THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE: A CASE OF PUBLICLY QUOTED COMPANIES IN KENYA.

BY

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

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D61/P/8377/99

This research project has been submitted for examination with approval as University Supervisor.

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EPILOGUE

"It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their self-love………"

Adam Smith.

DEDICATION

To the women in my life, my mother Tabitha, wife Mbete and daughter Grace Mwende.

ACKNOWLEDGEMENTS

I wish to acknowledge the hand of Almighty God in all what I did during the period of the MBA course.

I wish to sincerely thank my supervisor Mr. Mohamed N. Mwachiti for his valuable inputs and dedication to this work. I also have much gratitude to the fellow students in the MBA class, staff at the faculty of commerce and colleagues at work who contributed inputs in this study.

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Abbreviations.

ANOVA	Analysis of Variances
CEO	Chief Executive Officer.
CSR	Corporate Social responsibility.
CFP	Corporate Financial performance.
EPS	Earnings per share
KLD	Kinder, Lydenberg, Domini and Co.
MS	Mean square of variables
PE	Price Earnings Ratio.
ROA	Return on Assets
ROE	Return on equity
SA8000	Social Accountability 8000
SS	Sum of squares

ABSTRACT.

During the past decade, the relentless pace of liberalization and privatization along with advances in communications and computer technologies have spawned an enormous transformation of contemporary society. This transformation has created tremendous opportunities for business while presenting numerous challenges as well. One of the most fundamental challenges a business faces in coming years involves understanding and responding to society's rising expectations. In addition to the competitive pressure they face from globalization, businesses today face pressure from many diverse constituents – shareholders, employees, customers, consumers, and civil society – to do more than just fulfill their legal obligations by contributing towards the resolutions of larger societal problems.

In this paper, 32 companies listed at the Nairobi stock exchange were examined using a questionnaire for their levels of corporate social responsibility in areas of corporate governance, employee engagement, community service, customer service and environmental conservation as well as reporting of corporate social activities in their annual reports. The purpose of this study was to establish whether there was any relationship between corporate social responsibility and financial performance and determine the effects of industry sector, firm size and ownership structure on corporate social responsibility.

All the firms that were interviewed indicated that they use corporate social responsibility either as a competitive strategy or a marketing tool and none admitted as engaging in corporate social responsibility due to their healthy cash flows. Also using information from the questionnaire and publicly available financial data, a correlation analysis was done to determine whether there is any linkage between

corporate social responsibility and firm performance. The results indicated that there was no relationship between corporate responsibility and financial performance.

On the effects of the industry sector, all firms showed a level of engagement in CSR but to a varying degree with firms in the Industrial and Allied having the highest mean score of 0.66 and those in the Finance and investments sector with the lowest score of 0.54. All firms whether foreign or local owned had the same mean CSR score of 0.61 and therefore there was no effect on ownership structure.

On the effects of firm size, there was a relationship between the firm size and the level of corporate social responsibility, which was significant and positive supporting the view that the bigger the firm, the more visible it is.

CHAPTER ONE

1.0 Introduction.

1.1 Background.

The performance of business organizations is affected by their strategies and an operation in the market and non-market environments, one of the non-market strategies is the Corporate Social Responsibility, hereafter referred to as CSR. CSR is about the values and standards by which businesses operate. It is about the commitment of businesses to behave ethically, operate legally and contribute to economic development while improving the quality of life of its employees and their families, as well as the local community and society at large. It affects every aspect of business from the source of raw materials and how they are produced to what happens to the products and services. To be exposed as greedy, insensitive or uncaring is disastrous in the short term but even more certainly in the longer term.

The good reason why companies get involved in some kind of CSR activity is the publicity potential, as publicity is a good way to draw attention to a new brand before advertisement is done (Fombrun and Shanley, 1990). This is because publicity creates discussion or controversy, but it keeps one memorable long enough for the product or service to be sampled, compared and hopefully endorsed. CSR activity also gives people who might not need to actually buy ones product a chance to see one in action and think well without actually being a customer.

The major issues of CSR relates first to the Stockholders (owners) who have a financial interest in the business and obviously expect a financial return. Business affects their livelihood because they need money to live and purchase material things. Secondly to the employees who in return for their skills and labour they provide to the business; they expect a salary, benefits, security (not to be made redundant), to be treated fairly and not to be exposed to a harmful environment. Thirdly to the customers who needs to be treated as a valued member of the stakeholder network because without them the business would not exist. They provide the revenue that is needed for the business to achieve its main goal – to be profitable. The fourth issue relates to the community as local community grants the business the right to exist. They grant the business the right to build facilities to operate, and they purchase the business's products. The community also provides the business with raw materials as suppliers and hence determines the products final quality and price. And lastly, the environment should not be polluted as by doing so they expose to (health hazards).

Firms are under immense pressure from different groups like environmentalists, professionals, human rights and many others, to respond to the needs of the society and environment. Specifically, the following factors exert a significant pressure on firms to be socially responsible; the shrinking roles of government in provision of essential services to its citizens, demands for greater disclosure especially from the shareholders, increased customer interest, growing investor pressure, competitive labour markets, supplier relations and nongovernmental organizations and other pressure groups.

In Kenya, most of the CSR is about response to disasters, others respond when the government calls for assistance and therefore it has not been entrenched in the corporate strategy plan. However, international community is forcing companies in Kenya not to employ child labour in their production process as what is common in coffee estates; companies are also insuring their employees and immediate family for medical cover. Other examples for lack of corporate responsibilities in Kenyan corporations are on low wages that are below the general wage levels. Even though this can be seen as a willing employer-willing employee, the trend is not good especially where the wage does not meet the basic requirements for survival. The recent revelations of public funds being deposited in Euro bank by well-connected individuals are a good example of how firms in Kenya are not responsible.

As corporations provide their shareholders with long-term profitability, they must of necessity consider the constraints posed by the environment external to the firm. The issue of the Canadian firm Tiomin, with its huge foreign-funded projects, which involves displacement of people and also politics, revolves around compensation to the local people who are to be displaced and the project's effects on ecosystem. Cigarette manufacturer firm, British American Tobacco supports youth smoking prevention programmes with their slogan that "if you are too young to vote, don't smoke". Also they support tobacco farmers by giving them support on better tobacco growing methods. The recent flooding in South Nyanza has seen corporations donating money, drugs and other essentials to help victims of the floods with examples of Standard Chartered bank donating two million shillings for the cause. Cirio Delmonte in an effort to shed the murky past has acquired SA8000 social certification, this means that their production system from the supplier to the consumers are carried out in a socially responsible way.

1.2 Statement of the Problem.

In the early seventies, Friedman (1970) was of the view that in a capitalist economy, the one and only one responsibility of business is to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game i.e. engages in open and free competition without deception or fraud. Currently there is a different thinking from the capitalist view held by Friedman as many firms regard CSR as an important value driver and are willing to allocate resources to maintain it. (Robin and Reidenbach, 1988).

Studies done so far had mixed results on the relationship between CSR and financial performance. Waddock and Graves (1997a) in their study found a negative relationship, while Waddock and Graves (1997) and McWilliams and Siegel (2001) in their study found that there is no relationship between CSR and financial performance. Waddock and Graves (1997), Preston and O'Bannon (1997) and Orlitzky and Benjamin (2001) in their studies found a positive relationship between CSR and financial performance. Despite the conflicting results, the biggest numbers of studies have showed a positive relationship between corporate social responsibility and financial performance.

Although CSR is a very important part in corporate governance, there is no much evidence from Kenyan companies on its level of implementation. This may be that it is regarded as merely a public relations work without any major direct influence on performance or may be due to lack of "evidence" of its efficacy with regard to investment return. Studies done so far in Kenya have focused on managerial attitudes towards business social responsibility (Kweyu, 1993; Kiarie, 1997), yet CSR entails many areas. The issue of CSR and its relationship with firms' profitability is important to the managers of companies in Kenya today, especially in these times of intense competition and changing customer expectations. Companies' managers have to find innovative ways to attract customers and remain in business and one of the ways is to be good to the stakeholders so that they do well. Within the framework of this study, the focus is the examination of the relationship between CSR and financial performance for firms quoted at the NSE.

1.3 Objectives of the study:

The aim of this study is to examine the relationship of corporate social responsibility and financial performance of firms. To this end the study seeks to:

i. Establish the relationship between the level of CSR and CFP.

ii. Determine the effect of industry sector, firm size and ownership structure on corporate social responsibility.

1.4 Importance of study.

The study is expected to be of benefit to the various groups in that first to the business community, it will increase their awareness on the importance of concern to social welfare and why they should do so. Since in East Africa there is no benchmark for social responsibility, this research can be used as further reference for introduction of social responsibility in the Nairobi Stock Exchange Index. Thirdly to the academicians, this study will be important as an addition to knowledge and is hoped that it will stimulate research on other aspects of social responsibility.

1.5 Overview of the study.

This research is divided into five chapters; the first chapter is the introduction that explains the background information on the subject of the study, statement of the problem, objectives of study, importance of study and the overview of the research report. Literature review is contained in chapter two; this is the literature on previous related studies for social responsibility-financial performance arguments, measures for CSR and financial performance. Chapter three deals with research design, which covers the population of the study, data collection method and data analysis method. The fourth chapter will give the results and data analysis of the study based on the objectives. Chapter five, the last chapter, contains discussions of the findings, conclusions, limitations of the study and suggestions for further research.

CHAPTER TWO

2.0 Literature review.

Social responsibility has been practiced for a long time, as in the Bible, Saint Paul advises Timothy to command those who are rich to do good and also to be generous and willing to share so that they lay a treasure for themselves as a firm foundation for the future. Smith (1776) in the theory of wealth of nations said that by acting upon their own self-interest, companies help society as they can. This idea leads into a situation where corporations are assessed only based on very simple measures such as quarter profitability and growth. The pressures to keep revenues growing and the fear of slowing growth rate have made companies' managers to put the CSR to second importance and instead act immorally or illegally.

2.1 Definition of terms.

2.1.1 Corporate social responsibility.

Previous studies in this area of social responsibility have come up with different findings. Kweyu (1993) in a survey of managerial attitudes towards CSR in 31 commercial banks found that most banks in Kenya engaged in social activities, however the pursuance of high profits remained the most important objectives of these banks. Kiarie (1997) in a survey of awareness and attitude of executives of medium scale manufacturing firms in Nairobi, found that executives were aware of the need for social responsibility and also engaged in social activities. Also Research done by PriceWaterhouseCoopers on 1161 CEOs in 33 countries (2002) entitled "Uncertain Times, Abundant Opportunities" found that 68% of the corporations that participate in social responsibilities perform well financially.

CSR can be defined in many ways, as no universally accepted definition exists. Wood (1991) defined CSR as a business organizations' configuration of principles of social responsibility, process of social responsiveness, policies, programs, and other observable outcomes as they relate to the firms societal relationships. McWilliams and Siegel (2001) described CSR as actions that appear to further some social good, beyond the interest of the firm and that, which is required by law. While the European commission, in their green paper entitled "Promoting a European framework for CSR" (July 2001) defines it as a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis. CSR is one of the most important issues affecting the business world today. It's not about doing good, it is not even about being seen to be doing good, it's about recognizing a company's responsibility to all its stakeholder groups and acting on their best interests. In this study, corporate social responsibility refers to the continuing commitment of business to behave ethically and contribute to economic development while working with employees, their families, local community and society at large.

2.1.2 Financial Performance.

For the purpose of this study, financial performance of a company relates to profitability, which is a key component of performance. Helfert (1991) described profitability in two dimensions, from the management and also from the shareholders perspective. From management's point of view, profitability is the effectiveness in which management has employed both the total assets and net assets as recorded in the balance sheet, which is judged by relating net profit to the assets utilized in generating it. From the owners' point of view, profitability means the returns achieved through the efforts of management on the funds invested.

2.1.3 Listed Company.

A listed company is a company whose shares are listed by the stock exchange as being available for buying and selling and the rules and safeguards of the exchange. In Kenya a listed company should be limited by shares and registered under the Companies act (Cap 486) that has issued shares through the Nairobi stock exchange (NSE 2002 listing manual).

2.2 Empirical Literature.

Instrumental stakeholder theory (Clarkson, 1995) suggests a positive relationship between CSR and financial performance. According to this theory, the satisfaction of various stakeholder groups is instrumental for organizational financial performance. Stakeholder-agency theory argues that the implicit and explicit negotiation and contracting process entailed by reciprocal, bilateral stakeholder-management relationship serve as monitoring and enforcement mechanisms that prevent managers from diverting attention from broad financial goals. By addressing and balancing the claims of multiple stakeholders, managers can increase the efficiency of their organizational adaptability to external demands. In Stakeholder-Agency theory (Hill and Jones 1992), found that there was a high corporate performance results not only from the separate satisfaction of bilateral relationship but also from simultaneous co-ordination of prioritization of multilateral stakeholder interests.

Because CSR often represents an area of relatively high managerial discretion, the initiation or cancellation of voluntary social and environmental policies may, to a large extent depend on availability of excess funds. CSR therefore may be an organizational resource that provides internal/external benefits. Internally, investments in CSR may help firms develop new competencies, resources and capabilities that are manifested in firm's culture, technology, structure and human resources. CSR helps build managerial competence because preventive efforts necessitate significant employee involvement, organizational wide co-ordination and forward thinking managerial style. Thus CSR helps management develop better scanning skills, processes and information systems that increase organizational preparedness for external changes, turbulence and crises. These competencies that are acquired internally through the CSR process, lead then to more utilization of resources. In addition however, CSR has also external effects on organizational reputation; by communicating with external parties about its level of CSR, firms help build a positive image with customers, investors, bankers and suppliers.

Fombrun and Shanley (1990) observed that firms, which have high CSR, use it as an information signal upon which stakeholders use it as a basis for corporate reputation under conditions of incomplete information. Further more, firms with high CSR reputation ratings may improve relations with bankers and investors and thus facilitate their access to capital. They may also attract better employees or increase current employees goodwill, which in turn improves financial outcomes.

2.3 Measures of financial performance.

Although measuring financial performance is considered a simpler task, it also has its specific complications. There is little consensus about which measuring instrument to apply as these measures differ from each other on several dimensions. For example, measures may be absolute like sales and profit; or return based measures like profit/sales, profit/capital, and profit/equity. Other measures are the market value of a firm or a mean growth rate over several years. Many researchers have used market measures (Alexander and Buchholz, 1978; Vance, S. C., 1975), others put forth accounting measures (Waddock and Graves 1997; Cochran and Wood 1984) and some adopt both of these (McGuire, J.B., Sundgren, A., Schneeweis, T., 1988). The two measuring approaches, which represent different perspectives of how to evaluate a firm's financial performance, have different theoretical implications (Hillman and Keim, 2001) and each is subject to particular biases (McGuire, Schneeweis, & Hill, 1986). The use of different measures, needless to say, complicates the comparison of the results of different studies.

Accounting based indicators such as firms return on assets (ROA) and returns on equity (ROE), capture the firms' internal efficiency. ROA is widely used by market analysts as a measure of firm performance as it measures the efficiency of assets in producing income while ROE measures the performance of the firm relative to shareholder investment. Accounting measures in some way capture only historical aspects of firm performance (McGuire, Schneeweis, & Hill, 1986). They are subject, moreover, to bias from managerial manipulation and differences in accounting procedures (Branch, 1983; Brilloff, 1972). They are also subject to managers' discretionary allocation of funds to different projects and policy choices and thus reflect internal decision making capabilities and managerial performance rather than external market responses to organization.

The market-based measures of corporate financial performance are forward looking and focus on market performance. They are less susceptible to different accounting procedures and represent the investor's evaluation of the ability of a firm to generate future economic earnings (McGuire, J. B., A. Sundgren, and T. Schneeweis, 1988). They also reflect the notion that shareholders are primary stakeholder group whose satisfaction determines the firms' fate (Cochran and Wood 1984) and the bidding and asking process of stock market participants who rely on their perceptions of past, present and future stock returns and risk, determine the firm stock price and thus market value. But the stock-market-based measures of performance also yield obstacles (McGuire, Schneeweis, & Branch, 1986). According to Ullmann (1985), for example, the use of market measures suggests that an investor's valuation of firm's performance is a proper performance measure (McGuire, J. B., Sundgren, A., Schneeweis, T., 1988). Moore (2001) found that accounting based measures are better predictors for CSR than market based measures.

2.4 Measures of Corporate Social Responsibility.

A CSR measure lacks concreteness and thus quantitative assessment is extremely difficult. CSR is a concept with many dimensions, which do not behave similarly in all industries and therefore have their own characteristics in every single industry. In some cases, social disclosure has been applied as a substitute for the CSR. CSR is associated with four broad measurement strategies. First there is the CSR disclosures which consists of content analysis of annual reports, letters to share holders and a number of other corporate disclosures to the surrogates of CSR. Content analysis includes any statement of social responsibility or any major litigation, which a firm had been involved in which affects stakeholders. Orlitzky and Benjamin (2001) observed that these social measures are analyzed on how the company influences customers, employees, community, environment and minority groups and includes among others firms profitability, code of ethics, pay and benefits to staff, product recalls, false advertising, pollution, recycling and use of recycled products, corporate philanthropy and direct involvement in community programmes.

The second approach is the use of reputation indices such as the *Fortune* magazine ratings of corporations' responsibility to the community or environment and the Kinder, Lydenberg, Domini and Co., hereafter KLD Domini 400 social index. According to Griffin and Mahon (1997), the fortune surveys are generated based on the opinions of the financial analysts, senior executives and outside managers and rate the ten biggest companies in their own industry on eight attributes of reputation. These eight fortune attributes are: quality of management, quality of product and service, innovativeness, long term investment value, financial soundness, employee talent, use of corporate assets and responsibility to the environment. These ratings are combined in order to get general corporate reputation index. The Fortune Index has limitations in that the controlling attributes are the general perception and image of the company and the actual social responsibility. Waddock and Graves (1997) drew up the KLD Domini 400 rating system where each company in the standard and poor 500 were rated on multiple attributes considered relevant to CSR. This social index consists of 400 companies screened based on a combination of exclusionary and qualitative social screens whereby companies are excluded if they derive over 2 percent of their sales from military weapons; derive any revenue from alcoholic or tobacco products; or derive any revenue from gaming products or services. Qualitative screens include the companies record in areas such as the environment, diversity, and employee relations. Simpson and Kohers (2002) identified the major disadvantages of KLD as the weighting given to different components. In KLD, a component can be potentially strength as well as a weakness at the same time. Griffin and Mahon (1997) identified the problem of using external audiences in evaluation processes. These external audiences may make decisions based on flawed information since they have certain image of the company in their minds.

The third approach is the social audits, CSR processes and observable outcomes (Griffin & Mahon, 1997). Social audits consist of systematic third party effort to assess a firm objective CSR behavior such as community service, environmental programs and corporate philanthropy. The indices used in social audits are the Toxics release Inventory (TRI) and Corporate Philanthropy. These measures are based on hard data. Corporate philanthropy assesses the charitable activities of large companies and compares companies against one another. The fourth and last measurement category of CSR is the use of managerial CSR principles and values. These assess the values and principles inherent in firm's culture like economic, legal, ethical and discretionary responsibilities by using triple bottom line reporting (Bernhut, 2002). Triple-bottom line (TBL) reports are quantitative summaries of economic, environmental and social performance of the company during the preceding year. TBL trends reveal the shifts towards standardization of social responsibility reporting. When a company reports on triple bottom line, it demonstrates that it has nothing to hide which contributes positively to its public image and companies can better understand the impacts of their social responsibility on the society (Papmehl, 2002). It also helps employees to realize the perspectives of the company in the longer term. This study will use the CSR disclosures and some managerial principles since there are no indices developed on corporate social responsibility in Kenya.

2.5 Relationship between CSR and Financial performance.

Researches into the relationship between CSR and financial performance have yielded mixed results. There are three different types of relationships between CSR and financial performance i.e. negative, neutral and positive.

2.5.1 Negative link.

Waddock and Graves (1997) in their study of corporate social responsibility and financial performance link, found that companies acting socially responsible experience competitive disadvantage as they have costs that are unnecessary which decrease profits and shareholder wealth. Acting socially responsible also consumes companies' resources and thus causes disadvantage to the company compared to companies that act less socially responsible.

2.5.2 Neutral Link.

McWilliams and Siegel (2001) argued that corporate social responsibility is only a way to attain differentiation and does not directly affect profit rate. The explanation for this neutral relationship is that there are so many dominant variables between social and financial performance that the relationship cannot exist.

2.5.3 Positive link.

The positive relationship between corporate social responsibility and corporate financial performance is explained by Preston and O'Bannon (1997) in which they explained that when a firm tries to lower its implicit costs by acting socially irresponsible, its explicit costs increase and the final result is competitive disadvantage. For example, polluting air and water may force a firm to close or be prosecuted. Secondly, when companies have slack resources, they have a chance to invest in corporate social responsibility. Thirdly, good management enhances social responsibility, which in turn improves overall performance. They also put forward the social impact hypothesis, in which according to this hypothesis, enhanced financial performance follows enhanced corporate reputation. Taking care of implicit requests of stakeholders improves the companies' reputation, which contributes to financial performance. Failing to fulfill the stakeholder expectations create uncertainties in the market place leading to increased risk premium, which may result in higher expenses and possibly loss of profit opportunities. Orlitzky and Benjamin (2001) in their study found a negative link between firms' CSR and financial risk, as the investment in CSR decreases the market based risk. The negative link between CSR and financial risk means better financial performance in the long run.

Despite the conflicting results, most studies showed a positive relation between CSR and financial performance and the basic idea is that acting socially enhances financial performance.

CHAPTER THREE.

3.0 Research Methodology.

This chapter deals with the research design, which was used to conduct the study. It covers the population, data collection method and data analysis method. No sample was required since the study was a census survey.

3.1 The Population.

The population of interest in this study consisted of all the companies quoted in the Nairobi stock exchange, as were the only ones with freely available annual financial reports. Since the study was a census survey, all the 45 companies were considered. These are shown in appendix 3.

3.2 Data Collection method.

Both primary and secondary data was used for the purpose of this study. The primary data was collected using a questionnaire and personal interview methods (see appendix.). The secondary data comprised of published annual reports and reports to society. The primary data was used to compute CSR score while the secondary data was used to compute financial performance of the firm.

The questionnaire comprised of two sections, section A and B. Section A was used to capture the general background information of the firm like name, sector of the business activity, whether it was a subsidiary of a multinational firm or not. Other information sought in this section was the number of employees the firm has. Section B was divided into five parts corresponding to the five categories of corporate social responsibility namely; Shareholders and corporate governance which covered areas of corporate governance, secondly internal social policy for employees and included payment of a sustainable living wage with equal remuneration for work of equal value and also how the firm shared its profits with its employees. Information on employee satisfaction was also sought. Thirdly the community, which captured how organizations participated in community activities like financial support to community infrastructure, health, education, sports etc. Also captured in this part was whether there were any lawsuits involving business malpractices. The fourth part was whether customers paid for goods and services which had value for their money, whether there was consumer protection from misdirected marketing to vulnerable groups for example sale of alcohol, cigarettes to under 18's. The last part and final part of the questionnaire captured information concerning the firms' environmental strategy and management, environmental impacts on production and products and measures taken to reduce these. Central issue in this part included pollution, waste management, energy conservation and recycling.

3.3 Data Analysis method.

To determine the value of corporate social responsibility, a score was assigned of 1 for YES or Presence and 0 for No or absence of CSR activity. Where the company had an adverse effect like lawsuits, strikes by employees, product recalls etc, then a score of –1 was assigned for this lowered the reputation of the company. Where an explanation was required, then a score was either a 1 or 0. If an item is not applicable to a company then, it will be recorded and be excluded in the calculation of the total possible score. If an item was applicable and not answered then a 0 was recorded. Items relating to each of the decision areas were classified under the five headings of shareholders and corporate governance, employees, community engagement, Consumers and environmental management. The scores of each category were then summed up to get the final CSR score for the firm. Descriptive statistics was used to represent this data.

To determine how each company performed in the financial arena, publicly available information was obtained from the annual financial reports. The following categories were used to determine the level of financial performance: Return on Assets (ROA) and earnings per share (EPS). Also extracted from the annual financial reports was any statement of social responsibility to the society. An indication of a statement of social responsibility earned 2 points.

3.4 Statistical analysis.

Regression analysis was done using SPSS to find the correlation coefficients. The results of the correlation analyses were represented in tabular format. In the regression analysis, the coefficient of determination (r^2), Pearson Correlation coefficient (r), P-Value (p) and the number of firms (n) were shown. The coefficient of determination (r^2) states the amount in variation of dependent variable as explained by the variation of the independent variable(s). It represents the percentage of the data that is closest to the line of best fit. The interpretation of the correlation coefficient (r) is when r is equal to 0, there is no correlation, when r is closer to +1, the better the positive correlation and when r is closer to –1, the better the negative correlation. For the purpose of this study, a positive correlation meant that the higher the corporate social responsibility, the better the financial performance, the bigger the firm in market capitalization or the more being foreign owned. A negative correlation means that the higher the level of corporate social responsibility, the worse the financial performance, the smaller the size of the firm and more the firm is locally owned. The p-value gives an indication of how significant the correlation is. It measures the probability of identifying a correlation coefficient. A p-value of 0.05 means that there is a five percent probability that the correlation is significant, while a p-value of .010 indicates a 10% significant. The sample size (n) is the number of observations i.e. the number of firms interviewed.

3.5 Explanatory variables.

The explanatory used in this study were firm size and Industry. For the firm size, the measures are total assets, turnover, and number of employees or market capitalization. Since all these measures are correlated, this study adopted the mean market capitalization for the firms for year 2003 as a measure of firm size. For the industry as an explanatory variable, different industries have different proprietary costs that give incentives for firms belonging to the same industry to be socially responsible in order to avoid public scrutiny. In Kenya, due to the enormous profits made by banks and their positions in the national payments system, any actions by them attracts more attention than other sectors like industrial. Since there is no consistent direction in the literature about the categorization of industry, in this study, industries were categorized as Agricultural, commercial and services, finance and investment and finally industrial and allied sectors.

3.6 Types of Respondents.

For each firm, only one questionnaire was served and was directed at the Managing director. Where it was impossible to serve the Managing director, the corporate communication officer or Finance manager was served.

CHAPTER FOUR

4.0 Data Analysis and Findings.

This chapter presents the data analysis and findings of the study.

As priory stated, the study had two objectives namely, to establish the relationship between the level of CSR and CFP, and the effect of industry sector, firm size and ownership structure on corporate social responsibility.

4.1 Response Rate.

Out of the 45 companies listed at the Nairobi Stock Exchange, only 32 responded, thus a response rate of 71.11% was recorded. Of the 32 companies, 4 were from the agricultural sector, 6 from commercial and services sector, 9 from finance and investment sector and 13 from industrial and allied sector. The distribution of the response is as per table 1 below.

Table 1: Response rate.

Sector	No. of Firms	No. Responded	Percentage
Agricultural.	6	4	66.67%
Commercial and services.	10	6	60.00%
Finance and Investment	12	9	75%
Industrial and Allied	17	13	76.47
Total	**45**	**32**	**71.11%**

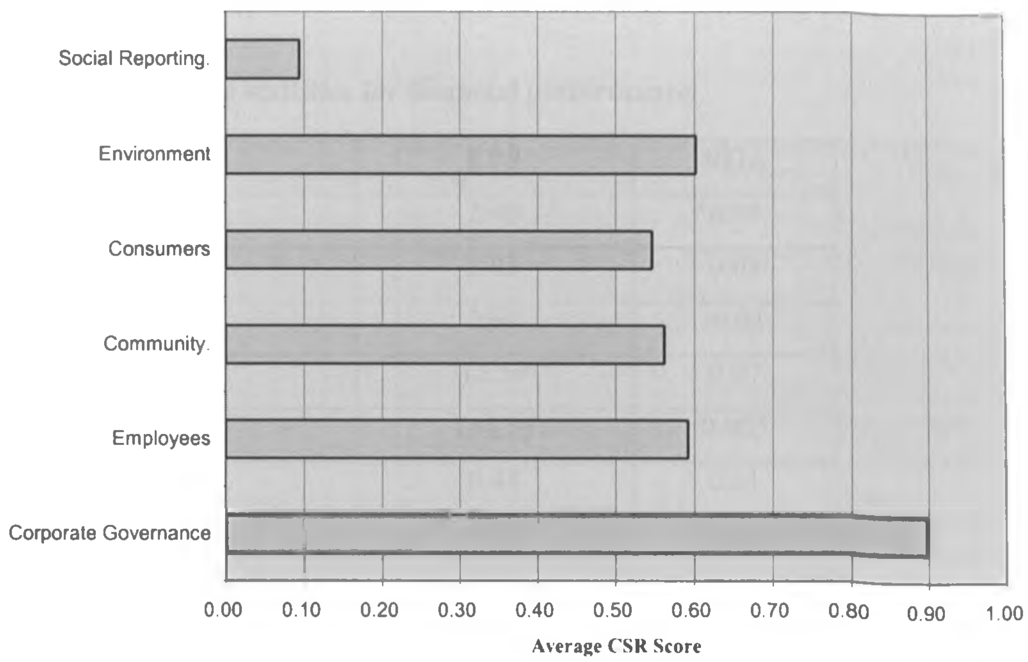
4.2 Corporate Social Responsibility.

Table 2: descriptive statistics for CSR score.

	CSR Score
Mean	0.61
Median	0.64
Mode	0.73
Std. Deviation	0.18
Variance	0.03
Skewness	-0.48
Kurtosis	-0.70
Range	0.67
Minimum	0.25
Maximum	0.92

Of the 32 firms interviewed, the lowest CSR score was registered in the agricultural sector with a value of 0.25 and the highest CSR score was registered in the Industrial and Allied sector with a value of 0.92. The mean CSR score was 0.61, range being 0.67 while the standard deviation was 0.18. This descriptive statistics is shown in table 2 above.

Graph 1: CSR Score for different Activities



From the graph above (graph 1) for the 32 firms, the response for the corporate governance showed that all firms adhered to the Capital Markets Authority code of conduct in the supply and disclosure of information and have a code of corporate governance. On the response for Employees and environment, all companies agreed that the success of business depended on the human resource strength with environment being taken seriously in the agricultural and Industrial services sector due to their nature of operations.

All firms interviewed indicated a strong focus on the consumers with those in financial and services sector leading the way. In community participation, all the firms interviewed indicated providing support. Of the total 32 firms interviewed, only three had issued a report to society indicating all the social activities they do.

4.3 Financial performance.

The financial performance used in this study was the earnings per share (EPS) and return on assets (ROA).

Table 3: Descriptive statistics for financial performance.

	EPS	ROA
Mean	3.40	0.04
Median	2.03	0.03
Mode	2.94	-0.01
Std. Deviation	11.59	0.07
Variance	134.36	0.005
Skewness	0.44	0.01
Kurtosis	9.86	2.65
Range	83.11	0.41
Minimum	-36.61	-0.17
Maximum	46.50	0.24

On the basis of EPS, out of the 32 firms interviewed, both the lowest and the highest values were registered in the Industrial and Allied Services sector with values of –36.61 and 46.50 respectively. The mean EPS was 3.40, range being 83.11 while the standard deviation was 11.59.

On the basis of ROA, the lowest value was registered for a firm in Commercial and Services sector with a value of –0.17, while the highest was registered for a firm in the Industrial and Allied Services sector with a value of 0.24. The mean ROA was 0.04, range being 0.41 and standard deviation was 0.07. These descriptive statistics are shown in table 3 above.

4.4 Classification of Firms based on CSR and Financial performance.

For the purpose of the study, which was to establish the relationship between the level of Corporate Social Responsibility and Corporate Financial Performance, firms were divided into three categories, the low CSR performers, the medium CSR performers and the high CSR performers. The table below (table 4) gives the classification of the firms in terms of the CSR performance. 7 firms are classified as low performers, 12 firms as medium while 13 firms are high performing.

Table 4: Classification of firms based on CSR performance.

CSR Range	Category	Number of Firms
0.25 – 0.47	Low performers	7
0.48 – 0.70	Medium performers	12
0.71 – 0.92	High Performers	13

In financial performance, the mean was used as the benchmark for financial performance with those firms at and above the mean being classified as high financial performers while those below the mean as low financial performers as measured by EPS and ROA respectively.

Table 5: Classification of firms based on EPS as measure of performance.

EPS	Category	Number of Firms
-36.61 – 3.40	Low performers	23
3.41 – 46.50	High performers	9

In table 5 above with EPS as a measure of perfomance, 23 firms were classified, as low financial performers while 9 are high financial performers.

Table 6: Classification of firms based on ROA as a measure of performance

ROA	Category	Number of Firms
-0.17 – 0.04	Low performers	8
0.05 – 0.24	High performers	24

In table 6 above with ROA as a measure of performance, 8 firms are classified as low financial performers while 24 firms as high financial performers.

Out of the 13 firms that were classified as having higher CSR score, five companies representing 38.46% were classified as having higher financial performance, while 8 firms representing 61.54% had a lower financial performance. Out of the 7 firms with low CSR score, 5 firms representing 71.43% have low financial performance, while 2 firms representing 28.57% have higher financial performance as measured by EPS. With ROA as a measure of financial performance, only one firm has a low CSR and a low financial performance and 2 firms were classified as having high CSR score and low financial performance.

4.5 The relationship between corporate social responsibility and financial performance.

To establish the relationship between corporate social responsibility and financial performance, the following regression equation was used:

$CSR = \beta_0 + \beta_1 profits_{2003} + \varepsilon$ ....(equation 1)

This regression model was done for low, medium and high CSR performers. The tables below shows the results of the regression model for different CSR performers.

4.5.1 Low CSR Performers

Table 7: Regression of CSR on EPS.

*CSR = b0 + b1*EPS*						
		P value	Std Error	-95%	95%	t - Stat
b0	0.331	3.526e-05	0.02388	0.269	0.392	13.85
b1	-0.00139	0.436	0.00164	-0.00561	0.00283	-0.846
R^2	12.5%					
Pearson R	-0.354					

The table above (table 7) shows the results of estimation of CSR to EPS in equation 1 for the firms with low CSR performance. The coefficient (beta) of EPS was negative at -0.001 but not significant, with a p-value of 0.436 and a t-statistic of -0.846, which was below the t-critical value of 2.447 at 95% confidence level. This beta showed that any unit variation in the financial performance, other things being equal, would not affect the level of corporate social responsibility.

The coefficient of determination (R^2) was 12.5%. This showed that only 12.5% of the total variation of CSR could be explained by the variation of financial performance while the remaining 87.5% by other factors, which are not determined probably by mere random chance. Pearson product moment correlation coefficient calculated was -0.354, which showed that as CSR increased, financial performance decreased and vice versa but was a weak relation.

Table 8: ANOVA for CSR and EPS.

ANOVA						
Source	*SS*	*SS%*	*MS*	*F*	*F Signif*	*df*
Regression	0.00282	13	0.00282	0.716	0.436	1
Residual	0.01972	87	0.00394			5
Total	0.02254	100				6

In the ANOVA table (table 8) for EPS as a measure of profitability, the F value calculated was 0.716, which was not significant with a p-value of 0.436. This F-value was far below the F-critical value of 6.61 at 95% confidence level and therefore no relationship between corporate social responsibility and corporate financial performance. From these results, it showed that engagement in CSR was not tied to financial performance.

Table 9: Regression of CSR on ROA

CSR = b0 + b1*ROA						
		P value	Std Error	-95%	95%	t - Stat
b0	0.335	0.000105	0.03027	0.257	0.413	11.06
b1	-0.04583	0.907	0.375	-1.010	0.918	-0.122
R^2	0.3%					
Pearson R	-0.055					

The table above (table 9) shows the results of estimation of CSR to ROA in equation 1 for the firms with low CSR performance. The coefficient (beta) of ROA was negative at -0.046 but not significant, with a p-value of 0.907 and a t-statistic of -0.122, which was below the t-critical value of 2.447 at 95% confidence level. This beta showed that any unit increase in the financial performance, other things being equal, would slightly decrease the level of corporate social responsibility.

The coefficient of determination (R^2) was 0.3%. This showed that only 0.3% of the total variation of CSR could be explained by the variation of financial performance while 99.7% by other factors, which are not determined probably by mere random chance. Pearson product moment correlation coefficient calculated was –0.055, which showed that as CSR increased, financial performance decreased and vice versa, but was a very weak relation.

Table 10: ANOVA for CSR and ROA.

ANOVA						
Source	*SS*	*SS%*	*MS*	*F*	*F Signif*	*df*
Regression	6.718e-05	0	6.718e-05	0.01495	0.907	1
Residual	0.02248	100	0.00450			5
Total	0.02254	100				6

In the ANOVA table (table 10) for ROA as a measure of profitability, the F value calculated was 0.01495, which was not significant with a p-value of 0.907. This F-value was far below the F-critical value of 6.61 at 95% confidence level and therefore no relationship between corporate social responsibility and corporate financial performance. From these results, it showed that engagement in CSR was not tied to financial performance.

4.5.2 Medium CSR Performers

Table 11: Regression of CSR on EPS.

*CSR = b0 + b1*EPS*						
		P value	Std Error	-95%	95%	t Stat
b0	0.587	1.001e-10	0.02148	0.539	0.635	27.32
b1	-0.000133	0.980	0.00525	-0.01183	0.01157	-0.02529
R^2	6.395E-03%					
Pearson R	-0.008					

The table above (table 11) shows the results of estimation of CSR to EPS in equation 1 for the firms with medium CSR performance. The coefficient (beta) of EPS was negative at -0.00 but not significant, with a p-value of 0.980 and a t-statistic of -0.025, which was below the t-critical value of 2.201 at 95% confidence level. This beta showed that any unit variation in the financial performance other things being equal would not affect the level of corporate social responsibility.

The coefficient of determination (R^2) was 0.01%. This showed that only 0.01% of the total variation of CSR could be explained by the variation of financial performance while the remaining 99.99% by other factors, which are not determined probably by mere random chance. Pearson product moment correlation coefficient calculated was –0.008, which showed that as CSR increased, financial performance decreased and vice versa but was a very weak relation.

Table 12: ANOVA for CSR and EPS.

ANOVA						
Source	*SS*	*SS%*	*MS*	*F*	*F Signif*	*df*
Regression	3.227e-06	0	3.227e-06	0.000640	0.980	1
Residual	0.05046	100	0.00505			10
Total	0.05047	100				11

In the ANOVA table (table 12) for EPS as a measure of profitability, the F value calculated was 0.00, which was not significant with a p-value of 0.980. This F-value was far below the F-critical value of 4.96 at 95% confidence level and therefore no relationship between corporate social responsibility and corporate financial performance. From these results, it showed that engagement in CSR was not tied to financial performance.

Table 13: Regression of CSR on ROA

			CSR = b0 + b1*ROA			
		P value	Std Error	-95%	95%	t - Stat
b0	0.587	6.768e-11	0.02065	0.541	0.633	28.42
b1	-0.02568	0.940	0.332	-0.765	0.714	-0.07737
R^2	0.0598%					
Pearson R	-0.024					

The table above (table 12) shows the results of estimation of CSR to ROA in equation 1 for the firms with medium CSR performance. The coefficient (beta) of ROA was negative at -0.026 but not significant, with a p-value of 0.940 and a t-statistic of -0.077, which was below the t-critical value of 2.201 at 95% confidence level. This beta showed that any unit increase in the financial performance, other things being equal, would slightly decrease the level of corporate social responsibility.

The coefficient of determination (R^2) was 0.06%. This showed that only 0.06% of the total variation of CSR could be explained by the variation of financial performance while the remaining 99.94% by other factors, which are not determined by mere random chance. Pearson product moment correlation coefficient calculated was -0.024, which showed that as CSR increased, financial performance decreased and vice versa but was a very weak relation.

Table 14:ANOVA for CSR and ROA.

ANOVA						
Source	*SS*	*SS%*	*MS*	*F*	*F Signif*	*df*
Regression	3.019e-05	0	3.019e-05	0.00599	0.940	1
Residual	0.05044	100	0.00504			10
Total	0.05047	100				11

In the ANOVA table (table 14) for ROA as a measure of profitability, the F value calculated was 0.01, which was not significant with a p-value of 0.940. This F-value was far below the F-critical value of 4.96 at 95% confidence level and therefore no relationship between corporate social responsibility and corporate financial performance. From these results, it showed that engagement in CSR was not tied to financial performance.

4.5.3 High CSR Performers.

Table 15: Regression of CSR on EPS.

*CSR = b0 + b1*EPS*						
		P value	Std Error	-95%	95%	t - Stat
b0	0.766	5.897e-13	0.02043	0.721	0.811	37.48
b1	0.00100	0.483	0.00138	-0.00204	0.00404	0.725
R^2	4.57%					
Pearson R	0.214					

The table above (table 15) shows the results of estimation of CSR to EPS in equation 1 for the firms with high CSR performance. The coefficient (beta) of EPS was positive at 0.00 but not significant, with a p-value of 0.483 and a t-statistic of 0.725, which was below the t-critical value of 2.179 at 95% confidence level. This beta showed that any unit variation in the financial performance, other things being equal, would not affect the level of corporate social responsibility.

The coefficient of determination (R^2) was 4.57%. This showed that only 4.57% of the total variation of CSR could be explained by the variation of financial performance while the remaining 95.43% by other factors, which are not determined probably by mere random chance. Pearson product moment correlation coefficient calculated was 0.214, which showed that as CSR increased, financial performance decreased and vice versa but was a very weak relation.

Table 16: ANOVA for CSR and EPS.

ANOVA						
Source	*SS*	*SS%*	*MS*	*F*	*F Signif*	*df*
Regression	0.00200	5	0.00200	0.526	0.483	1
Residual	0.04190	95	0.00381			11
Total	0.04391	100				12

In the ANOVA table (table 16) for EPS as a measure of profitability, the F value calculated was 0.526, which was not significant with a p-value of 0.483. This F-value was far below the F-critical value of 4.84 at 95% confidence level and therefore no relationship between corporate social responsibility and corporate financial performance. From these results, it showed that engagement in CSR was not tied to financial performance.

Table 17: Regression of CSR on ROA

CSR = b0 + b1*ROA						
		P value	Std Error	-95%	95%	t - Stat
b0	0.753	1.104e-12	0.02129	0.706	0.800	35.38
b1	0.324	0.172	0.221	-0.163	0.811	1.463
R^2	16.3%					
Pearson R	0.404					

The table above (table 17) shows the results of estimation of CSR to ROA in equation 1 for the firms with high CSR performance. The coefficient (beta) of ROA was positive at 0.324 but not significant, with a p-value of 0.172 and a t-statistic of 1.463, which was below the t-critical value of 2.179 at 95% confidence level. This beta showed that any unit increase in the financial performance, other things being equal, would slightly increase the level of corporate social responsibility.

The coefficient of determination (R^2) was 16.3%. This showed that only 16.3% of the total variation of CSR could be explained by the variation of financial performance while the remaining 83.7% by other factors, which are not determined probably by mere random chance. Pearson product moment correlation coefficient calculated was 0.404, which showed that as CSR increased, financial performance increased and vice versa but was a weak relation.

Table 18: ANOVA for CSR and ROA

ANOVA						
Source	*SS*	*SS%*	*MS*	*F*	*F Signif*	*df*
Regression	0.00715	16	0.00715	2.139	0.172	1
Residual	0.03676	84	0.00334			11
Total	0.04391	100				12

In the ANOVA table (table 18) for ROA as a measure of profitability, the F value calculated was 2.139, which was not significant with a p-value of 0.172. This F-value was below the F-critical value of 4.84 at 95% confidence level and therefore no relationship between corporate social responsibility and corporate financial performance. From these results, it showed that engagement in CSR was not tied to financial performance.

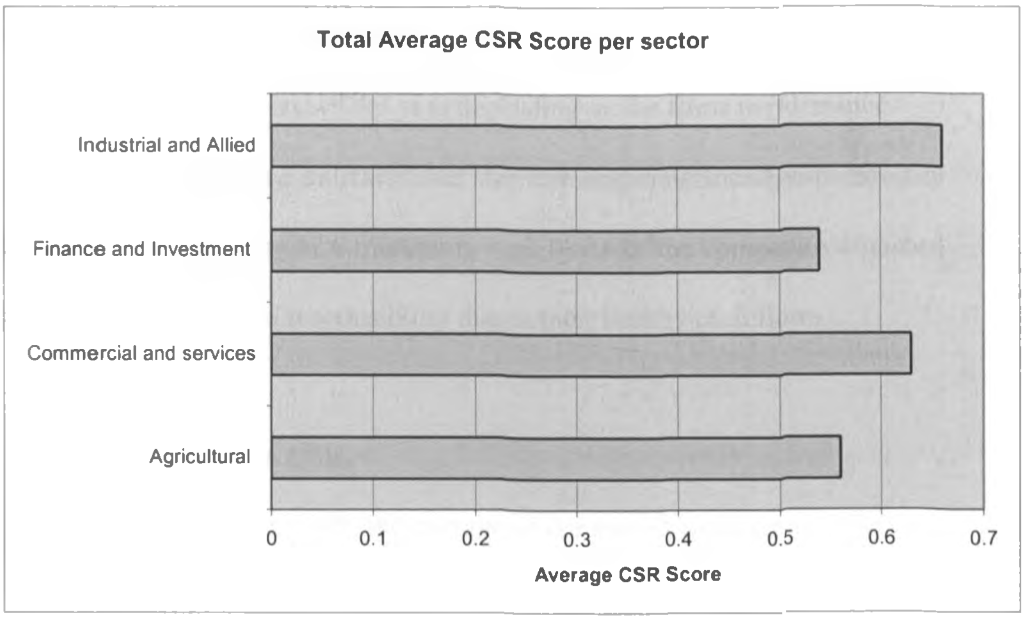
4.6 Effect of Industry sector, Firm size and ownership structure on CSR.

For the purpose of the second objective of study, firms were classified into their different industry sectors of business activity namely; Agricultural, commercial and services sector, Finance and investment sector and industrial and allied services. In the firm size, the average market capitalization as at 31st, December 2003 was used as a measure of size. Ownership structure was based on the number of shares owned by either foreigners or local. Generally, all firms had almost the same response to different areas of social responsibility as was specified in the questionnaire.

4.6.1 Effect of Industry Sector on CSR.

On sector analysis, the industrial and allied had the highest mean CSR score of 0.66 while the finance and investment sector had the lowest mean CSR score of 0.54. The agricultural sector had a mean CSR score of 0.56 while the commercial and allied sector had a mean CSR score of 0.63. The graph below (graph 1) shows the comparison of CSR score for the different industry sector.

Graph 2: CSR Score for different Industry sector.



From the above graph (graph 2), it can be seen that the Industrial and allied services sector had the highest CSR score. This was due to the fact two of the firms had issued a report to the society detailing the activities they engage in towards corporate social responsibility. The industrial and allied services sector also takes the issue of environment seriously due to the nature of their operations.

The finance and investments and the commercial and services sector had their social responsibility geared towards community participation and also were sensitive to the consumers. Environment was not a critical issue though was of concern.

Interestingly, the characteristic that was referred by all the firms interviewed was their relation with the internal stakeholders, the employees. All agreed that the success of their business depended on the human resource strength. However, except for the few multinational companies and the banks who conduct employee satisfaction surveys, other firms do not have a way of rating how their employees feel about the company they work for. The entire companies general wage rate is gotten from the

PricewaterhouseCoopers human resource survey. Only two companies, all in the industrial sector have an employee share option programme, others have a bonus scheme, which is given at the end of the year depending on the firms performance.

All in all, the firms interviewed indicated that they use corporate social responsibility either as a competitive strategy or a marketing tool. None of the companies admitted as engaging in corporate social responsibility due to their healthy cash flows.

4.6.2 Effect of Firm Size on CSR.

The size of the firm was measured by the average of the market capitalization for each of the 32 firms interviewed as at 31st, December 2003. The table below (table 35) shows the descriptive statistics for the firm size in billions of Kenya shillings.

Table 19: Descriptive Statistics for Market Capitalization.

	Kshs. (Bn)
Mean	**9.24**
Median	**2.49**
Mode	**0.03**
Std. Deviation	**16.34**
Variance	**266.96**
Skewness	**2.11**
Kurtosis	**3.04**
Range	**57.00**
Minimum	**0.03**
Maximum	**57.03**
N	**32**

Of the 32 firms that were interviewed, the lowest value of market capitalization was registered for a firm in the Commercial and Services sector with a value of Kshs. 0.03 billion. This firm also had a CSR score of 0.53, which was below the average CSR of

0.61. The highest value in market capitalization was registered for a firm in Finance and Investments sector with a value of Kshs. 57.03 billion. This firm also had a CSR score of 0.73, which was above the average CSR score of 0.61. The mean market capitalization was Kshs. 9.24 billion, range being Kshs. 57 billion and standard deviation of 16.34. These descriptive statistics are shown in table 19 above.

To establish the effects of firm size on the corporate social responsibility, the following regression equation was used.

$CSR = \beta_0 + \beta_1 Size_{2003} + \varepsilon$ .... (Equation 2)

Table 20: Regression of CSR on Size

CSR = b0 + b1*Size						
		P value	Std Error	-95%	95%	t Stat
b0	0.560	0.00	0.033	0.492	0.628	16.884
b1	0.005	0.008	0.002	0.001	0.009	2.857
R^2	21.39%					
Pearson R	0.46					

The table above (table 20) shows the results of estimation of CSR to size in equation 2 for all the firms. The coefficient (beta) of size was positive at 0.005 and significant, with a p-value of 0.008 and a t-statistic of 2.857, which was above the t-critical value of 2.037 at 95% confidence level. This beta showed that size has an effect on corporate social performance.

The coefficient of determination (R^2) was 21.39%. This meant that 21.39% of the total variation of CSR could be explained by the variation of size while the remaining 78.61% by other factors, which are not determined probably by mere random chance. Pearson product moment correlation coefficient calculated was 0.46, which showed that as CSR increased, financial performance increased and vice versa but was a weak relation.

Table 21: ANOVA for CSR and Size

ANOVA						
Source	*SS*	*SS%*	*MS*	*F*	*F Signif*	*df*
Regression	0.21599	21	0.21599	8.1621	0.008	1
Residual	0.79386	79	0.02646			30
Total	1.00985	100				31

In the ANOVA table (table 21) for size for all the firms, the F value calculated was 8.1621, which was not significant with a p-value of 0.008. This F-value was above the F-critical value of 4.1709 at 95% confidence level and therefore there is a relationship between corporate social responsibility and firm size. From these results, it showed that engagement in CSR was tied to the size of the firm.

4.6.3 Effect of Ownership structure on CSR.

The ownership structure of the firm is where a person or group of firms have controlling shares of more than 51%. 11 companies out of the 32 companies interviewed had more than 51% shares held by foreigners. The rest 21 companies have locals or consortium of local companies having controlling interest in shareholdings. The companies which have more than 51% shares controlled by foreigners are subsidiaries of multinationals or the holding company is incorporated in another country.

From the below descriptive statistics, it was shown that the mean CSR score was the same as the overall mean CSR score and therefore no matter how the ownership was the general responsiveness was the same.

4.6.3.1 Local owned companies.

Table 22: Descriptive statistics for CSR Score.

	CSR Score
Mean	0.61
Median	0.63
Mode	0.73
Standard Deviation	0.18
Sample Variance	0.03
Kurtosis	-0.50
Skewness	-0.52
Range	0.65
Minimum	0.27
Maximum	0.92
Sum	12.75
N	21

Of the 21 firms that were locally owned, lowest CSR score was registered for a firm in the Finance and investments sector with a value of 0.27 and the highest CSR score was registered for a firm in Industrial and Allied sector with a value of 0.92. The mean CSR score was 0.61, range being 0.65 while the standard deviation was 0.18 These descriptive statistics are shown in table 22 above.

4.6.3.1 Foreign owned companies.

Table 23: Descriptive statistics for CSR Score.

Mean	**0.61**
Median	**0.65**
Mode	**0.73**
Standard Deviation	**0.20**
Sample Variance	**0.04**
Kurtosis	**-0.78**
Skewness	**-0.49**
Range	**0.62**
Minimum	**0.25**
Maximum	**0.87**
Sum	**6.68**
N	**11**

Of the 11 firms that were foreign owned, lowest CSR score was registered for a firm in the Agricultural sector with a value of 0.25 and the highest CSR score was registered for a firm in Industrial and Allied sector with a value of 0.87. The mean CSR score was 0.61, range being 0.62 while the standard deviation was 0.20. These descriptive statistics are shown in table 23 above.

4.7 Hypothesis testing.

The hypotheses for testing was:

H_0: There is no relationship between the corporate social responsibility and financial performance.

H_a: There is a relationship between corporate social responsibility and financial performance.

Test Statistics: t-statistics for the regression coefficients of profitability at 95 percent level confidence for all the regression analysis done showed that they were below the critical values and were not statistically significant; the decision is to fail to reject the null hypothesis and conclude that there is no relationship between corporate social responsibility and financial performance for firms listed at the Nairobi stock exchange.

CHAPTER FIVE

5.0 Summary and Conclusions.

The problem under investigation in this study was whether there is a relationship between corporate social responsibility and financial performance, and the effect of the industry size, sector of business activity and the ownership structure. The results of the regression analyses showed that there was no relationship between corporate social responsibility and financial performance for all the companies listed at the Nairobi Stock Exchange. These results support the study done by McWilliams and Siegel (2001) who argued that corporate social responsibility is only a way to attain differentiation and does not directly affect profit rate. The explanation for this neutral relationship was that there were so many dominant variables between social and financial performance that the relationship cannot exist.

The pattern and extent of corporate social responsibility varied significantly between sectors with firms in the Agricultural and Industrial and Allied services taking more action in the environmental activities while the Financial and Investment services sector put more emphasis on community action. One of the dominant variables found in this study was the firm size. All the highly capitalized firms in the upper quartile were in the medium and high CSR performance. The bigger were firms, the more socially were than the smaller ones as they got more attention from stakeholders and as a consequence there was a need to respond to them. Orlitzky (2001) in his study on social responsibility recognized size as an affecting factor in that at the start of a firm, the entrepreneur focused more on economic survival and not on ethical and philanthropic responsibilities. When companies grow and become better known, they paid more attention to social performance.

There are only three companies in Kenya, which have issued corporate social responsibility report starting from year 2004, and this has created more awareness on other companies and expectations are high that more will issue their corporate social responsibility reports in the coming years. The issuance of these reports has created a paradigm shift in Kenya in that companies instead of issuing the traditional annual financial results, they also include the list of their activities they are doing to the society and the measures of performance.

In conclusion is that despite the outcome of these results, CSR should become part of company's everyday activities and managers should not think of as an extra activity but actual way of doing business.

5.1 Limitations of the study.

The findings of this research and the conclusions drawn need to be considered in the context of the possible limitations. First the present study focused on the companies listed at the Nairobi Stock exchange due to the limitations of time and cost. Secondly, due to the unavailability of the Managing directors, some of the questionnaires were administered using "drop-pick later" method and therefore the interview could not be carried out.

5.2 Suggestions for further research

The following areas relating to the relationship between corporate social responsibility and firm financial performance were identified for further research. First the focus of the research should be put in on all the firms and also on a single industry as corporate social responsibility means different kinds of actions on different industries and secondly on CSR as a real option and as a means of reducing business risks such as potential government regulations, labour unrests and environmental degradation.

UNIVERSITY OF NAIROBI

FACULTY OF COMMERCE

MBA PROGRAM – LOWER KABETE CAMPUS

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Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE...12 MAY, 2004.......................

TO WHOM IT MAY CONCERN

The bearer of this letter ..MUTUKU, KITONGA...

Registration No: ....D61/8377/99..

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on some management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

M.B.A. OFFICE
UNIVERSITY COMMERCE FACULTY

JACKSON MAALU
CO-ORDINATOR, MBA PROGRAM

Appendix 1: **Letter to the respondents.**

Kitonga Mutuku

P.O Box 15365,

00100-Nairobi.

To:...................................

P.O Box:.............................

Date:................................

Dear Sir/Madam,

RE: SOCIAL RESPONSIBILITY SURVEY

Thank you in advance for taking the time to complete this questionnaire. This survey seeks to establish the level in your firm engage in social responsibility you carry out business activities. This survey is for academic purpose and your response will be kept confidential. I would appreciate if you could kindly take some time and respond to the questions herein. Should you have any questions or clarifications, you may get in touch with the undersigned.

Thank you.

Kitonga Mutuku.

MBA Student – University of Nairobi.

Appendix 2: **STUDY QUESTIONNAIRE.**

UNIVERSITY OF NAIROBI

FACULTY OF COMMERCE.

DEPARTMENT OF ACCOUNTING.

NOTE: **The information in this questionnaire will be treated confidentiality and will not be used for any other purpose other than academic.**

CORPORATE SOCIAL RESPONSIBILITY.

SECTION A.

Company Name: ……………………………………………………………………..

Sector of Activity:……………………………………………………………………

Subsidiary of Multinational: *YES*…………………..*NO*………………………..

No. of employees: (a). 1-50 (b) 51-100 (c) 101-500 (d) >500.

SECTION B.

This survey contains a series of statements related to corporate social responsibility. Please be candid and constructive in your response.

PART 1: SHAREHOLDERS & CORPORATE GOVERNANCE.

1. Does your company have a statement of the companies mission and values (i.e. business principles or vision of corporate responsibility)

--------------***Yes.*** ---------------- ***No.***

2. If yes, please state the mission statement:

----

3. Does your company's board of directors comply with the Capital Markets Authority code of corporate governance in regards to supply and disclosure of information to the shareholders?

---------------*Yes.* -----------------. *No.*

4. If yes, have there been any negative reactions from the shareholders and on the disclosed information? Please state.

----

5. Are shareholders well informed through reports and meetings about significant and material violations of corporate policies, including codes of conduct, adverse decisions by tribunals or courts, and major disposal of the Company's assets, restructuring, takeovers, mergers, acquisitions or reorganization?

---------------*Yes.* ------------------- *No.*

6. How do you as a manager perceive corporate social responsibility as an issue to your organization? Please tick the appropriate one below.

   a. ***Very important.***

   b. ***Important.***

   c. ***Not Important.***

   d. ***Not sure.***

PART 2: EMPLOYEES.

7. Does your company pay its employees wages commensurate to the industry.

-----------------*Yes.* --------------*No.*

8. If yes, has there been any industry survey done in the last one year about the general wage rate?

----

9. Does your company have any form of employee participation in profits?

--------------------*Yes.* ---------------- *No.*

10. If yes, which form of profit sharing? Please provide details.

----

11. Has your company done any employee satisfaction survey for the last one year?

1. Yes 2. No.

12. If yes, what was the score in a scale of 1 to 5, with 1 being lowest and 5 highest?

PART 3: COMMUNITY.

13. Does your company provide support (financial donations, staff participation and/or resources) for the community infrastructure (education and health for example)?

----------------Yes. ---------------- No.

14. If yes, on the list below please rank them on order of priority, you may add more as necessary.
    - ***a. Health ------------------.***
    - ***b. Education---------------.***
    - ***c. Environmental conservation --------------.***
    - ***d. National disaster funds ----------------------.***
    - ***e. Childrens homes.-----------------------------.***
    - ***f. Professional associations and conferences------------.***
    - ***g. Harambees -------------------.***
    - ***h. Sports funding -----------------------.***
    - ***i. Other (specify)--------------------------------------.***

15. Approximately what percentage of last year's pre-tax profit (including equivalent value in staff time) did your company contribute for philanthropy if any?

----

16. Has your company been involved in any lawsuits involving business practices like unfair trading practices in the last one year?

----------------Yes. ---------------- No.

17. If yes, Please give details for the nature of lawsuit.

----

18. What value statement, policies or framework does your company have in regard to Kenyan culture and society?

----

19. Does your company get involved in the education of young people (under 24 years) through the education providers or by career development?

-------------------Yes. *-------------------- No.*

20. If yes, is the involvement a one-off or a regular activity?

PART 4: CONSUMERS

21. Does your company have a formalized continuous product/service improvement system?

---------------Yes. *-------------------- No.*

22. If yes, have you done any customer satisfaction survey for the last one-year and what was the score in a scale of 1 to 5, with 1 being lowest and 5 highest?

----

23. Does your company have a policy for protecting any vulnerable groups through inappropriately directed marketing of unsuitable products (such as tobacco, beer to underage for example).

--------------Yes. *----------------- No.*

24. If yes, please provide details of any such policy statement.

----

25. In a scale of 1 to 5, with 1 being lowest and 5 highest, please indicate how your company's products and services meets customer requirements and product specification?

PART 5: THE ENVIRONMENT.

26. Does your company have an environmental policy or set of environmental principles?

----------------Yes. ***-----------------------No.***

27. If yes, please specify/describe:

----

28. Does your company have an environmental management system (EMS)?

---------------Yes. ***---------------------- No***

29. If yes, please indicate whether the EMS is based on:
    a. ***The company's' own management systems.***
    b. ***A recognized standard (e.g. ISO14001)***
30. Does your company pursue cost savings and efficiency increases through tracking environment-related costs and/or material & energy flows? Please answer by ticking the appropriate.
    a. ***Environment-related costs.***
    b. ***Material and energy flows.***
    c. ***Both.***
    d. ***None.***
31. On the list below, please rank on order of priority the costs your company tracks.
    a. ***Energy consumption (electricity, gas, fuel)------------------.***
    b. ***Waste disposal.------------------------***
    c. ***Water consumption.-------------------------***

d. Environmental compliance (eg licences, permits).----------------

e. Resource consumption (eg plastics, wood, metals).------------------

f. Staff time devoted to environmental activities/issues.--------------

g. Other (please specify)..--

32. Has your company adopted any initiatives in relation to reducing environmental impacts associated with the office environment?

---------------Yes. *--------------------- No*

33. If yes, please indicate in what areas by ticking the relevant.

a. Paper use.---

b. Energy conservation.--

c. Employee travel/car fleets.--

d. Transport/distribution of inputs/goods/services.-----------------------

e. Solid waste production.---

f. Water conservation.--

g. Other (please specify).---

34. Please use the space below to provide any additional information relevant to office environment impacts.

----

35. To what extent does your company disclose to stakeholders information regarding its environmental risks, management strategies, performance and/or environmentally preferable products if any?

----

36. Are staff performance appraisal/financial compensation systems linked to corporate environmental performance? If yes, please explain.

---------------Yes. *----------------- No.*

----

37. How significant have the following factors listed below contributed to your social responsibility. Please rank them in order of priority in a scale of 1 to 5, with 1 being lowest and 5 highest.

   a. ***Pressure from civil society groups & politicians*****----------------.**
   b. ***Government regulation and requirements.*****----------------------**
   c. ***Social responsibility as competitive strategy.*****-------------------**
   d. ***As a marketing tool.*****---**
   e. ***Due to healthy cash flows.*****---**
   f. ***Due to high public visibility.*****--**
   g. ***Being part of multi-national company.*****----------------------------**

Appendix 3: Companies Listed at the Nairobi stock exchange

A. AGRICULTURAL SECTOR

1. Unilever Tea Kenya Limited.
2. Kakuzi Limited.
3. Rea Vipingo Plantations Ltd
4. Sasini Tea and Coffee Limited.
5. Williamson Tea Kenya Limited.
6. Eaagads Limited.

B. COMMERCIAL AND SERVICES SECTOR

1. A.Baumann & Company Limited.
2. The Standard Newspapers Group Limited
3. Kenya Airways Limited
4. Car and General (Kenya) Limited
5. CMC Holdings Limited
6. Nation Media Group Limited
7. Marshalls (East Africa) Limited
8. Tourism Promotion Services Ltd.
9. Uchumi Supermarkets Limited
10. Express Kenya Limited

C. FINANCE AND INVESTMENT SECTOR

1. Barclays Bank of Kenya Limited
2. CFC Bank Ltd.
3. Diamond Trust Bank (Kenya) Limited
4. Housing Finance Company Limited
5. ICDC Investment Company Limited
6. Jubilee Insurance Company Limited
7. Kenya Commercial Bank Limited
8. National Bank of Kenya Limited
9. NIC Bank Limited
10. Pan Africa Insurance Company Ltd.
11. Standard Chartered Bank Kenya Limited.
12. City Trust Limited

D. INDUSTRIAL AND ALLIED SECTOR.

1. Athi River Mining Limited
2. Bamburi Cement Company Limited
3. British American Tobacco Kenya Ltd.
4. BOC Kenya Limited
5. Carbacid Investments Limited
6. Crown-Berger Kenya Limited
7. Dunlop Kenya Limited
8. East African Cables Limited
9. East African Portland Cement Company
10. East African Breweries Limited
11. Firestone (E.A) Limited
12. Kenya Oil Company Limited
13. Mumias Sugar Company Ltd
14. Kenya Power and Lighting Company Ltd.
15. Total Kenya Ltd
16. Unga Group Limited.
17. Kenya Orchards Limited.

Source: Adapted from the NSE Handbook 2002.

Appendix 4: Regression Residual output tables.

A. Low CSR Performers.

CSR = b0 + b1*EPS			
Observation	*Predicted Y*	*Residuals*	*Standard Residuals*
1	0.326885078	0.093115	1.624269344
2	0.381490496	-0.01149	-0.200436833
3	0.327856952	0.022143	0.386256827
4	0.326635168	-0.05664	-0.987927231
5	0.320456828	-0.07046	-1.22902821
6	0.32685731	0.043143	0.752568405
7	0.319818168	-0.01982	-0.345702302

CSR = b0 + b1*ROA			
Observation	*Predicted Y*	*Residuals*	*Standard Residuals*
1	0.330001	0.089999	1.470467
2	0.339139	0.030861	0.504229
3	0.334158	0.015842	0.25884
4	0.332132	-0.06213	-1.01516
5	0.33379	-0.08379	-1.36902
6	0.331857	0.038143	0.623213
7	0.328923	-0.02892	-0.47257

B. Medium CSR Performers.

*CSR = b0 + b1*EPS*			
Observation	*Predicted Y*	*Residuals*	*Standard Residuals*
1	0.586888	-0.05689	-0.83991
2	0.587064	0.092936	1.372125
3	0.58726	-0.00726	-0.10718
4	0.586438	-0.01644	-0.24269
5	0.587264	0.032736	0.483316
6	0.586559	0.043441	0.64137
7	0.586894	-0.10689	-1.57819
8	0.586044	-0.10604	-1.56564
9	0.586738	-0.03674	-0.54241
10	0.58533	0.06467	0.954791
11	0.586754	0.083246	1.229053
12	0.586767	0.013233	0.195367

CSR = b0 + b1*ROA			
Observation	*Predicted Y*	*Residuals*	*Standard Residuals*
1	0.586972	-0.05697	-0.84137
2	0.587694	0.092306	1.363188
3	0.587066	-0.00707	-0.10435
4	0.586246	-0.01625	-0.23993
5	0.591223	0.028777	0.424976
6	0.584855	0.045145	0.666702
7	0.587063	-0.10706	-1.58112
8	0.586095	-0.1061	-1.56683
9	0.585626	-0.03563	-0.52612
10	0.585728	0.064272	0.94917
11	0.585266	0.084734	1.251358
12	0.586165	0.013835	0.20432

C. **High CSR Performers.**

*CSR = b0 + b1*EPS*			
Observation	*Predicted Y*	*Residuals*	*Standard Residuals*
1	0.765322	-0.04532	-0.76697
2	0.766203	-0.0362	-0.61265
3	0.766503	0.003497	0.05917
4	0.768695	0.101305	1.714332
5	0.769026	-0.03903	-0.66041
6	0.777163	0.022837	0.386461
7	0.766814	-0.03681	-0.62298
8	0.779525	0.140475	2.377195
9	0.765352	-0.03535	-0.59825
10	0.782768	-0.05277	-0.89297
11	0.767024	0.002976	0.050362
12	0.812294	-0.03229	-0.5465
13	0.77331	0.00669	0.11322

*CSR = b0 + b1*ROA*			
Observation	*Predicted Y*	*Residuals*	*Standard Residuals*
1	0.750745	-0.03074	-0.5555
2	0.754916	-0.02492	-0.45018
3	0.75819	0.01181	0.213378
4	0.776001	0.093999	1.698375
5	0.777308	-0.04731	-0.85475
6	0.830696	-0.0307	-0.55462
7	0.762536	-0.03254	-0.58786
8	0.780872	0.139128	2.513767
9	0.746237	-0.01624	-0.29336
10	0.765332	-0.03533	-0.63838
11	0.759183	0.010817	0.195444
12	0.787341	-0.00734	-0.13263
13	0.810644	-0.03064	-0.55367

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