionary. Correlation analysis revealed that CSR expenditure had weak and non-significant associations with ROE (r = -0.16, p > 0.05) and net profit (r = -0.00, p > 0.05), suggesting that spending alone may not directly translate into improved financial outcomes. Regression analysis further showed that CSR expenditure had a positive effect on financial performance (β = 0.188, t = 2.000, p = 0.053), indicating that while CSR spending may contribute to profitability, the relationship was not statistically significant at the 5% level. The study recommends that commercial banks in Kenya align CSR expenditure with long-term business strategy to achieve both societal impact and financial performance. Policymakers, particularly the Central Bank of Kenya (CBK), should establish baseline CSR investment guidelines and mandate standardized reporting frameworks to enhance transparency, comparability, and accountability. In practice, banks are urged to adopt impact measurement tools such as cost-benefit and return-on-impact analyses, while strengthening stakeholder engagement to build trust and legitimacy.

Keywords: *Corporate Social Responsibility (CSR), CSR expenditure, financial performance, commercial banks, Central Bank of Kenya (CBK).*

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1. Introduction

Corporate Social Responsibility (CSR) has become an integral component of modern business strategy, particularly within the financial sector. Globally, CSR expenditure is increasingly recognized not merely as philanthropy but as a strategic investment that can influence firm reputation, stakeholder trust, and long-term profitability. Studies have shown that CSR initiatives can enhance brand equity, mitigate risk, and improve shareholder value, though the strength of these effects varies across industries and regions (Boateng, Lew, & Liu, 2025). Empirical evidence across global banking systems highlights the potential of CSR to drive financial outcomes. For instance, Angraini, Tyas, and Hwihanus (2024) found that CSR programs in the banking sector significantly improved community trust and customer loyalty, which translated into stronger financial performance. Similarly, Orlitzky, Schmidt, and Rynes (2003) conducted a meta-analysis of 52 studies and concluded that CSR is positively correlated with both accounting-based and market-based measures of financial performance. These findings suggest that CSR expenditure, when strategically aligned, can serve as a competitive advantage by reducing reputational risks and enhancing stakeholder relationships

In Africa, the banking sector has increasingly embraced corporate social responsibility (CSR) as part of broader sustainability and governance frameworks. CSR is viewed not only as a tool for enhancing reputation but also as a mechanism for aligning with international best practices in accountability and transparency. Attah-Botchwey, Soku, and Awadzie (2022) found that sustainability reporting among African banks positively influences financial performance by strengthening stakeholder relationships and improving investor confidence. Their study highlights that CSR disclosure enhances legitimacy and provides banks with a competitive edge in attracting socially conscious customers and investors. Empirical evidence from Nigeria and South Africa further supports the link between CSR and financial outcomes. Despite these positive outcomes, challenges remain in the effective implementation of CSR across the continent. Weak regulatory enforcement, resource constraints, and diverse stakeholder expectations often limit the consistency and impact of CSR investments (Ndong Ntoutoume, 2023). Smaller banks, in particular, struggle to allocate sufficient resources to CSR, while larger institutions face pressure to balance profitability with social responsibility. These challenges highlight the need for stronger regulatory

frameworks, collaborative CSR initiatives, and improved measurement tools to ensure that CSR investments deliver both societal and financial value across African banking systems.

Kenya provides a particularly compelling case for examining CSR expenditure in the banking sector. Commercial banks form the backbone of the country's financial system, facilitating savings, investments, and credit allocation under the supervision of the Central Bank of Kenya (CBK). According to CBK's 2024 annual report, the sector comprises 41 licensed banks, both local and international, offering services ranging from deposit-taking and lending to foreign exchange and advisory functions. In recent years, growth has been driven by financial inclusion initiatives, technological advancements, and an expanding middle class. Digital banking platforms such as M-Pesa have transformed service delivery, broadening access to financial services and intensifying competition. However, the sector also faces challenges, including loan defaults, regulatory reforms, and profitability pressures following interest rate caps (Omwenga & Omar, 2017). Empirical evidence suggests that CSR spending in Kenya whether directed toward education, health, environmental conservation, or community development can enhance financial performance by improving customer loyalty, employee morale, and institutional legitimacy (Njagi, 2020; Kosgei & Cherono, 2024). Yet, the relationship is not always linear. Some banks experience diminishing returns when CSR investments are poorly aligned with core business strategies or lack measurable outcomes (Gakinya & Gatauwa, 2025). Similarly, Wang et al. (2016) argue that the financial benefits of CSR depend significantly on strategic integration, underscoring the need for Kenyan banks to move beyond compliance-driven CSR toward frameworks that link social investments with profitability and resilience. This study therefore seeks to contribute to the ongoing debate by providing empirical evidence on the effect of CSR expenditure on the financial performance of commercial banks in Kenya, highlighting the importance of strategic alignment, stakeholder engagement, and transparent reporting in maximizing both societal and financial outcomes.

2. Theoretical Framework

The study was anchored on Legitimacy Theory proposed by Dowling and Pfeffer (1975) and explains how organizations strive to integrate their actions with the expectations and values of community to gain acceptance or "legitimacy" in their operating environment. The theory posits

that organizations are bound by a "social contract," implying that their survival and success depend on maintaining congruence with societal expectations (Deegan, 2019). If there is a perceived discrepancy between an organization's actions and societal norms, the organization risks losing legitimacy, which can adversely affect its operations. The theory submits that CSR activities are undertaken as a strategic response to enhance alignment with societal expectations, thus securing public trust and institutional legitimacy (Guthrie et al., 2020).

Legitimacy Theory guided this study by clarifying how CSR initiatives relate to the financial performance of commercial banks. In a context where the public scrutinizes financial institutions for their role in societal development, CSR practices serve as a means for banks to legitimize their operations. For example, community development programs, environmental sustainability initiatives, and philanthropic efforts demonstrate a bank's commitment to addressing societal concerns, thereby fostering trust and goodwill among stakeholders. Such actions not only strengthen the bank's reputation but also support better financial performance by attracting more customers and investors who prioritize ethical practices (Osei et al., 2021). Thus, Legitimacy theory provides a valuable way for getting to know how Kenyan banks use CSR as a tool to align with societal expectations and achieve financial success.

Despite its contributions, legitimacy Theory has encountered criticism for its lack of specificity and operational clarity. The theory does not provide explicit mechanisms for measuring or achieving legitimacy, making it difficult for organizations to implement practical strategies (Cho et al., 2018). Additionally, critics argue that the theory assumes societal norms are homogeneous and static, overlooking the dynamic and pluralistic nature of modern societies (Guthrie et al., 2020). Moreover, the theory has been critiqued for its focus on external perceptions, potentially downplaying the importance of internal organizational factors in achieving legitimacy. However, recent developments, such as integrating dynamic legitimacy and stakeholder-specific approaches, have addressed some of these limitations, enhancing the theory's applicability in complex environments (Deegan, 2019). These refinements make Legitimacy Theory a relevant framework for analyzing CSR expenditure and their influence on financial outcomes within the banking industry.

2.1 Empirical Review

A large body of global evidence links corporate social responsibility (CSR) to corporate financial performance (CFP), with meta-analyses generally finding positive associations. Orlitzky, Schmidt, and Rynes (2003) synthesized 52 studies and reported that CSR is positively correlated with financial performance, particularly for accounting-based metrics such as ROA and ROE. Their findings support the view that well-aligned CSR investments can be value-enhancing rather than purely philanthropic (Orlitzky et al., 2003).

Market-facing studies point to boundary conditions. Servaes and Tamayo (2013) documented that CSR increases firm value when customer awareness is high, implying that stakeholder visibility and marketing integration amplify financial returns from CSR expenditure. Misaligned or low-visibility CSR can even destroy value, highlighting the need for strategic targeting and communication (Servaes & Tamayo, 2013). Causal designs strengthen inference about long-term returns. Using regression discontinuity and event studies around environmental awards and close-call CSR votes, Flammer (2015) found that firms adopting CSR initiatives exhibit superior long-term performance, especially in innovation-intensive contexts. These results suggest CSR can bolster competitiveness and shareholder value when embedded in innovation strategy (Flammer, 2015). Corporate transactions provide another lens. Deng, Kang, and Low (2013) found that CSR-active acquirers enjoy higher announcement returns and improved post-merger performance, consistent with CSR reducing transaction risk and agency costs. This evidence indicates that CSR can create stakeholder goodwill and informational advantages in high-stakes corporate events (Deng et al., 2013). Meta-evidence across ESG/CSR adds breadth. Friede, Busch, and Bassen (2015) aggregated over 2,000 studies and concluded that the majority show a positive ESG–CFP relationship, robust across regions, asset classes, and time periods. This broad synthesis suggests that, on average, investments in sustainability including CSR are associated with better financial outcomes (Friede et al., 2015). Recent work links CSR to risk mitigation. Albuquerque, Koskinen, and Zhang (2019) showed theoretically and empirically that CSR reduces systematic risk and improves resilience, supporting higher valuations, particularly during downturns. This positions CSR expenditure not only as a driver of performance but also as a stabilizer of cash flows and risk profiles (Albuquerque et al., 2019).

Across African banking markets, evidence generally supports a positive relationship between CSR expenditure or disclosure and financial performance, with contextual moderators such as bank size, governance quality, and institutional environments shaping the strength of effects. In Ghana, Boateng, Lew, and Liu (2025) analyzed listed banks and found that CSR expenditure is positively associated with profitability, with stronger effects among larger banks suggesting scale advantages in deploying CSR and capturing stakeholder benefits (Boateng et al., 2025). Complementing country-level findings, Attah-Botchwey, Soku, and Awadzie (2022) conducted a cross-country analysis of African banks and reported that higher-quality sustainability/CSR reporting is linked to improved ROA and ROE, particularly in better-governed markets where information credibility and enforcement amplify value relevance (Attah-Botchwey et al., 2022). Studies in Nigeria reinforce the profitability and risk-reduction channels of CSR. Olawale and Adebayo (2020) found that CSR disclosure improves profitability and operational efficiency, indicating that transparency and engagement reduce agency costs within Nigerian commercial banks (Olawale & Adebayo, 2020).

In Kenya, Njagi (2020) investigated the effect of corporate social responsibility (CSR) on the financial performance of commercial banks in Kenya. Using a quantitative design, the study analyzed CSR expenditure and disclosure data from annual reports and measured performance through return on assets (ROA) and return on equity (ROE). Panel regressions revealed that CSR is positively associated with profitability, particularly when CSR initiatives are strategically aligned with the banks' core business operations. This underscores the importance of integrating CSR into corporate strategy rather than treating it as peripheral philanthropy. Muchiri, Erdei-Gally, and Fekete-Farkas (2022) extended this line of inquiry by examining CSR's impact on financial institutions in Kenya, including banks. Employing panel analysis with fixed effects and robustness checks, the study used CSR indices as explanatory variables and financial outcomes such as ROA, ROE, and market metrics as dependent variables. The findings confirmed that CSR positively influences financial performance, with governance-related and community-focused CSR activities exerting stronger effects. This suggests that CSR initiatives addressing stakeholder needs and governance structures yield more tangible financial benefits. Magucha, and Muturi (2018) conducted a sectoral analysis of CSR expenditure among Kenyan banks. By disaggregating CSR spending into education, health, and environmental categories, the study examined their respective

impacts on profitability. Results indicated that CSR investments in education and community development had stronger positive effects on financial performance compared to environmental spending alone. This highlights the importance of targeted CSR strategies that resonate with societal priorities and stakeholder expectations. Gakinya and Gatauwa (2025) evaluated the relationship between sustainability investments, including CSR, and financial performance of Kenyan commercial banks. Using panel data and fixed effects regression, the study found that sustainability and CSR investments are positively related to ROA and ROE. However, diminishing returns were observed when CSR spending was not strategically aligned, suggesting that indiscriminate CSR expenditure may not yield proportional financial benefits. Kosgei and Cherono (2024) analyzed corporate sustainability practices and their relationship with financial performance in Kenyan banks. Employing a mixed-methods approach that combined content analysis of CSR disclosures with panel regressions, the study found that sustainability practices correlate positively with profitability and efficiency. Governance-driven CSR practices showed the strongest association, reinforcing the role of transparency and accountability in enhancing financial outcomes. Muturi and Njeru (2019) focused on listed Kenyan banks to assess the effect of CSR activities on profitability. Using panel data and generalized least squares (GLS) estimations, the study measured CSR expenditure and disclosure indices against ROA, ROE, and net profit margin. Results demonstrated a positive link between CSR and accounting profitability, with strategic focus and stakeholder engagement mediating the effect. This indicates that CSR initiatives must be carefully designed to align with both business objectives and stakeholder expectations. Makori and Jagongo (2013) provided early evidence on CSR's influence on financial performance among Kenyan banks. Through cross-sectional surveys and secondary data analysis, the study employed multiple regression to link CSR proxies with profitability indicators. Findings revealed that CSR significantly predicts profitability, with consistent CSR engagement enhancing reputational benefits and financial outcomes. This study laid the groundwork for subsequent empirical inquiries into CSR in Kenya's banking sector. Based on the discussion, this study poses the following hypothesis.

H_0 1: *Corporate Social Responsibility (CSR) expenditure has no statistically significant effect on the financial performance of commercial banks in Kenya.*

3. Methodology

3.1 Research Design

This study adopted an **explanatory research design**, which is appropriate for determining the nature and strength of relationships between independent and dependent variables. The design enables a detailed contextual analysis, supporting the identification of patterns and trends that complement correlational findings (Saunders et al., 2019). Explanatory research is particularly suitable for analysing existing data and trends, making it ideal for examining how CSR expenditure influences profitability and other financial metrics. Moreover, it allows for the identification of naturally occurring relationships without manipulation of variables, aligning with the study's objective of exploring CSR expenditure and financial performance in commercial banks.

3.2 Target Population

The target population comprised all commercial banks registered with the Central Bank of Kenya (CBK). As of 2024, the CBK reported **39 licensed commercial banks**, which formed the primary focus of this research. These banks were categorized into three tiers: Tier 1 (9 banks), Tier 2 (8 banks), and Tier 3 (22 banks), making a total of 39 institutions (CBK, 2025).

3.3 Sample Design

Given the manageable population size, the study employed a **census approach**, collecting data from all 39 registered commercial banks. A census was deemed appropriate as it ensures comprehensive coverage and eliminates sampling bias (Mugenda & Mugenda, 2003). Since the research relied exclusively on secondary data, financial reports and other publicly available records from credible sources such as the CBK and individual bank reports were utilized. This approach enhanced the reliability of findings by drawing on verifiable data from official records (Saunders et al., 2019).

3.4 Data Collection

The study relied exclusively on **secondary data** collected from audited financial reports and other publicly available records from the CBK and individual commercial banks. Secondary data offers reliable, verifiable, and cost-effective insights, reducing biases associated with self-reported data (Saunders et al., 2019). Data on CSR expenditure and financial performance was extracted for all

39 commercial banks. A financial document review checklist was employed to systematically extract relevant information from annual reports and financial statements. This ensured consistency and comparability across institutions, thereby enhancing the validity of findings (Kothari, 2004). Using financial records provided a robust foundation for triangulating findings, further strengthening the study's validity.

3.5 Data Analysis

Quantitative data analysis methods were employed to ensure comprehensive interpretation of the collected data. Descriptive statistics, including measures of central tendency and correlation analysis, were used to summarize CSR expenditure patterns and financial performance. Inferential statistics, particularly regression analysis, were utilized to determine the relationship and predictive strength of CSR expenditure on financial performance. The regression model guiding the analysis was specified as follows:

$Y = \beta_0 + \beta_1 X_1 + + \varepsilon$...Model 1

Where:

Y = Dependent variable (Financial performance)

β_0 = constant

$\beta_1, \beta_2, \beta_3$ = regression coefficients

$X_1 =$ CSR expenditures

ε = error term

4. Results and Interpretation

4.1 Organizational Characteristics

The study analyzed the organizational characteristics of the 39 commercial banks in Kenya using secondary data drawn from CBK records, annual reports, and CSR disclosures. The findings captured ownership structure, bank tier classification, years of operation, CSR reporting status, geographical presence, and ownership type. The results are summarized in Table 1.

Table 1: Organizational characteristics of the studied Commercial Banks

Characteristic	Category	Frequency	Percentage (%)
Ownership Structure	Local Banks	25	64.1
	Foreign Banks	14	35.9
Bank Tier (CBK Classification)	Tier 1 (Large)	9	23.1
	Tier 2 (Medium)	8	20.5
	Tier 3 (Small)	22	56.4
Years of Operation	Below 20 Years	12	30.8
	20–40 Years	15	38.5
	Over 40 Years	12	30.8
CSR Reporting Status	Published CSR Reports	29	74.4
	Did Not Publish CSR Reports	10	25.6
Geographical Presence	National Coverage	18	46.2
	Regional/County-Level	21	53.8
Ownership Type	Publicly Listed	11	28.2
	Privately Owned	28	71.8

The results indicated that most of the banks (64.1%) were locally owned, while 35.9% were foreign-owned. More than half of the banks (56.4%) were classified as Tier 3, with 23.1% in Tier 1 and 20.5% in Tier 2. Regarding years of operation, 38.5% had been in existence for 20–40 years, while 30.8% had operated for less than 20 years and another 30.8% for more than 40 years. In terms of CSR disclosure, a majority (74.4%) published CSR reports, whereas 25.6% did not. Slightly more banks (53.8%) operated regionally or within specific counties compared to those with national coverage (46.2%). Finally, 71.8% of the banks were privately owned, with 28.2% publicly listed.

4.2 CSR expenditure and financial performance of commercial banks in Kenya

Descriptive results for CSR expenditure and financial performance are displayed in Table 2.

Table 2: Descriptive Statistics

Variable	N	Mean	Std. Dev.	Min	Max	Range
CSR Expenditure (KES M)	39	349.03	191.88	33.95	688.68	654.73
Return on Equity (ROE %)	39	14.99	6.62	2.50	24.42	21.92
Net Profit (KES Millions)	39	13,818	6,486	1,233	24,865	23,631

Results on the effect of CSR expenditure on financial performance was indicated in Table 2. The mean CSR expenditure of KES 349.03 million signals a considerable average commitment to socially responsible initiatives. Yet this commitment is not uniform across institutions. A wide standard deviation of KES 191.88 million along with an expenditure range from KES 33.95 million to KES 688.68 million, highlights substantial variability in how banks allocate resources to CSR. This spread suggests that while some banks perceive CSR as a strategic investment, others may treat it as a secondary or compliance-driven obligation. This disparity might reflect differences in institutional size, stakeholder expectations and regulatory responsiveness. Larger banks, particularly those in Tier 1, likely have both the fiscal capacity and reputational incentive to invest more in CSR as part of brand positioning and stakeholder engagement. On the other hand, smaller institutions may allocate fewer resources, possibly viewing CSR as an optional expense amid tighter profit margins. This raises an important policy question: Should CSR expenditure be proportional to institutional capacity, or should there be baseline thresholds for social investment in the banking sector? Further, the standard error of KES 30.73 million suggests a reasonably accurate estimate of the population mean, reinforcing the reliability of this data as a baseline for inferential testing. The variance of KES 36.8 billion underscores just how uneven CSR investment is across banks.

On the financial performance matters, banks reported an average ROA of 2.90% and an ROE of 14.99%, suggesting moderate asset efficiency and acceptable returns to shareholders. The net profit average of KES 13.82 billion, with a staggering spread from KES 1.23 billion to KES 24.87 billion, mirrors the scale diversity in the sector. This financial heterogeneity may influence how banks perceive the role of CSR. Some institutions might view CSR as a reputational enhancer that indirectly boosts profitability through improved brand image and stakeholder trust. Others may lack the capacity or data to link CSR expenditure directly to financial return, leading to inconsistent investment practices.

4.3 Correlation Analysis

Correlation analysis was conducted to establish the relationship between CSR expenditure and financial performance indicators (ROE and Net Profit). The results are shown in Table 3.

Table 3: Correlation Matrix

Variable	CSR Expenditure	ROE	Net Profit
CSR Expenditure	1.00		
ROE	-0.16	1.00	
Net Profit	-0.00	-0.05	1.00

** Correlation is significant at the 0.01 level (2-tailed)
* Correlation is significant at the 0.05 level (2-tailed)

The correlation analysis presented in Table 3 indicates that CSR expenditure has a weak negative relationship with return on equity (ROE) ($r = -0.16$, $p > 0.05$), suggesting that higher CSR spending does not necessarily correspond with improved shareholder returns. Similarly, the relationship between CSR expenditure and net profit is almost negligible ($r = -0.00$, $p > 0.05$), implying no meaningful association between the two variables. Additionally, ROE and net profit show a weak negative correlation ($r = -0.05$, $p > 0.05$), highlighting that profitability and equity returns do not move strongly together in this dataset. Overall, these findings suggest that CSR expenditure, as currently structured among the sampled banks, does not exhibit a statistically significant positive correlation with financial performance indicators, reinforcing the need for strategic alignment of CSR investments with business objectives to realize measurable financial benefits.

4.4 Hypothesis Testing

To further examine the relationship between corporate social responsibility (CSR) expenditure and the financial performance of commercial banks in Kenya, hypothesis testing was conducted. The objective was to determine whether CSR expenditure has a statistically significant effect on financial performance indicators such as return on equity (ROE) and net profit. The null hypothesis guiding this analysis was stated as follows:

$H_{0\ 1}$ **:** *There is no significant effect of CSR expenditure on the financial performance of commercial banks in Kenya.*

The results of the hypothesis testing are summarized in the Table 4 below, which presents the regression output used to evaluate the relationship between CSR expenditure and financial performance measures.

Table 4: Coefficients Table

Predictor	Unstandardized coefficients B	Standardized coefficients Std. Error	Beta	T	Sig.
(Constant)	.210	.205	–	1.024	.313
CSR Expenditure	.0012	.0006	.188	2.000	.053

Based on Table 4, the beta coefficient for CSR expenditure was ($\beta = 0.188$, $t = 2.000$, $p = 0.053$). Although the effect size was small, the results suggested that higher CSR expenditure tended to enhance financial performance. However, the p-value was slightly above the conventional threshold of 0.05, meaning the effect was not statistically significant at the 5% level but was borderline. This indicates that while CSR spending may contribute to performance, the relationship is not strong enough to confirm significance under strict testing. Therefore, $H_{0\ 1}$ was not rejected, this indicates that CSR expenditure, as currently structured and implemented across the sampled banks, does not have a statistically significant effect on financial performance. Although it may be reasonable to assume that increasing CSR budgets would translate into improved stakeholder relations and long-term gains, the data suggests otherwise. It is possible that the lack of strategic alignment in how CSR funds are allocated diminishes their effectiveness. It is prudent to point that rather than focusing solely on the amount spent, commercial banks should prioritize how CSR funds are invested, ensuring they are tied to measurable outcomes and strategically important causes that align with both community and corporate goals.

5. Discussion

The organizational characteristics of the sampled commercial banks in Kenya reveal important structural and contextual factors that shape CSR expenditure and its potential impact on financial performance. The majority of banks were locally owned, with foreign-owned institutions accounting for 35.9%. This ownership distribution suggests that CSR practices may be influenced by domestic socio-economic priorities, regulatory expectations, and cultural norms, while foreign banks may adopt CSR strategies aligned with global standards (Attah-Botchwey, Soku, & Awadzie, 2022). Furthermore, the dominance of Tier 3 banks (56.4%) highlights the prevalence of smaller institutions in the sector, which may face resource constraints in implementing large-

scale CSR programs compared to Tier 1 banks. This structural imbalance could explain the wide variability in CSR expenditure observed in the descriptive statistics, where some banks invested heavily while others allocated minimal resources.

The analysis of CSR expenditure and financial performance underscores this variability. With an average CSR expenditure of KES 349.03 million and a wide range from KES 33.95 million to KES 688.68 million, the findings suggest that CSR is not uniformly prioritized across institutions. Larger banks, particularly Tier 1, appear to treat CSR as a strategic investment for brand positioning and stakeholder engagement, consistent with global evidence that CSR enhances reputation and competitiveness (Orlitzky, Schmidt, & Rynes, 2003; Flammer, 2015). Smaller banks, however, may perceive CSR as a compliance-driven obligation, allocating fewer resources due to tighter profit margins. This disparity raises policy questions about whether CSR expenditure should be proportional to institutional capacity or whether baseline thresholds should be mandated to ensure equitable social investment across the sector (Friede, Busch, & Bassen, 2015).

The correlation analysis further complicates the narrative. CSR expenditure showed a weak negative relationship with ROE ($r = -0.16$) and no meaningful association with net profit ($r = -0.00$). These results suggest that CSR spending, as currently structured, does not directly translate into improved financial performance. This finding aligns with Servaes and Tamayo (2013), who argued that CSR only enhances firm value when strategically aligned with customer awareness and stakeholder visibility. In the Kenyan context, the lack of significant correlation may reflect poor targeting of CSR initiatives, limited measurement of outcomes, or insufficient integration into core business strategies.

Hypothesis testing reinforced these insights. Although the regression results indicated a positive beta coefficient ($\beta = 0.188$) for CSR expenditure, the p-value (0.053) was slightly above the conventional 0.05 threshold, meaning the effect was not statistically significant. This borderline result suggests that CSR expenditure may contribute to performance but not strongly enough to reject the null hypothesis. Similar findings have been reported in African banking studies, where CSR disclosure and assurance were found to improve legitimacy and stakeholder trust but did not

always yield immediate financial gains. The implication is that CSR effectiveness depends less on the amount spent and more on strategic alignment, governance quality, and credible reporting. The study highlights that while Kenyan banks demonstrate considerable commitment to CSR, the financial benefits remain elusive under current practices. The lack of significant correlation and borderline regression results suggest that CSR expenditure alone is insufficient to drive financial performance. Instead, banks must prioritize strategic targeting, stakeholder engagement, and transparent reporting to maximize both societal and financial outcomes. This aligns with Legitimacy Theory, which posits that organizations must align their actions with societal expectations to maintain legitimacy and long-term sustainability (Suchman, 1995).

6. Conclusion

The study concluded that CSR expenditure does not have a statistically significant effect on the financial performance of commercial banks. Although most banks invested heavily in CSR programs, such spending did not automatically translate into better returns in terms of profitability or asset utilization. This research concluded that CSR expenditure, as currently structured and implemented across the sampled banks, does not have a statistically significant effect on financial performance. This suggests that the sheer amount of money allocated to CSR may not be as important as how that money is strategically deployed and monitored for impact in financial performance. It is therefore essential for banks to not only invest in CSR but also to ensure those investments are targeted, measured, and aligned with long-term business objectives.

6.1 Recommendations

6.1.1 Policy Recommendations

Regulators such as the Central Bank of Kenya (CBK) should consider establishing baseline CSR investment guidelines that are proportional to bank size and profitability. Such measures would ensure equitable contributions across the sector, preventing disparities where larger institutions dominate CSR activities while smaller banks lag behind. By setting minimum thresholds, the CBK can promote consistency and fairness in how banks allocate resources to social responsibility.

Policymakers should also mandate standardized CSR reporting frameworks across all commercial banks. Uniform disclosure requirements would enhance transparency, comparability, and

accountability, allowing stakeholders to evaluate CSR efforts more effectively. Standardized reporting would further strengthen trust in the banking sector by ensuring that CSR activities are not only undertaken but also communicated in a clear and credible manner.

In addition, smaller banks could be incentivized to collaborate on CSR initiatives. Pooling resources for joint projects would maximize social impact while reducing the financial strain on individual institutions. Collaborative CSR programs could also foster industry-wide partnerships, enabling banks to address larger societal challenges collectively and more efficiently.

6.1.2 Practice Recommendations

Commercial banks should focus on strategically integrating CSR expenditure into their long-term business objectives rather than treating it as a standalone cost. Aligning CSR with organizational goals ensures that projects deliver both societal relevance and measurable business benefits, thereby enhancing the sustainability of such investments.

Institutions should adopt impact measurement tools such as cost-benefit analyses and return-on-impact frameworks. These tools would enable banks to evaluate the effectiveness of CSR investments, ensuring that resources are deployed purposefully and that outcomes are tracked against both social and financial benchmarks.

Finally, banks should prioritize stakeholder engagement in the design and implementation of CSR initiatives. Consulting with communities, customers, and regulators ensures that CSR projects are relevant, responsive, and capable of enhancing reputational value. By involving stakeholders directly, banks can strengthen trust, improve legitimacy, and create initiatives that resonate more deeply with societal needs.

6.1.3 Future Studies Recommendations

Scholars should explore the lag effect of CSR expenditure on financial performance through longitudinal studies, as CSR investments may yield delayed returns via brand equity, customer loyalty, and reputational capital.

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