COMMUNITY COMMITMENT AND FINANCIAL PERFORMANCE OF SELECTED NON-BANKING FINANCIAL INSTITUTIONS IN KIAMBU COUNTY, KENYA

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ABSTRACT

The objective of the study was to determine the effect of community commitment on financial performance of non-banking financial institutions. A descriptive survey research approach was adopted while the target population comprised of 60 Non-Banking Financial institutions in Kiambu County, Kenya. The sample size was computed using the formula by Hosmer, Lemeshow and May (2008) and Shirgaonkar, Maclver and Patankar (2008) and yielded a convenient sample size of 38 Non-Banking Financial Institutions in Kiambu County Kenya. Quantitative and qualitative data was collected by use of a semi-structured questionnaire that was administered using the drop and pick later method. The collected data was analyzed using descriptive as well as inferential statistics. The multiple regression analysis was applied to determine the effect of community commitment on financial performance. On financial performance, findings demonstrated that the profitability of the non-bank financial institutions as reflected in their return on assets was fairly good. Nonetheless, the study indicated that some firms could be struggling with poor financial performance condition while others performed exemplary well. Multiple linear regression analysis results indicated that community commitment was a positive and statistically significant determinant of financial performance. Recommendations were made that the underperforming non-bank financial institutions to consider benchmarking on other players to learn ways to build their capacity to deliver better financial results. The study also makes recommendations on need to improve the practice of preserving organizational knowledge and sharing the same with other members of the organisation, which was found to be deficient in the firms.

Key Words: *financial performance, community commitment, non-banking financial institutions*

INTRODUCTION

According Baraka (2013), the main objective of a business institution is to raise the value for its shareholders. The social accountability of a company is to boost its profits. With these undertakings, the major purpose of major institutions, particularly in the private division, is to increase proceeds (Desrochers, 2010). According to Barnett and Salomon (2012), an institution expands gradually if it keeps a good relationship with the major players. Even though the major players have capability of affecting firm's performance, the process differs. Delmas and Toffel (2008) assert that regardless of various communication processes, any frustration of any stakeholder group is capable of affecting economic rents and eventually compromise the future of the company. According to Epstein and Rejc-Buhovac (2014), corporate social responsibility actions including community commitment play a vital role in elevating the value of stakeholders.

According to Alexander and Buchholz (2010), literature provides conflicting positions on whether community commitment as a component of CSR influences financial performance.

According to Elfenbein, and Walsh (2010) and Orlitzky, Schmidt, and Rynes (2011), there is more positive relationship between community commitment as a facet of CSR and financial performance. While some researchers demonstrate the existence of a positive relationship, others provide evidence in support of the contrary (negative association). This condition makes the existing knowledge on the subject matter vague and therefore unreliable for corporate decision making. The most challenging factor is linking the growth of the profits to variables that are hard to define. Nonetheless, Hafenbradl and Waeger (2015) observe that most of the managers believe that community commitment as a CSR factor enhances profits and create mutual respect for an organization, which in turn leads to increase in sales and loyalty of employees and other stakeholders to the organization.

According to Sienicka and Tyrowicz, (2014), the policies of CSR acknowledges actions that are more than just being in line with the law to positively affect the community, workers and employees. Thus a corporation that enhances the well-being of workers by putting into force effective whistleblower procedures, such as little or no social responsibility, but rather being in line with the law (Sarbanes-Oxley Act of 2002). Programmes of CSR include actions to advance the society, environment and lives of all the partners of the organization (Raupp, 2011).

According to Moura-Leite and Padgett (2011), CSR has moved from admitting of the social interest to having turned into a total significant strategic style. There is a need for corporations to advocate ethics, accountability, fairness, ethics and transparency throughout their operations at the same time generating more profits. According to Ruangvis et.al, (2014), CSR majors on the way institutions approach their association with the surrounding communities through provision of good services and goods and charitable activities. This type of moral responsibility is regarded as a way of embracing the ethics of CSR and accountability (Roberts, 2009). Thus, it is not surprising that CSR has attracted the attention in not only in business operations but also in various literatures around the globe (Arend, 2014; Fooks, Gilmore, Collin, Holden & Lee, 2013; Jizi, Salama, Doxon & Stratling, 2014).

Performance can be described as the mirror image of how the resources of an organization are applied in the way that enhances it to attain its goals. Financial performance is the use of financial pointers to measure the level of goal achievement, input to making obtainable financial resources and hold up of the bank with savings opportunities (Otieno, 2012). Financial performance of firms is the aptitude of gathering the wants of major players and stakeholders (Rose & Hudgins, 2008). The achievement or failure of firms is normally exposed via a review of their financial statements. Revenue is the left over proceeds that the entrepreneur for supercilious business risks (Desrochers, 2010).

Financial performance in the financial industry can be evaluated using proxies like profitability, return on equity, liquidity and the interest coverage ratio (Njiiri, 2015). The return on investment indicates the amount of profit a bank is generating from its investments, which are financed, by shareholders and other investors while the interest coverage ratio depicts the ease with which a

bank can pay interest on outstanding debt. The Return on assets (ROA) is the mostly used comprehensive measurement of overall performance by banking institutions on the accounting viewpoint. Therefore, the study used ROA to measure financial performance.

Nonbank financial institutions (NBFIs) differ from one country to another by kinds of providers, choices for applying the services, and presence in the market. In certain nations, they may look like traditional banks some while in others, they may be function organization that offer functional economic services to major demographic groups, such as the undeveloped sector (International Monetary Fund, 2016). In many of the markets, microfinance Institution (MFIs) act as one kind of NBFI. Post office banks, cooperatives, and savings and credit cooperative organizations (SACCOs) are ordinary forms of NBFIs (Bayai & Ikhide, 2017). Additional case studies of nonbank financial organizations like as insurance firms, venture capitalists, forex and other microloan firms (World Bank, 2016). The function of Non-Banking Financial Institutions is recognized in intensifying a financial system, as they offer different options to change an economy's investments into capital investment, that act as an alternative properties in case the majorly form of intermediation be unsuccessful (Pasiouras, 2012).

In Kenya, the Non-Bank Financial Institutions represents a small fraction in the financial sector. In a nation where the economic quarter has commercial banks dominance, any collapse in the segment has a huge effect on nation's economic development (Godfrey, 2014). This is as a result to the reality that whichever insolvency could occur in the firm has a contamination consequence that can result to bank runs, disaster and bring largely financial crisis and economic evils. The general financial presentation of non-banking financial institutions has been advancing in Kenya in the past 2 decade. Though, this does not designate that all of them are gainful; there are some evident losses (Oloo, 2010). This research examined the connection between community commitment and financial performance of non-banking financial firms.

STATEMENT OF THE PROBLEM

Reports from developing nations, Kenya included indicate that non-financial organizations are undergoing reduction in performance (Tian & Zeitun, 2007). The evidence available from the World Bank (2014) indicates that non-banking financial organizations in Kenya are featured by a decline in financial performance. Prior to the amendments of 1989, NBFIs operated largely without regulation. In the absence of a regulatory control, many NBFIs became victims of various forms of malpractices that culminated in the collapse of many of them. However, with regulation now encompassing all the financial institutions, most NBFIs have found themselves in relatively difficult circumstances. The new requirements are burdensome and the penalties for non-compliance are quite high. Key problems facing NBFIs include the high cost of fund, asset liability mismatch, poor capital market condition and competition with banks among others. The expansion of non-bank financial firms as financial mediators balancing to financial institutions is obvious in Kenya. However, research on the segment remains scanty despite their relevance to the Kenyan economy. McGuire et al. (2013) assessed the connection between firm's CSR

initiatives and their financial performance economically. The study indicated that community commitment as a component of CSR positively influences financial performance. Over time, a substantial number of experimental researchers have wanted to select a connection between the CSR and financial performance of firms. Margolis and Walsh (2003) observe that, 122 experimental studies were authored in the period 1971-2001, commencing with Narver (1971). Furthermore current literature shows that the subject is still important (Bingham, Dyer Jr., Smith, & Adams, 2011; Perrini, Russo, Tencati, &Vurro, 2011; Baird, Geylani & Roberts, 2012; Barnett & Salomon, 2012). In subsequent years, numerous researchers have established related results concerning a positive association between community commitment as a CSR component and financial performance (Saeidiet al., 2015). Even so, in general outcomes in the research area are far from univocal, as a great number of authors have unsuccessfully recognized a good connection between the elements. Peng and Yang (2014) in addition assert that many studies in this research field have majored on developed countries and that this restricts the chance to simplify outcomes as the level of governance, ecological policies and business initiatives varies worldwide. As such, the current study will focus on community commitment and financial performance of Non-bank financial institutions in Kiambu County, Kenya.

OBJECTIVE OF THE STUDY

The general objective of this study was be to determine the influence of community commitment on financial performance of non-banking financial institutions in Kiambu County, Kenya.

THEORETICAL REVIEW

Community Organization Theory

Community organization theory was generated by Rothman and Tropman in 1987 and has its roots in theories of social networks and support. It focuses on active involvement and civilizing societies that can well appraise and resolve social problems (Drouhot, 2017). Community organization is the mechanism whereby society groups are assisted to identify common issues or objectives, get resources, and create and execute strategies for attainment of their objectives (Morgan, 2007). Rothman and Tropman (1987) grouped three approaches to community planning for looking into society problems independently or in mixed methods. These include social planning, social action, and area development. Social planning is more a top-down style featured by the integration of experts in designing objectives and action plans. The social action theory entails forging of alliances with society organizers and activists to extend community control to less populations. The locality expansion is a bottom-up theory that empowers communities to select local problems, setting objectives, with local leadership to determine issues.

Normative Stakeholder Theory

Stakeholder management theory was proposed by Freeman in 1984 has been involved within the integrative theories group since a number of authors regard this form of management to be an approach to amalgamate social needs. The theory states that managers bear a fiduciary relationship to community and stakeholders, instead of having fiduciary duties towards stockholders, as was held by the square view of the firm (Freeman, 1984).

The normative stakeholder theory has a normative core based on two main ideas that stakeholders are individuals or groups with rightful interests in practical and/or substantive aspects of corporate activity (Kletz, 2005). Interests in the corporation is the key determinant by which this theory recognizes the stakeholders, this is irrespective of whether corporation has a leading functional interest in them or not (Mesure, 2005). The other idea is that the welfare of all stakeholders are of inherent value. That is, each segment of stakeholders merits deliberation for its own sake and not simply as a result of its aptitude to further the interests of some other segments, such as the shareowners (Carrillo, 2007).

Following this theory, a socially accountable firm needs concurrent attention to the lawful interests of all suitable stakeholders and has to balance such a diversity of interests and not only the interests of the firm's stockholders (Lincoln, 2008). Normative theory has suffered serious distortions and gracious misinterpretations, which Freeman and co-workers are attempting to elucidate (Phillips et al., 2003). This theory has been applied to a variety of business fields, including stakeholder administration for the business and society relationship.

EMPIRICAL LITERATURE REVIEW

Gordon (2012) sought to recognize methods to advance the implementation of community commitment, and via this, CSR practices by applying two case studies of Australian forest plantation organizations to attain long lasting forest management results. The study applied different qualitative methods to examine two case studies, each entailing a single forest firm. The approach entailed observation, interviews and analysis of documents. The study examined that there were problems linked to a limited of knowledge of the spirit of stakeholder concerns, and an incapability for single firm to tackle issues linked to an industry sector. The study acknowledges that it is important for organizations to implant community commitment in the customs of their daily environmental operations. The study recommended that forest organizations take community commitment and CSR critically in case they are going to stay alive into the future. The findings showed that institutions create better stakeholder recognition and analysis methods, advance relationships with a wider range of players, and advance partnership within the forest farm industry (between institutions) to advance performance. This study has supplemented the existing research by guiding the researcher in what to anticipate in the results.

In US, Palmer (2012) examined the community commitment and financial performance of firms. Results demonstrated that community commitment as a component of corporate social responsibility lead to an advancement in corporate status of firms and particularly their financial performance. Major players are more probable to connect in dealings with institutions that have a CSR record of indicating a pledge to the society and surrounding. The study established that organizations that participate in CSR programs have minimal scrutiny from the society. In addition, organizations with CSR programs increase not only customer but also investor loyalty. Even though the study directs the researcher in what to anticipate, the study was carried out in a foreign setting. The fact that the study was conducted in the US, a first world nation means that its applicability in a growing economy's context is limited. As such, the current analysis focused on community commitment and financial performance of non-financial institutions with an interest in the Kenyan context.

RESEARCH METHODOLOGY

Research Design

For the purposes of this study, the descriptive survey research design was adopted. A descriptive study entails what, how and who of the occurrence or phenomenon (Ngechu, 2004). According to Nachamias, (2010), the descriptive research design observes and documents and issues of a given situation as it occurs naturally. Therefore, this kind of design is more appropriate for the purposes of this study because descriptive research design collects data, by interviewing and administering a questionnaire in a given sample of persons (Forsey, 2012). This research design is appropriate for this study because it provides the potential to fill gaps established by describing relevant issues of the phenomena of interest (Sekaran & Bougie, 2011).

Target Population

According to Orodho (2003), target population refers to the total number of elements where inferences are to be established. The definition ensures that the required population is homogenous. According to Mugenda and Mugenda (2003), the target population should entail observable features on which the researcher aims to generalize the study outcomes. Therefore, the target population for this study comprised of 60 non-financial institutions in Kiambu County, Kenya. The unit of observation was financial performance (ROA) while the unit of analysis were each of selected non-banking financial institution.

Sampling Strategy and Sample size

The target respondents comprised of 180 staff that includes the top, middle and lower levels of managers working in the Non-Banking institutions. Ngechu (2004) presents the significance of picking a representative sample from a target population as generations become more authoritative. To achieve a balanced sample, the study used stratified simple random sampling technique to pick the sample. Stratification aims at reduction standard error by offering a given

control over variance. To ensure inclusivity, the participations were randomly selected from each strata (top, middle and lower level management) using stratified simple random sampling technique. The population was grouped into three strata i.e. top managers, middle managers and lower level managers. The study then selected 60 respondents by use of simple random sampling. According to Cooper, Schilder, and Sun (2003), a minimum of 30 respondents must exist to allow normal approximations. Kotler (2001) further highlights that a sample of 10 percent of the population is acceptable for statistical purposes. The study selected 30 percent of the population to ensure conformity with the recommended sample thresholds.

Data Collection Instrument

The study relied on both primary and secondary data. A semi-structured questionnaire, which contained both open-ended and close-ended questions, was used to collect data (Bryman & Bell, 2003). A questionnaire is a device for information collection in which each individual is required to provide answers to the same set of items in a predetermined manner and order (Sekaran, 2006).

Data Collection Procedure

The researcher obtained an introduction letter from Kenyatta University showing approval to conduct research. This assisted in getting the authority to carry out research from NACOSTI. The researcher introduced himself using the letter of introduction, NACOSTI certificate and national identity card to the non-financial institutions' management to administer the questionnaires. The respondents were given adequate time to fill the questionnaires and an assurance of confidentiality was provided.

Data Analysis and Presentation

Data analysis adopted both descriptive and inferential statistics. The multiple regression analysis was key in guiding conclusions and generalizations regarding the effect of community commitment on financial performance. Regression analysis is a statistical procedure that helps in describing associations between variables (Scarbrough & Tanenbaum, 1998). It offered the level of impact of the matching independent variables on the dependent variable and the way of the association. It also offered opinion of quantitative impact of variables and analysed the statistical importance of the predictable relationships. The study applied the following regression model:

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \varepsilon}$$

Where: $\mathbf{Y}$ = the dependent variable (Financial performance); $\boldsymbol{\beta_0}$ = Constant Term; $\boldsymbol{\beta_1}$= Beta coefficient (The constant regression coefficient representing the condition of the independent variable to the dependent variable); $\mathbf{X_1}$= community commitment; $\boldsymbol{\varepsilon}$ = Error term.

RESEARCH RESULTS

Response Rate and Characteristics of SMEs

In total, sixty (60) questionnaires were disseminated to various participants. The drop and pick method was utilised where respondents were given up to two weeks to respond. Nonetheless, only fifty two (52) respondents successfully returned their questionnaires. This represented a response rate of approximately eighty seven percent. The response rate was considered adequate for statistical procedures. As recommended by Mugenda and Mugenda (2003), a response rate of 50% would be considered adequate, 60% good and above 70% very good.

Financial Performance

The study utilised the return on assets to establish the financial performance condition of the non-bank financial institutions. The financial performance (profitability) of the non-bank financial institutions as represented by the return on assets stood at an average of 5.58 percent. The firm with the highest profitability recorded a return on assets figure of 17.00 percent. On the other hand, the firm with the least profitability had their return on assets standing at a low of 1 percent. Likewise, the earnings before interest stood at an average of 493,276,659.56 while the total assets condition stood averaged at 12,047,732,843. Notably, although the financial performance of Non-Bank Financial Institutions as reflected in their return on assets was fairly good, the high standard deviation of 0.04 percent was indicative that some firms could be struggling with poor financial performance condition while others performed exemplary well. The findings support earlier observations by Oloo (2010) who indicated that although non-banking financial institutions were performing well generally, a few players were still dealing with evident losses.

Community Commitment

Results on statistics on respondents' opinion on whether community commitment influenced the financial performance of non-banking financial institutions, indicated that more than two thirds of participants (69.23 percent) were of the positive opinion while the rest (30.77 percent) indicated that community commitment had no influence on financial performance. The results support past findings by Gordon (2012) and Palmer (2012) who also presented a case for community commitment as key in influencing the financial performance.

Statistics on the extent to which community commitment influenced financial performance of non-bank financial institutions indicated that the mean (4.17) demonstrates that respondents held that community commitment largely influenced the performance of the firms. The low standard deviation (1.35) further demonstrated the validity of this condition. The findings are in support of past results by Gordon (2012) and Palmer (2012) who also presented a case for community commitment as key in influencing the financial performance.

Results on the level of agreement among respondents on the proposition that the firm had effectively explored new ways to promote the loyalty of customers indicated that the respondents largely agreed (3.83) with the existence of that condition. The low standard deviation (0.76) further validates this condition as it demonstrates that observations are closely held to the mean. Thus the recommendations of Palmer (2012) on need to enhance loyalty was followed.

Statistics on the extent to which participants agreed with the proposition that the institution enjoyed strong corporate and individual loyalty out of CSR initiatives indicated that (3.79) the institution enjoys strong corporate and individual loyalty out of CSR initiatives. This state of affairs was affirmed by the low standard deviation (1.30) which reflects proximity of responses about the mean. The findings indicate that both individual and corporate loyalty as preferred by Palmer (2012) were well pursued.

Statistics on the level to which respondents shared with the proposition that the firm's made prudent investment decisions to win shareholder confidence indicated that participants highly agreed (4.23) with the proposition that the non-bank-financial institutions made prudent investment decisions to win shareholder confidence. This condition is further validated by the low standard deviation (1.16) which indicates that observations were close held about the mean. The results agree with Palmer (2012) who also established similar conditions.

Results on the level to which respondents agreed with the statement that the non-bank financial institution was committed in cultivating good investor relations in a bid to win loyalty indicated that the firms (4.27) were committed in cultivating good investor relations in a bid to win their loyalty. This condition is further validated by the low standard deviation (1.32) which reflects proximity of observations to the mean. Hence the recommendations of Gordon (2012) on need to cultivate good investor relations was well implemented.

Results on analysis results on respondents' agreement with the statement that the non-bank financial institutions preserved organizational knowledge and shared the same with other members of the institutions demonstrates that the respondents were largely undecided (3.25) as to whether the firm preserved and shared organisational knowledge. This condition is also confirmed by the low standard deviation (1.57) which indicates that observations were held close to the mean. Hence, recommendations by Gordon (2012) on need for preservation of organisational knowledge was yet to be fully implemented by the firms.

Statistics on the level to which the respondents shared with the proposition that the institution appreciated human capital as the most important intellectual asset indicated that it was clear that the non-bank financial institutions appreciated human capital (3.83) as the most important intellectual asset as this was the view of most respondents. The low standard deviation (1.23) further affirms this condition. The recommendations of Palmer (2012) on the subject matter was therefore dearly implemented.

Effect of Community Commitment on Financial Performance of Non-Bank Financial Institutions

Table 1 shows the regression coefficients with financial performance being the dependent variable and community commitment as the independent variable.

Table 1: Regression Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	5.487	.067		1.110	.005
	Community Commitment	.701	.220	.553	2.103	.031

a. Dependent Variable: Financial Performance

From the regression analysis results, the coefficient for community commitment (0.701) has an associated p-value of 0.031, which is less than the 5 percent or 0.05 level of significance. As such, a conclusion was reached that community commitment is a useful predictor of financial performance. To that end, a unit increase in community commitment would lead to a 0.701 unit increase in financial performance. The results support past findings by Gordon (2012) and Palmer (2012) who also presented a case for community commitment as key in influencing the financial performance. The regression line model is developed as follows:

Financial Performance = 5.487 + 0.701 (Community Commitment)

From the regression model, community commitment has a positive effect on financial performance.

CONCLUSIONS AND RECOMMENDATIONS

Inferential statistics allow generalisations (inferences) and conclusions to be made regarding the larger population. Guided by the regression analysis results, the study concluded that community commitment as a dimension of CSR was a positive and statistically significant determinant of financial performance. Key policy recommendations are made, in view of unique findings to help the non-bank financial institutions and other firms in the like industry device ways to enhance their financial performance levels. Although the average profitability (financial performance) of the non-bank financial institutions as reflected in their return on assets was fairly good, it was established that some firms could be struggling with poor financial performance condition. Huge differences were also observed on the earnings before interest and tax and total assets status of the firms with some posting marginal figures. The study recommends that the underperforming non-bank financial institutions to consider benchmarking on other players to learn ways to build their capacity to deliver better financial results. On

community commitment, more investment should be made to cultivate the level of community commitment which was established to play a crucial role in positively influencing the financial performance. Recommendations are made on need to improve the practice of preserving organizational knowledge and sharing the same with other members of the organisation. Notably, this was found to be deficient in the firms.

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