EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF MICROFINANCE BANKS IN RWANDA: A CASE OF UNGUKA BANK PLC (2012-2021)

Nibasumba, F., & Tumusherure, W.

The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 9, Iss. 4, pp 1710 – 1727. December 4, 2022. www.strategicjournals.com, ©Strategic Journals

EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF MICROFINANCE BANKS IN RWANDA: A CASE OF UNGUKA BANK PLC (2012-2021)

[1] **Nibasumba, F., &** [2] **Tumusherure, W.**

[1] Masters student of Arts in Microfinance, Department of Applied Economics, INES- Ruhengeri, Musanze District, Rwanda
[2] PhD, Lecturer, INES- Ruhengeri, Musanze district, Rwanda

Accepted: November 20, 2022

ABSTRACT

This study established the effects of corporate social responsibility on financial performance of microfinance banks in Rwanda: A case study of Unguka Bank Plc undertaken within period of 2012-2021. The specific objectives were to analyze indicators of financial performance of Unguka Bank Plc and to assess the relationship between corporate social responsibility and financial performance of Unguka Bank Plc. Data was collected by using documentary analysis where quantitative technique was employed. Data was gathered from Unguka Bank Plc financial statements, archives and integrated reports and the data was analyzed by using regression and correlation analysis with the help of Stata to get relevant information. Findings showed that the indicators of financial performance of Unguka Bank Plc were good as indicated by both ratios such ROE and ROA among others. The researcher found that there is a strong positive relationship between CSR and financial performance of Unguka Bank Plc. Corporate social responsibility has statistically significant and strong effect on financial performance of Unguka Bank Plc with p-value is 0.0002 and R-Square of 91.47%. The researcher recommended that Unguka Bank Plc should increase amounts invested in corporate social responsibility and integrate corporate social responsibility as part of its core business in order to improve its indicators of financial performance.

Key words: *Corporate Social Responsibility and financial performance*

CITATION: Nibasumba, F., & Tumusherure, W. (2022). Effects of corporate social responsibility on financial performance of microfinance banks in Rwanda: A Case of Unguka Bank Plc (2012-2021). *The Strategic Journal of Business & Change Management,* 9 (4), 1710 – 1727.

INTRODUCTION

Corporate social responsibility has a long and storied history of definition and growth. This piece's publisher recounts the evolution of the CSR idea from its birth in the 1950s to the present. Definitions expanded in scope in the 1960s and proliferated in the 1970s. The 1980s saw fewer new definitions but more empirical research and the emergence of alternative themes. Stakeholder theory, business ethics theory, and corporate social performance were other topics. The concept of corporate social responsibility is still important in the 1990s, but it is replaced by or changed into new thematic frameworks(Carroll, 1999). In the twenty-first century, the idea of "corporate social responsibility" is one that many businesses employ. It is not difficult to comprehend the idea of corporate social responsibility. CSR refers to the businesses' goals to improve the well-being of the country in general and their workers in particular(Twishime, 2018).

Early CSR definitions tended to be somewhat broad. It was, for instance, described as "actively contemplating the influence of the company's actions on society" in the 1960s. Some other ancient explanations of CSR went like this: "Social responsibility is the obligation of decision makers to take actions which protect and improve the welfare of society along with their own interests". Generally speaking, CSR has been interpreted as procedures and policies used by businesspeople to ensure that stakeholders, such as society, are taken into account and safeguarded in their plans and operations(Carroll, 2016).

The conventional corporate philanthropy that existed before the 19th century was focused solely on the wellbeing of the firm's direct employees and their families. Later, the desire to forge a strategic alliance with the government and society prompted some corporate bodies to invest in the creation of institutions that meet the unique needs of the community, such as the establishment of trusts and foundations for tax advantages that support socially beneficial activities(Cynthia, 2016).

At the global order and also in Indonesia, the definition of social responsibility, in general, refers to the ISO 26000 Guidance for Social Responsibility, the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior that contributes to sustainable development, health and the welfare of society(Puteri F.A. *et* al., 2018).

The idea is now being adopted in various versions by Australia, Asia, South America, Africa, Europe, and many third world nations. Without a doubt, CSR is an idea that has endured and is gaining importance. Fairness requires us to acknowledge that the CSR concept has already been questioned by a number of scholars(Carroll, 2016). "Acting in a socially responsible manner thus entails more than merely engaging in community sendee initiatives and contributing money to charity and other important social causes,"(Thompson *et* al.,2007,as cited in Ngurimu, 2010). In addition to acting honorably and morally, trying to make the company a great place to work, demonstrating genuine consideration for the environment, and aiming to better society, demonstrating social responsibility requires doing things that gain the confidence and respect of all partners.

In the recent years, the discipline of business ethics has expanded dramatically. In their annual reports, more than half of the Fortune 1000 firms in the USA discuss organizational social responsibility. 48 of the top 50 American Fortune businesses have CSR webpages or made reference to it on their websites. They discovered that 42 companies had official CSR reports in 2009, and 96% of them had formal CSR reports, a dedicated website, or both. Additionally, 34 of these firms had accepted the Global Reporting Index, and 36 of them satisfied the reporting standards for international criteria in their reports (Wenhao, 2011).

The expansion of international corporations on the continent of Africa, especially those in the petroleum, aviation, beverage, and pharmaceutical sectors, has increased the importance of CSR, particularly in the new century. However, research in these areas has been heavily influenced by western ideas, and the most of it has been conducted in advanced North American and European countries. Additionally, Russia, Brazil, India and China as developing nations have received significant attention in recent research(Frederick, 1960)Lorraine, 2009; Carmen-Pilar, Rosa and Lisa, 2013,as cited in Akinleye & Faustina, 2017).

The study of the relationship between CSR and firm performance has emerged in the literature over the decades. Whether this relationship is positive, negative, or irrelevant is still undefined (Minghui, 2018). Moreover, since the 1970s, there have been several researches on the connection between financial performance and corporate social responsibility and, but none have come to an agreement. The link between financial performance and corporate social responsibility is a topic of continuing discussion. The main factor is that simple impacts and lengthy effects are not differentiated in current studies. In particular, banks must incur some monetary expenses to engage in a commitment to society due to their limited short-term resources, and if banks spend excessively in social responsibility(Zhou *et* al., 2021).

In Europe, the study to analyze the relationship between corporate social responsibility (CSR) and banks' financial performance of the European banking industry, results of the study confirm a positive effect of CSR engagement on banks 'financial performance. Bank profitability and interest income rise as social performance levels do(Gangi *et* al., 2018). However, in China, (Zhou *et* al., 2021), in their investigation into the interaction between corporate social responsibility and bank financial performance and the moderating effect of green credit. They discovered CSR would have short-term negative effect on bank financial performance. But over time, this cooperation turns out to be beneficial.

In Scandinavia, results from an examination into how CSR influences the financial performance of the banking industry revealed that there was no correlation between CSR and financial performance since the data set did not have sufficient supporting evidence. This is why the outcome is consistent with the idea that measuring CSR is challenging and extremely subjective(Fan&Moore, 2016). However, the research carried out in Tanzania on the link between financial performance and corporate social responsibility of the Tanzanian banks, the researcher found the bank's net profit and CSR were highly correlated(Kilewela, 2016).

Most financial companies in Rwanda now routinely undertake corporate social responsibility. One of the newest management approaches is for businesses to attempt to improve society while doing their operations(Daniel, 2014). The difficulties of the environment in which a corporation works cannot be ignored. In its strongest form, the notion of CSR states that businesses have a duty to take into account the interests of clients, staff, shareholders, communities, and the environment in all facets of their operations. Through the development of new goods and services using social, environmental, or sustainable factors, CSR projects can result in innovations(Twishime, 2018).

In Rwanda, the notion of corporate social responsibility is still relatively new. Some corporations, on the other hand, have begun to include corporate social responsibility into their business plans. As CSR is a new concept in Rwanda, according to a 2006 study by the Africa Peer Review Mechanism (APRM). Rwanda has also implemented a patchwork of legislation and regulations to address some stakeholders' worries about the scale of CSR in Rwanda, according to the research. There is a widespread absence of a legal and regulatory framework to deal with corporate social responsibility in a systematic manner(Society, 2011).

Most financial institutions have adopted corporate social responsibility as a standard practice. It is one of the most recent management methods in which businesses attempt to have a beneficial influence on society while conducting business(Daniel, 2014). Howe, in Rwanda,(Twishime, 2018), the findings from BRALIRWA Ltd's research on financial performance and corporate social responsibility of manufacturing corporations revealed a significant and strong correlation between the two variables.

Problem Statement

Unguka Bank Plc with its vision is “to become a leader in the microfinance industry in the country in order to contribute to the global effort of development”, it mainly provides different CSR activities such as contribution to environment protection and social development and participation in the national economic development (Unguka Bank, 2020).

However despite, its significant contribution that Unguka Bank Plc has made through its CSR initiatives, its financial performance is either good or bad. A number of Unguka Bank Plc reports from 2012 to 2021 revealed that the bank's financial performance has highly been increased or decreased significantly for year by year. According to various reports and archives of Unguka Bank Plc, for example the net profit/loss has been 111635000; 82500000Frw; 34809000Frw; 104590000Frw; (589288000Frw); 4076000Frw; (3137000Frw); 92861000Frw; 121283000Frw; 387069000Frw respectively in 2012;2013; 2014; 2015; 2016;2017; 2018; 2019; 2020; 2021(www.ungukabank.com). There may have been a number of other factors involved, but "Nowhere the proof of effects of CSR is mentioned for Unguka Bank’s financial performance."

Moreover, having reviewed various empirical studies, these studies, meanwhile, have not shown how a company's financial performance will increase for every Rwandan francs spent on CSR. There is a knowledge gap since these studies did not adequately address the effects of CSR on Microfinance Banks' financial performance. Therefore, the purpose of this research is to resolve this discrepancy by addressing the following query: "Does investing in corporate social responsibility have effects on Unguka Bank's financial performance?" That is why the research topic titled: effects of Corporate Social Responsibility on financial performance of microfinance banks in Rwanda-Case study of Unguka Bank (2012-2021). Since in Rwanda, there is a growing correlation between CSR initiatives and MFIs' financial performance, this study can add new knowledge.

Objectives of the Study

The general objective of this study was to establish the effects of corporate social responsibility on financial performance of microfinance banks in Rwanda period of 2012-2021, a case study of Unguka Bank Plc. Specifically the study aimed at the following objectives:

- To analyze indicators of financial performance of Unguka Bank Plc
- To assess the relationship between CSR and financial performance of Unguka Bank Plc.

Hypotheses

A hypothesis is a research’s anticipated explanation or opinion; consist of either a suggested explanation or for an observable phenomenon or a reasoned proposal predicting causal correlation among a multiple phenomenon.

The study was guided by the following hypotheses:

- **H0:** There is no effect of corporate social responsibility on financial performance of Unguka Bank Plc.
- **H1:** There is a strong effect of corporate social responsibility on financial performance of Unguka Bank Plc.

LITERATURE REVIEW

Definition of key concepts

Corporate Social Responsibility

According to Carroll (2016), business ethics has been a hot topic since the 1950s and is still developing. The thoughts and methods that have shaped the post-World War II age, however, will be the main focus. Despite the fact that there is evidence of its application across the world, generally with different names, conventions, and explanations, the most of the writings on corporate social responsibility and what it entails was created in USA. Various names for corporate social responsibility exist, including corporate conscience, corporate citizenship, social performance, sustainable responsible company, and responsible business(Ngarambe, 2018).

According to Ofori & Hinson (2007),social responsibility is an important part of strategy development. To assist a company in determining its goals and the best course of action, corporate strategies often include the company's essential traits and its operations. CSR has now become one of the rules among corporations' core duties. In the management sciences, the concept of and the study of corporate social responsibility (CSR) are not new (Hevi *et* al., 2018). CSR refers to the businesses' goals to improve the well-being of the country in general and their workers in particular(Twishime, 2018).

CSR is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside(Hopkins, 2005). Implementation of CSR requires useful reporting in informing and communicating forms of accountability to stakeholders(Puteri F.A. *et* al., 2018). Currently,(Ngarambe, 2018) describes corporate social responsibility as the voluntary integration of social and environmental concerns into a company's daily activities and relationships with stakeholders. It handles with complicated concerns including human resource management, community relations, workplace health and safety, environmental protection, consumers, laws and regulations, and supplier relations.

Aspects of Corporate Social Responsibility

According to Carroll (2016), the original 1979 publication of the four-part CSR definition. Carroll abandoned the four-part approach and replaced it with a CSR pyramid in 1991. Incorporating society's legal, economic, charitable or discretionary and ethical needs of businesses at particular moment, the four-part CSR definition establishes a conceptual framework that includes:

Economic Responsibility

Businesses incur a financial obligation to the society that helped them establish and sustain themselves as a necessary precondition or need of existence. Even though it may seem weird, society expects and even demands that enterprises be able to support itself. The only way to do this is for a business to be profitable, in a position to persuade owners or shareholders to make a contribution, and to have sufficient funds to continue operating. Historically, it is common to think of business organizations as entities that will manufacture and deliver a product or service that the public wants and needs. Society encourages businesses by allowing them to make money. Businesses generate revenue through creating value, which benefits all parties involved in the organization(Carroll, 2016). Economic responsibility is an element of CSR definition.

Legal Responsibility

Businesses have been approved by society as legitimate economic entities, and society has also established the fundamental principles under which they must exist and operate. By outlining fundamental conceptions of ethical conduct developed by politicians at the federal, state, and local levels, these fundamental principles, which also include policies and legislations, accurately convey society's notion of "codified ethics." As a condition of doing business, businesses are expected and obligated to follow various rules and regulations. It's no coincidence that compliance officers today have a prominent and high-ranking role in corporate hierarchies(Carroll, 2016). Legal responsibility is an element of CSR definition.

Ethical Responsibility

The public anticipates that firms will operate and carry out their operations in an appropriate way above and beyond what is required by laws and regulations. Even though they are not specifically stated in the law, firms that uphold ethical obligations will follow the behaviors, practices, and standards that are commonly recognized. As part of the ethical obligation, businesses must be mindful of not just the text but also the "spirit" of the legislation. Another element of the ethical expectation is that companies perform ethically even in the absence of legislation that offer guidance or impose obligations(Carroll, 2016). Ethical responsibility is an element of CSR definition.

Philanthropic Responsibility

All types of company donations are included in corporate philanthropy. The voluntary or discretionary acts of businesses are referred to as corporate philanthropy. While corporate giving and philanthropy may not be required in the conventional sense, they are increasingly expected of businesses and are part of the public's normal expectations. These activities are categorically voluntary or discretionary in both scope and nature. They are motivated by enterprises' desire to take part in ethical initiatives that are not governed by regulations or commonly anticipated of firms in terms of ethics. However, some firms do contribute partly because of a sense of moral obligation. In other words, they aim to make socially responsible judgments(Carroll, 2016). CSR definitions include philanthropic activity as one of its components.

Financial Performance

The word "financial performance" refers to a company's financial health, capacity and desire to remain financially sustainable in future and offer products to the society. Businesses follow certain strategies in order to achieve long-term objectives. Financial performance is the action of carrying out financial activities. In a broader sense, financial performance describes the extent to which financial objectives are being or have been achieved. Calculating the financial worth of a company's policies and operations is what this procedure entails(Daniel, 2014). A company's value is considered good if the company's performance is also good(Utomo, Fatmawati &Machmuddah, 2020). MFI's financial performance is also used to assess a company's long-term financial health by comparing it to other companies in the same industry or to all industries or sectors(Dhanasekar,Selvam& Thanikachalam, 2019).

According to Lassala *et* al. (2017),ROE ratio, a frequently used variable in finance and accounting research, is used to assess financial performance. The two metrics employed in this study, the ROA and the ROE, are among the most often used accounting measurements. Accounting metrics like ROA, ROE, and ROI are used to gauge internal efficiency. The company's financial performance is a formal business conducted efficiently and the company to evaluate the effectiveness of internal company activities that have been implemented in certain periods(Puteri F.A. *et* al., 2018).

Key Indicators of Financial Performance

Return on Assets

The value of ROA shows that businesses can produce financial benefits from its assets. The figure of ROA indicates what the firm can accomplish with what it has, i.e. how much money it can make from each dollar of assets it has(Kwizera, 2015). The company's profit will also increase along with the increase in sales of the company's products, it also has an effect on the business's financial performance, as measured by ROA. ROA measures a firm's potential to make revenue from its own resources(Utomo, Fatmawati&Machmuddah, 2020).

Return on Equity

According to (Kwizera, 2015) Return on Equity measures the rate of return on the ownership share held by common stock owners. It evaluates a business's capacity to turn a profit on each share of capital of shareholders. ROE measures how effectively and efficiently a company uses investment capital to increase all of its revenues. Return on equity (ROE), a profitability metric, is often used. It served as a gauge for equity growth using earnings after tax payments(Myšková & Hájek, 2019).

Theoretical Review

Integrative Theory

This theory examines how business incorporates social demands, suggesting that enterprise's survival, continuity, and expansion are all dependent on society. Social demands are often seen as the means through which society interacts with business and confers legitimacy and status on it. Corporate management should therefore take into account and incorporate social needs into the firm so that it functions in accordance with social principles(Twishime, 2018). Essentially, the theory focuses on detecting and scanning social needs, as well as responding to them, in order to attain social legitimacy, better social acceptability, and prestige.

Stakeholder Theory

Stakeholder theory suggests that the better the company manager is associated with various groups that have related interest, or “stake” in the company, the better firm performance may be (Freeman, 1984 as cited in Minghui, 2018). Stakeholder theory states that companies must pay attention to shareholders and stakeholders. All stakeholders are influenced and influence the company's activities and actions directly and indirectly(Utomo,Fatmawati&Machmuddah, 2020). According to Parmar *et* al. (2010), stakeholder theory is seen as a "framework," or a set of guidelines, from which many hypotheses may be constructed. We also refer to a sizable body of research that emphasizes the significance of the stakeholder notion or framework as "stakeholder theory," which is a word we use to describe it.

The definition of "stakeholder theory" as a form of entity has been hotly contested. Because theories are connected sets of verifiable assertions, some contend that this is not a "theory." Others contend that the core phrase's meaning is just too unclear to ever qualify as a theory. Others have offered it as an alternative "theory of the firm" to the shareholder theory of the business(Parmar *et* al., 2010).

Empirical Review

Gaining a competitive edge in today's climate of rapid change is growing harder, and it's becoming more dependent on differences between rival businesses. This encompasses the company's general visibility as well as the product quality and financial performance. One way to convey a responsible attitude toward entrepreneurship to stakeholders outside of merely business owners is through corporate social responsibility (CSR). Potential investors can also be approached using this technique(Myšková & Hájek, 2019).

Corporate social responsibility is perceived by some researchers as ethical and moral commitment to the community with any planned returns, it is seen by others as tactical and strategic activities that may help businesses achieve legitimacy or safeguard revenues. Others may see it as a moral statement for environmental protection or sustainability(Twishime, 2018).

The study carried out in China to determine whether business performance and CSR are linked in developing nations. In order to examine the data and test the hypotheses scientifically, the study employed a panel data regression model. According to the statistical results, there is a strong positive association between CSR and corporate performance(Minghui, 2018).

According to (Mukwarami *et* al., 2017), in their study to establish the relationship between Governance of corporate social responsibility and return on assets in the South African mining firms. The study used the multiple regression statistics to test the relationship. The results showed that there is a negative relationship between CSR and Return on Asset (ROA). However, after the incorporation of the number of employees as a control variable, the results show that there is a positive relationship between CSR and ROA. It is evident that mining firms considered in this research are engaging in

CSR programs in order to comply with government legislation rather than being philanthropic.

The study carried out by (Daniel, 2014) on the effect of corporate social responsibility on financial performance of commercial banks in Kenya. Multiple regression analysis was utilized in the study to determine how corporate social responsibility impacts financial performance. According to the study's results, corporate social responsibility costs have an impact on Kenya's commercial banks' financial performance. According to his findings, very prosperous institutions have long spent extensively in CSR efforts, whilst those that have traditionally recorded losses have seen CSR as a superfluous investment.

According to Bihimana (2011), in his study to explore the link between the sustainability of CWS Cooperatives in Rwanda and corporate social responsibility (CSR). In his study, he analyzed data by correlation coefficient. Findings of the investigation showed that CSR and CWS sustainability had a significant relationship. The study further recommended Regular training of all personnel on the importance of both the CSR and sustainable development.

According to Kwizera (2015), in the study to investigate the link between The Rwandan telecoms industry's financial performance and corporate social responsibility (CSR). CSR's relationship to business performance in terms of profits, as estimated by return on assets, is determined by regression. The findings demonstrated that CSR initiatives generally have no or little impact on the MTN Rwandacell company's financial performance. However, it will be discovered that several CSR categories affect ROA. Results also showed that CSR projects' contributions are guaranteed as long as they immediately boost gross and net profit margins and, in the end, contribute to rising equity, investment, and capital employed return rates.

The results of the study conducted in Rwanda to assess the impact of social responsibilities on the effectiveness of strategy in SOEs and NGOs showed a favorable relationship between SR and the effectiveness of strategy. The effectiveness of an organization is positively impacted by the use of CSR methods. SR leads to the organizational performance with good relationship to all stakeholders such as community, customers, and employees because it improves the brand image and the corporate reputation(Cynthia, 2016).

The aforementioned empirical investigations, there is a link between CSR and a company's financial performance. According to other researchers, there is negative link between CSR and a company's financial performance. These studies, however, have been unable to determine how MFI's financial performance would increase each Rwanda Francs spent on CSR. As a result, these studies have not been able to determine the effects of CSR on microfinance banks'financial performance in Rwanda in general and Unguka Bank Plc in particular, resulting in a knowledge gap. As a result, this study aims to address this vacuum by asking, "Does investing in corporate social responsibility initiatives have effects on financial performance of Unguka Bank Plc?"

Research Gap

Literature Gap

Having reviewed other studies carried out globally and locally, most studies of CSR on financial performance were carried in Europe, China and other African countries in banking industry other than Rwanda. Limited researches have carried out research on CSR on financial performance of banking industry in Rwanda, resulting in a knowledge gap. I will fill the gap by looking at effects CSR on financial performance of microfinance banks in Rwanda, especially Unguka Bank Plc.

For example, (Mukwarami *et* al., 2017), their study was to establish the relationship between Governance of corporate social responsibility and return on assets in the South African mining firms. For instance,(Kayirangwa, Namusore & Kule, 2018)

,their study was concerned with Influence of community relations Corporate Social Responsibility strategy Practices on Perceived firm's Performance in telecommunication sector in Rwanda. Another example, a study carried out by (Ngarambe, 2018) on Corporate Social Responsibility in Rwandan Manufacturing Firms With Reference To Inyange Industries Ltd . As a result, these studies have not been able to determine the impact of CSR on Unguka Bank Plc's financial performance, resulting in a knowledge gap. So, the study will add a new knowledge on effects of CSR on Unguka Bank Plc's financial performance.

Theoretical Gap

Having reviewed various research studies on CSR related to the topic, there is a theoretical gap. For instance,(Ngarambe,2018),while studying on corporate social responsibility in Rwandan manufacturing firms with reference to Inyange Industries Ltd in Rwanda, he did not include stakeholder theory which is very important in CSR issues because MFIs considers both shareholders and other stakeholders. However, this study will add this important theory of corporate social responsibility.

Methodology Gap

For example,(Daniel, 2014), when researching how Kenyan commercial banks' financial performance is impacted by corporate social responsibility. He only used multiple regression analysis to analyze the effect of corporate social involvement on financial performance. Another example, (Mukwarami *et* al., 2017), in their study to establish the relationship between Governance of corporate social responsibility and return on assets in the South African mining firms. They used the multiple regression statistics to test the relationship. In addition,(Kwizera, 2015), in the study to investigate the link between The Rwandan telecoms industry's financial performance and corporate social responsibility (CSR). He used regression to analyse his data.

However, this study will extend this by using both correlation and multiple regression analysis to study corporate social responsibility's effects on financial performance of Unguka Bank Plc.

METHODOLOGY

Research Design: After clearly defining the research subject, the researcher needed to develop a research design, in which he needed to specify the conceptual framework within which the study will be carried out. The creation of such a design makes it easier for research to produce the most knowledge while being as efficient as feasible. In other words, the goal of study design is to make it possible to get meaningful data with the least amount of work, time, and expense(Kothali, 2004).

In this study, we adopted quantitative research because the study described the relationship between financial performance and CSR of Unguka Plc because quantitative uses numerical data or data that can be transformed into statistically useful information to quantify the problem.

Instrument for Data Collection: One of the most crucial phases of doing a research is data collection. Data collection is the act of acquiring and analyzing information on relevant variables in a planned, methodical way that makes it possible to respond to specific research questions, test hypotheses, and assess results(Buchanan, 1981)**.**

As the time available for this study was limited, the data collected from Unguka Bank Plc's financial statements, archives and other integrated reports. The annual reports of Unguka Plc that were accessible to the public on its official websites were used by the researcher. The reports of Unguka Bank Plc were used to compile all of the data for this research work. The reports were examined, and significant data were gathered for additional examination.

The documentary Analysis: This study was conducted over a ten-year period, from 2012 to 2021. The secondary data were gathered by the researcher through document analysis. These secondary data were gathered from Unguka Bank Plc's financial statements, archives and other integrated reports. In order to gather information that allow the researcher to conduct a systematic search of what is written in connection with my research area. This study's researcher used some documents during the documentary analysis process and, after determining the importance of texts and classifying them on manuscripts, later typed them on a computer for compilation. Because of this, readers will have a comparative framework for analysis and evaluation after reading the review of literature.

This technique was employed by the researcher to gather secondary data. Such documents were books, brochures, and reports helped the researcher to provide the theoretical part. The researcher applied documentary search or documentary analysis to get secondary data on the company and gather corporate reports from different financial statements of Unguka Bank Plc. According to Buchanan(1981), quantitative data can be mathematically computed and has a numerical nature.

Data Analysis techniques and Models: To assess how CSR at Unguka Bank Plc correlates with financial performance, this study used quantitative methodology, including quantitative techniques. In this research, different data analysis methods was used through this research including statistical method, including regression, and Correlation Analysis.

The P-value and the coefficient of determination was used to determine the model's overall significance (the proportion of variation in the dependent variable explained by changes in the independent variables).This method helped the researcher to analyze the data obtained on the basis of investigations of reports using the computations and statistical considerations presenting an overall view of the results in tables. In this study, I used multiple regression and correlation.

Regression Analysis: According to Kothali (2004), when there are two or more independent variables, the analysis concerning relationship is known as multiple correlation and the equation describing such relationship is called multiple regression equation. Here, with both dependent variable and independent variable, we explain multiple correlation and regression (Convenient computer programs exist for dealing with a great number of variables) with the help of stata. In this case, the findings are interpreted as follows:

$$Y= \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon \qquad \textbf{(1)}$$

Where **Y** being the dependent variable; $\mathbf{X_1}$ and $\mathbf{X_2}$ are two independent variables; $\boldsymbol{\beta_0}$; $\boldsymbol{\beta_1}$ and $\boldsymbol{\beta_2}$ are coefficients of **X;** ε=Error term

Correlation Analysis: A measure of the strength of the link between the variables in a regression model is provided by correlation analysis. The association between financial performance and CSR investment were estimated using correlation in this study. At a 5% level of significance, the statistical association between financial performance and corporate social responsibility investment were discovered using correlation analysis with the help of Stata.

RESULTS AND DISCUSSIONS

Analysis the Indicators of Financial Performance of Unguka Bank Plc Using Key Ratios

Writings assert that bank's financial performance is measured by how better off the shareholder is at the end of a period, than he was at the beginning. The main objective of shareholders in investing in a business is to increase their wealth. Thus, the measurements of performance of Unguka bank Ltd are as follows:

Table 1: ROA From 2012-2021

Years	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Assets Frw (000)	18,259,485	19,136,609	20,184,563	21,366,770	22,240,100	31,116,751	33,303,345	24,697,627	27,198,153	27,653,720
Net Profit/ Loss Frw (000)	111,635	82,500	34,809	104,590	(-589,288)	44,076	(-3,137)	92,861	121,283	387,069
ROA (%)	**0.6114**	**0.4311**	**0.1724**	**0.4895**	**-2.6494**	**0.1416**	**-0.00919**	**0.376**	**0.4459**	**1.3997**

Source: Calculated based on **Unguka Bank Plc** financial statements and integrated reports **2012-2021**

Average in % of **ROA** in 10 years =0.140901

Table 1 shows that for 100frw invested in Assets in Unguka Bank Plc, generated 0.6114 in **2012**; 0.4311 in **2013**; 0.1724 in **2014;** 0.4895 **in 2015;**-2.6494 **in 2016;**0.1416 **in 2017;**-0.00919 **in 2018;**0.376 **in 2019;**0.4459 **in 2020;**1.3997 **in 2021**. Despite that decreases, Unguka Bank Plc had a good position on investment in assets. This attracted potential investors to invest and the existing investors were encouraged to reinvest in Unguka Bank Plc because return on Assets is significant or good.

Table 2: ROE From 2012-2021

Years	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Equities Frw (000)	8,494,454	7,079,255	6,971,616	5,283,756	4,694,468	4,788,536	4,735,407	4,522,546	4,643,829	5,030,898
Net Profit/Loss Frw (000)	111,635	82,500	34,809	104,590	(-589,288)	44,076	(-3,137)	92,861	121,283	387,069
ROE (%)	**1.3142**	**1.1653**	**0.4993**	**1.9794**	**-12.5528**	**0.9204**	**-0.06624**	**2.0539**	**2.6117**	**7.6998**

Source: Calculated based on **Unguka Bank Plc** financial statements and integrated reports **2012-2021**

Average in % of **ROE** in 10 years =0.470456

Table 2 shows that for 100frw investors put in Unguka Bank Plc, has brought 1.3142% of the benefit in **2012**; 1.1653% in **2013**; 0.4993% in **2014**; 1.9794% in **2015**; - 12.5528% in **2016**; 0,9204% in **2017**;-0.06624% in **2018**; 2.0539% in **2019**; 2.6117% in **2020**; 7.6998% in **2021**. Despite that decreases of ROE, Unguka Bank Plc had a good position on investment in equities. This attracted and will attract potential investors to invest and the existing investors were encouraged to reinvest in Unguka Bank Plc, ROE is significant.

Table 3: ROS From 2012-2021

Years	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net Profit/Loss Frw (000)	111,635	82,500	34,809	104,590	(589,288)	44,076	(3,137)	92,861	121,283	387,069
Net sales Frw (000)	1,852,889	1,862,477	2,001,210	2,267,206	2,380,605	2,943,476	3,091,879	2,964,664	2,785,675	3,023,693
ROS (%)	**6.01**	**0.443**	**1.739**	**4.613**	**-24.754**	**1.497**	**-0.101**	**3.132**	**4.353**	**12.801**

Source: Calculated based on **Unguka Bank Plc** financial statements and integrated reports **2012-2021**

Average in % of **NPMR** or **ROS** in 10 years = 0.9733

Table 3 shows that for 100frw invested in sales in Unguka Bank Plc, generated net profit of 6.010 in **2012**; 1.739 in **2013**; 4.613 in **2014**; 4**.613 in 2015**; (24.754) in **2016,** 1.497 in **2017,** (0.101) in **2018;** 3.132 in **2019;** 4.353 in **2020;** 12.801 in **2021** So, Unguka Bank Plc was profitable from 2012-2021. Even if it decreases, this does not discourage potential investors because it generates a good profit. This ratio measures the earning per Frw of assets invested in the company. A high ratio represents better the company is.

Table 4: LDR From 2012-2021

Years	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Loans Frw(000)	5,423,689	7,456,130	9,432,147	11,434,294	13,046,061	19,699,922	17,243,773	15,241,875	16,260,513	16,573,029
Deposits Frw(000)	8,567,450	11,458,098	12,867,123	15,782,762	16,689,094	25,533,533	27,631,021	18,595,198	20,585,386	20,865,441
LDR (%)	**63.306**	**65.073**	**73.304**	**72.448**	**78.171**	**77.153**	**62.407**	**81.967**	**78.99**	**79.428**

Source: Calculated based on **Unguka Bank Plc** financial statements and integrated reports **2012-2021**

Average in % of **LDR** in 10 years=73.2247

Table 4 shows that 100frw of deposit, Unguka Bank Plc allocated 63.306 to loan in **2012**; 65.073 were allocated to loan in **2013**; 73.304 were allocated to loan in **2014;** 72.448 were allocated to loan in **2015;** 78.171 were allocated to loan in **2016,** 77.153 were allocated to loan in **2017;** 62.407 were allocated to loan in **2018;** 81.967 were allocated to loan in **2019;** 78.990 were allocated to loan in **2020;** 79.428 were allocated to loan in **2021.** For investors, Unguka Bank Plc is in good position they do not allocate a big percentage of deposit to loans. LDR measures the part or share of deposits invested in loans provided to borrowers.

Table 5: LAR From 2012-2021

Years	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Loans Frw(000)	5,423,689	7,456,130	9,432,147	11,434,294	13,046,061	19,699,922	17,243,773	15,241,875	16,260,513	16,573,029
Assets Frw(000)	18,259,485	19,136,609	20,184,563	21,366,770	22,240,100	31,116,751	33,303,345	24,697,627	27,198,153	27,653,720
LAR(%)	**28.718**	**38.962**	**46.729**	**53.514**	**58.66**	**63.309**	**71.778**	**61.714**	**59.785**	**59.93**

Source: Calculated based on **Unguka Bank Plc** financial statements and integrated reports **2012-2021**

Average in % of LAR in 10 years=54.3099

Table 5 shows that 100frw of asset invested in loans in Unguka Bank Plc were 28.718 in **2012**; 38.962 in **2013**; 46.729 in **2014;** 53.514 in **2015;** 58.660 in **2016;** 63.309 in **2017;** 71.778 in **2018;** 61.714 in **2019;** 59.785 in **2020;** 59.930 in **2021.** As the average of 10 years, LAR was greater than 50%, Unguka Bank Plc is in good position. LAR measures the part of Unguka Bank Plc's assets invested in loans.

Assessment of the Relationship between Corporate Social Responsibility and Financial Performance of Unguka Bank Plc

Table 6: Relationship between corporate social responsibility and financial performance of Unguka Bank Plc using multiple regression analysis

Number of obs =10

F(2, 7) =37.52

Prob>F =0.0002

R =0.9564

R_Squared =0.9147

Y	Coef.	Std. Err.	T	p>|t|	[95% Conf. Interval]	
x1	0.073663	0.0125502	5.87	0.001	0.0439864	0.1033396
x2	0.8356524	0.3424047	2.44	0.045	0.025994	1.645311
-cons	-1.53e+09	1.98e+08	-7.74	0.000	-2.00e+09	-1.06e+09

Source: Calculated based on **Unguka Bank Plc** financial statements and integrated reports **2012-2021**

The output **table 6** below indicates that there is a high positive correlation, R=0.9564 between corporate social responsibility and financial performance of Unguka Bank Plc. This suggests that as Unguka Bank Plc invests a lot of money in CSR, it automatically its profit as the most important sign of good financial performance. Correlation coefficients are used to measure the strength of the linear relationship between two variables. A correlation coefficient greater than zero indicates a positive relationship while a value less than zero signifies a negative relationship**.** Since the R_square or Coefficient of determination is 0.9147 this explains that corporate social responsibility Unguka Bank Plc contributes to financial performance at the level of 91.47%. The remaining 8.53% can be explained by other variable that was not captured in the analysis. Meaning that 91.47 of variation of net profit or loss is captured by the model, only 8.53% is not explained by the model. The increase or decrease of CSR(X) affects the net profit or loss(Y).

Moreover, from above table the causal effect of independent variables on dependent variable which is the financial performance of Unguka Plc Bank in this study, was determined using the regression model as given in Equation **(1)**

$$Y= \beta_0 + \beta_1X_1 + \beta_2X_2 +\varepsilon$$

Where **Y** being the dependent variable, $\mathbf{X_1}$ and $\mathbf{X_2}$ are two independent variables, and $\boldsymbol{\beta_0}$;$\boldsymbol{\beta_1}$ and $\boldsymbol{\beta_2}$ are coefficients of **X**.

Where: Y= Unguka Bank Plc's financial performance that can be measured through profit/loss; β= Coefficient of X; X_1= Contribution to environment protection and social development; X_2= Participation in the national economic development. Therefore, given the numerical output on the table above, the model becomes:

Y=$-15303404872 + 0.073663X_1 + 0.8356524X_2$ **(2)**

Table above table presents estimates of parameters of the model. According to the results presented in the table, the p-value for all estimated parameters is 0.0002 which is less than 0.05.As Prob>F=0.0002 is less than 0.05, this implies that all these independent variables are very statistically significant. The value of constant which is -1530404872 units which means that Unguka Bank Plc will be in loss of -1530404872 units when CSR activities are absent or not in place in Unguka Bank Plc.

On the other hand, the coefficient of 0.073663 for contribution to environment protection and social development implies that Unguka Bank Plc's profit increases by 0.073663 units for an increase of for contribution to environment protection and social development while keeping participation in the national economic development constant. Meaning that a unit change in contribution to environment protection and social development, net will increase profit by 0.073663 units, keeping participation in the national economic development constant. Similarly, the coefficient of increasing participation in the national economic development which is 0.8356524 implies that Unguka Bank Plc's net profit increases by 0.8356524 units for an increase in one unit of participation in the national economic development, holding contribution to environment protection and social development constant. Meaning that a unit change in participation in the national economic development constant, net will increase profit by 0.8356524 units, keeping contribution to environment protection and social development. As a conclusion, efforts must be put on contribution to environment protection and social development and participation in the national economic development since the coefficient is still under unit. In both cases, the effects of CSR is statically significant because p>|t| of both independent variables are less than 0.05. The increase or decrease of CSR(X) affects the net profit or loss(Y).

Based on these results it can be said that contribution to environment protection and social development and participation in the national economic development are closely related to Unguka Bank Plc's financial performance as it contributes to the increase in customers which in turn contributes to profit maximization for microfinance Banks.

Table 7: Relationship between Corporate Social Responsibility and Financial Performance of Unguka Bank Plc using correlation analysis

```
. correlate
(obs=10)

             |        y       x1       x2
-------------+---------------------------
           y |   1.0000
          x1 |   0.9176   1.0000
          x2 |   0.7034   0.5148   1.0000
```

Table 7 shows that there is a strong positive correlation between corporate social responsibility and financial performance Unguka Plc Bank because both are positive and are greater than 0.5.

Results of Test of Hypotheses:

H0: There is no effect of corporate social responsibility on financial performance of Unguka Bank Plc.

The **table 8** below provides results from ANOVA test for testing whether there is a significant impact on financial performance of Unguka Bank Plc. According to the results presented, the p-value is 0.0002 which is less than 0.05. This implies that we do reject the null hypothesis and conclude that CSR have statistically significant impact on financial performance of Unguka Bank Plc.

Table 8: ANOVA test for no effect of corporate social responsibility on financial performance of Unguka Bank Plc

	Df	SS	MS	F	Significance F
Regression	2	4.93E+17	2.46E+17	37.51904	0.000181463
Residual	7	4.60E+16	6.57E+15		
Total	9	5.39E+17			

Source: Calculated based on **Unguka Bank Plc** financial statements and integrated reports **2012-2021**

H1: There is a strong effect of CSR on financial performance of Unguka Bank Plc

Table 9: ANOVA test for effect of corporate social responsibility on financial performance of Unguka Bank Plc

	Df	SS	MS	F	Significance F
Regression	2	4.93E+17	2.46E+17	37.51904	0.000181463
Residual	7	4.60E+16	6.57E+15		
Total	9	5.39E+17			

Source: Calculated Based on **Unguka Bank Plc** financial statements and integrated reports **2012-2021**

Table 9 provides results from ANOVA test for testing whether there is a significant and strong effect of corporate social responsibility on financial performance of Unguka Bank Plc. According to the results presented, the p-value is 0.0002 which is less than 0.05. This implies that we accept the alternative hypothesis and conclude that corporate social responsibility has statistically significant and strong effect of corporate social responsibility on financial performance of Unguka Bank Plc.

CONCLUSIONS AND RECOMMENDATIONS

The general objective of the study was to establish the effects of Corporate Social Responsibility on financial performance of microfinance Banks in Rwanda, a case study of Unguka Bank Plc. The results showed that corporate social responsibility is strongly and positively correlated with financial performance because both Pearson correlations are greater than 0.5. The p-value is 0.0002, which is less than both the 0.05 standard significance level. This means that, Corporate Social Responsibility has a significant influence on its financial performance.

The findings of the study was relevant due, use of CSR, are critical factors for financial performance as measured by ROA,ROE, Net income marginal, Loans to Deposits and loans to assets. It concluded that the interactions use of CSR of the factors create an impetus for financial performance as measured by ROA, ROE, Net income marginal, Loans to Deposits and loans to assets.

From the above analysis, it was recommended that Unguka Bank Plc should increase amounts invested in corporate social responsibility and integrate corporate social responsibility as part of its core business in order to improve its indicators of financial performance.

REFERENCES

Akinleye G.T & Faustina A. T. (2017). Impact of corporate social responsibility on the profitability of multinational companies in Nigeria. *Global Journal of Management and Business Research: D Accounting and Auditing*, *17*(3), 27–35.

Bihimana, D. (2011). *Corporate Social Responsibility and Company Sustainability In Coffee Washing Station Cooperatives In Rwanda.* Kampala International University, Uganda.

Buchanan, M. E. (1981). Methods of data collection. *AORN Journal*, *33*(1), 201–276. https://doi.org/10.1016/S0001-2092(07)69400-9

Carroll, A. B. (1999). Evolution of a Definitional Construct. *BUSINESS & SOCIETY*, *38*(3), 268–295.

Carroll, A. B. (2016). Carroll's pyramid of CSR: taking another look. *International Journal of Corporate Social Responsibility*, *1*(3), 1–8. https://doi.org/10.1186/s40991-016-0004-6

Cynthia, N. (2016). *Social responsibility strategy: A comparative case study between Energy Utility Corporation Limited & Rwanda Red Cross* (Issue July). Universsity of RWANDA.

Daniel, K. (2014). *Effects of Corporate Social Responsibility on Profitability of the Telecommunication Firms in Kenya a Research Project Submitted in Partial Fulfillment of the Requirement for the Award of the Degree of Master of Science in Finance, School of Business Univ*. UNIVERSITY OF NAIROBI,Kenya.

Dhanasekar, D., Selvam, M.& Thanikachalam, V. (2019). correlation between corporate social performance and financial performance: Evidence from Indian companies. *International Journal of Basic and Applied Research*, *9*(2), 472–490. https://doi.org/10.1108/JGR-11-2018-0060

Gangi, F., Mustilli, M., Varrone, N., & Daniele, L. M. (2018). Corporate Social Responsibility and Banks' Financial Performance. *International Business Research*, *11*(10), 42–58. https://doi.org/10.5539/ibr.v11n10p42

Hevi, S. S. L. T., Mantey, D. T. O., Finance, M. B. A., Nkrumah, E. N. K., & Ketemepi, G. E. (2018). Corporate Social Responsibility (CSR) and Financial Performance: A Critical Assessment of Oil Marketing Companiesin Ghana. *Journal of Resources Development and Management*, *50*(1), 1–10.

Hopkins, M. (2005). Measurement of corporate social responsibility. *International Journal of Management and Decision Making*, *6*(3–4), 213–231. https://doi.org/10.1504/ijmdm.2005.006549

Kilewela, A. (2016). *Assessment of the Impact of Corporate Social Responsibility on Financial Performance of the Banking Institutions :Case study of the National Microfinance Bank*. University of Tanzania

Kothali, C. R. (2004). *Research Methodoldy methods and Techniques*.

Kwizera, E. (2015). *Corporate Social Responsibility Projects and Organizational Performance In Telecomunication Companies A Case Of Projects Financed By MTN Rwandacell.* (Issue February). Mount Kenya University.

L. Fan&A. Moore. (2016). *CSR and financial performance in the banking sector in Scandinavia* [University of GOTHENBURG]. https://gupea.ub.gu.se/handle/2077/44769

Lassala, C., Apetrei, A., & Sapena, J. (2017). Sustainability matter and financial performance of companies. *Sustainability (Switzerland)*, *9*(9), 1–16. https://doi.org/10.3390/su9091498

Minghui, Y. (2018). *The Relationship between Corporate Social Responsibility and Firm Performance in Emerging Economies: Evidence from Pharmaceutical Chinese Firms*. ISCTE University Institute of Lisbon.

Mukwarami, S., Nyirenda, G., & Fakoya, M. B. (2017). Governance of corporate social responsibility and return on assets in the South African mining firms. *African Journal of Public Affairs*, *9*(5), 136–153.

Myšková, R., & Hájek, P. (2019). Relationship between corporate social responsibility in corporate annual reports and financial performance of the US companies. *Journal of International Studies*, *12*(1), 269–282. https://doi.org/10.14254/2071-8330.2019/12-1/18

Ngarambe, J. (2018). *A Study on Corporate Social Responsibility In Rwandan Manufacturing Firms With Reference To Inyange Industries Ltd.* (Issue October). University of RWANDA.

Ngurimu, W. L. (2010). *Practices By Micro Finance Institutions in*. University Of Nairobi,Kenya.

Ofori, D. F., & Hinson, R. E. (2007). Corporate social responsibility (CSR) perspectives of leading firms in Ghana. *Corporate Governance*, *7*(2), 178–193. https://doi.org/10.1108/14720700710739813

Parmar, B. L., Freeman, R. E., Harrison, J. S., Wicks, A. C., Purnell, L., & de Colle, S. (2010). Stakeholder theory: The state of the art. *Academy of Management Annals*, *4*(1), 403–445. https://doi.org/10.1080/19416520.2010.495581

PUTERI F.A. , LINDRIANASARI, K. N. D. & F. (2018). The Effect of Corporate Social Performance and Financial Performance On Corporate Social Responsibility (CSR) Disclosure As an Intervening Variable Toward Firm Value. *THE INDONESIA JOURNAL OF ACCOUNTING REESEARCH*, *21*(3), 395–422. https://doi.org/10.33312/ijar.405

Society, C. (2011). *The State of Civil Society in Rwanda in National Development* (Issue March). https://civicus.org/downloads/CSI/Rwanda.pdf

Twishime, P. (2018). *Corporate Social Responsibility and Financial Performance of Manufacturing Companies* *in Rwanda A Case Study Of Bralirwa Ltd* (Issue June). Mount Kenya University,Rwanda.

Unguka Bank. (2020). 2020 Integrated Annual Report. In *2020 Integrated Annual Report*.

Utomo,St. D. ,Fatmawati, I. &Machmuddah, Z. (2020). Financial Performance as an Intervening Variable on the Relationship of Corporate Social Responsibility Disclosure and Firm Value: Evidence From Indonesia. *Advances in Health Sciences Research*, *27*(ICoSHEET 2019), 53–56. https://doi.org/10.2991/ahsr.k.200723.012

V. Kayirangwa, G. . N. & J. W. K. (2018). Influence of community relations corporate social responsibility strategy on perceived firm performance telecommunication sector in RWANDA. *INTERNATIOANAL JOURNAL OF SOCIAL SCIENCES and Information Technology*, *VI*(VI), 70–83.

Zhou, G., Sun, Y., Luo, S., & Liao, J. (2021). Corporate social responsibility and bank fi nancial performance in China : The moderating role of green credit. *Energy Economics*, *97*(1), 105190. https://doi.org/10.1016/j.eneco.2021.105190