A SURVEY OF RATIONALE AND DETERMINANTS OF LEVELS OF CORPORATE SOCIAL RESPONSIBILITY AMONG FIRMS IN KENYA

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DECLARATION

This management research paper is my original work and to the best of my knowledge has not been presented for the award of any degree in any University.

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ABSTRACT

This research examined the levels of involvement in Corporate Social Responsibility (CSR) and rationales and factors that determine these levels among firms in Kenya. The period of research was 1997 – 2001 using a questionnaire on a sample of eighty three firms out of which fifty nine responded. Forty of the respondents had complete data while nineteen had only CSR data. Of the forty, twelve were listed in the Nairobi Stock Exchange, twenty eight were non-listed, twenty seven were multinational subsidiaries and thirteen were fully local firms.

A significant number, three quarters (¾), of the firms in the study were found to exhibit levels of involvement greater than fifty percent (50%) which suggests that majority of the firms involved themselves in CSR activities during the period. As for rationales, four were found to have very high ratings. These were "use of CSR as a long-term strategy", "use of CSR to achieve high public visibility", "use of CSR as a competitive strategy" and "engaging in CSR as a concern to the society". These were therefore the dominant rationales that influenced firms in Kenya to engage in CSR activities in the study period.

The correlation analysis results showed that company size, average profitability, industry sector, business risk, management style, average growth, listing status, and multinational status all had some association with CSR level of involvement. Out of these factors, average profitability, industry sector, multinational status, and management style consistently exhibited very strong and positive association with the CSR variable. This suggests that these three factors were the stronger determinants of levels of involvement in CSR activities in most firms during the period. Listing status on the other hand had smaller correlation coefficients making its association with CSR weak. Further, company size, business risk, and average growth all exhibited negative and weak association with CSR involvement indicating an inverse relationship with CSR. This inverse relationship could suggest that perhaps firms with these in these categories may be having other marketing drivers or market niches that are different from CSR.

This research therefore found that firms in Kenya exhibited high levels of involvement in CSR. The decisions about these high levels of involvement were mainly driven by "use of CSR as a long-term strategy", "use of CSR to achieve high public visibility", "use of CSR as a competitive strategy" and "engaging in CSR as a concern to the society". As for determinants of CSR involvement, the dominant ones were found to be average profitability, industry sector, and management style.

CHAPTER ONE
INTRODUCTION

1.1   Background to the study

Commercial firms operate in business environment that is risky and dynamic due to the uncertainty and the ever changing external environmental factors like globalization, political, social issues, cultural issues, and legal constraints (Porter, 1980). These factors cause numerous challenges to which firms respond using various strategies. Some strategies are mergers and acquisitions, new products development, expanding to new markets and creating positive business relationship with the society and the environment in which they operate (or Corporate Social Responsibility (CSR)). CSR activities consume resources and therefore shareholders need to evaluate if the activities lead to future financial benefits and increase in value of the firm. CSR therefore has a strong implication in finance that triggered this study to explore its levels, rationale and determinants.

CSR concept emphasizes community participation by business enterprises. The concept asserts that the role of firms goes beyond their commercial interests to cover welfare of the society and preservation of the environment in which the firms operate. Cannon (1994) quoting Stacey (1988) said that, "It is hard for an enterprise to prosper or realize its full potential in an environment which is hostile or indifferent to the needs of the industry and commerce". Thus although according to Jensen and Mekling (1976), the main goal of a firm is to invest and operate in order to excel in profitability and maximize its value on behalf of the shareholders, CSR is among the many forces in play that affect how this objective could be achieved. In the four to five decades prior to this study, there was an increasing acceptance by management of the diversity of stakeholder interests and expectations to be accommodated in enterprise management. CSR featured very prominently as one of these stakeholder interests and expectations among business enterprises.

Weiser and Zadek (2000) classified firms' social activities into Corporate Community Involvement, Corporate Citizenship, Corporate Involvement in Community, Community Economic Development, and Environmental participation which they described as "Corporate Social Responsibility". CSR has been defined by Business and Social Responsibility (BSR, 2000), as "Operating in a manner that meets or

exceeds the ethical, legal, commercial and public expectations that society has for business."

Smith (1776) advocated for minimal business participation in social issues that were meant for the state or government. Carnegie (1899) advocated for extended participation of the business sector on social issues. Richardson, Welker and Hutchinson (1999) cited Friedman (1962, 1970) to have opposed social responsibility and emerged as a leading proponent of capitalism in modern age. Following above studies, CSR debate took center stage in most companies and became the subject of a lively debate. Cochran and Wood (1984) argued that this debate was fueled by the realization among companies that CSR was an essential part of businesses and therefore required focused attention. Despite this lively debate, one still found very little consensus among various researchers and particularly with respect to established hypotheses on how businesses interacted with the society. Most of these researches on CSR were outside Kenya and yielded mixed and inconclusive results as to rationale and factors that management considered when engaging in CSR activities. Some rationales and determinants were firm specific therefore applying only to certain companies while others cut across different companies.

A good number of these researches were done on firms that were listed in the stock exchanges, quoted in fortune magazines, profitable, large in size, and well managed (Weiser and Zadek, 2000). Weiser and Zadek (2000) surveyed 100 companies in the UK and found that, External Pressures, Core Values of a company, and Long-term business strategy, were the major drivers for companies to take up CSR in the UK. They further established some of the determinants to be evolutionary whereby one factor leads or develops into another. Weiser and Zadek (2000) further cited Webley and Moore (2002) and Verschoor (1999) to have found a relationship between CSR and profits. Weiser and Zadek (2000) also cited Frooman (1997) to have measured stock markets' reaction to incidences of socially irresponsible and illegal behaviour and found that companies that engaged in illegal behaviour suffered serious losses in shareholder wealth. Barnett and Salomon (2002) cited Moskowitz (1972) to have found that strong social performance can decrease costs hence increase profitability by improving a firm's relationship with key stakeholder groups. Kagan, Gunningham and Thornton (2003) citing Coglianese (2001) argued that managerial attitudes and actions that supported CSR are key variables in shaping environmental performance.

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The Kenyan situation was however uncertain in that no research had been done to establish levels, rationales or determinants of CSR. Despite this lack of research in Kenya, the CSR concept had been embraced by several companies like Nation Media Group which offered to publish CSR activities of firms at zero cost in their daily papers (Daily Nation, June 2003). Kenya Breweries Ltd. which sponsored the government hospitals bed replenishment and rehabilitation project to the tune of Ksh. 4m plus their Ksh 8 million annual guinness strathmore college scholarship award which added up to about 0.4 percent of their annual profit. Magadi Soda Company sponsored several community projects around their area of operation including schools, health centres and other community based assistance programmes, (Corporate Concern, 2002). Mabati Rolling Mills sponsored several community projects in housing and health that possibly made the company win the company of the year award for 2002, (Corporate Concern, 2003). These CSR engagements that generally took the form of monetary contribution, product donation and participation in community issues consumed a lot of resources that constituted a significant portion of a firm's income statement. In light of this significant resource consumption, this research therefore sought to establish rationale and factors that influence levels of CSR among firms in Kenya. Kenya is a different country with its own social, political and cultural practices and therefore it was envisaged that its CSR levels, their rationale and determinants may not be similar to those in other parts of the world.

1.2 Statement of the problem

Richardson et al (1999) citing Pava and Krausz (1996) reported that an increasing number of companies the world over participated in social activities. Corporate Governance Bulletin (2002) and Corporate Concern (2002) reported that levels of CSR among firms had increased tremendously in Kenya by 2002. The assumption was that there are factors and rationale that drove companies' involvement with CSR to warrant this increase. Factors such as asset tangibility and age, profitability, industry sector, growth, size, business risk, listing status, locus of control, and management style all featured prominently in most prior researches and therefore were included in this research to examine their relationship with CSR.

Despite the popularity and interest in CSR that was evident in Kenya, not much had been done in terms of surveys or studies on factors that were influencing CSR levels and involvement among firms in Kenya before this study. The few that were done targeted only specific sectors like banks and manufacturing

sector and were therefore limited in terms of content and scope, which made them lack generalization. Kweyu (1993) studied managerial attitudes towards CSR among banks in Kenya and found profitability as the most dominant objective when selecting a CSR engagement. The study was limited only to managerial attitudes and more over only in the banking sector. Kiarie (1997) did a survey on the awareness of CSR among executives of medium scale manufacturing firms in Nairobi and found that executives within this sector were aware of CSR to the extent that some of them engaged in it. Kiarie's study also did not cover the entire business spectrum and therefore could not be generalized.

A part from their limitation in terms of scope and extent of areas of business interests, these studies also never explored levels, rationale and determinants of CSR in Kenya. Kenya is a sovereign country with different political systems, cultural and social norms due to which CSR levels and factors of its firms were expected to be different. Owing to lack of research on levels and factors determining them, one could only assume that these variables existed and try to guess what they could possibly be before research was done to establish them. This research therefore differed from the aforementioned in terms of objectives, population and scope. It sought to establish rationale and factors that determined firms' levels of involvement in CSR activities and focused on all commercial firms operating in Kenya, both listed and unlisted.

1.3 Objectives of the study
The objectives of the research were:
i)   to establish levels of CSR involvement among firms in Kenya

ii)   to determine rationale for CSR involvement among firms in Kenya

iii)   to establish factors that determine level of firms' participation in CSR activities in Kenya

1.4   Importance of the study
This study is important in a number of dimensions and to different entities because:

- its results form part of a crucial information data base that the governments plus public and

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private firms may use to formulate corporate policies and strategies with regard to CSR

- researchers and the academia can use it as a basis for their empirical and conceptual research exercises
- individuals and civil society groups can use the results to persuade companies to engage in more CSR activities

CHAPTER TWO
LITERATURE REVIEW

2.1   Rationale for CSR involvement

These are principles or reasons that explain a particular decision, course of action or belief as regards CSR. In the four to five years prior to the study, a significant increase in the firms' levels of participation in CSR which led to tremendous increase in CSR's consumption of firms' resources was witnessed in Kenya. As alluded to in statement of the problem, studies done on CSR in Kenya up to the time of the study did not explore rationales of CSR involvement and factors that determined CSR levels. Some of these like Kweyu (1993) studied managerial attitudes towards CSR among banks in Kenya and found profitability as the most dominant objective in CSR involvement, Kiarie (1997) did a survey on the awareness among executives of medium scale manufacturing firms in Nairobi and found that executives were aware of CSR to the extent that some of them engaged in it. These studies were obviously specific such that their results could not be used to explain CSR involvement in areas other than those within their scopes. Establishing rationales for CSR among firms in Kenya therefore still remained an important but unstudied issue and therefore constituted an information gap that this research sought to address.

Of the research done elsewhere, Weiser and Zadek (2000) found that external pressure, long-term strategy, and core values of a company were some of the reasons why firms engaged in CSR. External pressures force companies to address CSR issues since both stockholders and other stakeholders have an interest to see a socially responsible company. Long-term strategy was an issue because successful firms were those that cast and implement good long-term strategies that enable them have competitive advantage (Porter, 1980). Kagan et al (2003) cited Webley and More (2002) and Verschoor (1999) to have used CSR indicators of having a code of ethics, ratings for managing social/ethical risks, being listed consistently in the annual list of Britains Most Admired companies against corporate performance as measured by Market Value Added (MVA), Economic Value Added (EVA), Profit/Earnings (P/E) Ratio, and Return on Capital Employed (ROCE). Their results showed that EVA, MVA and P/E ratio were higher (better) for those companies that had a code of ethics over the 1997 – 2001 period compared to similar sized firms which said they did not have a code. ROCE showed a different result pattern whereby no discernible difference was found in ROCE for those without or with the code in periods

1997 - 1998. But from 1999 to 2001, there was a 50% increase in average return for those with codes when compared to those without. These studies also suggested that among the rationales were listing in the stock exchange, external pressure, strategy, and high public visibility.

Other studies showed that consumers got more attracted to companies that were associated with social cause or issue. In 1999, the US based Cone/Roper Cause-Related trends report found that nearly two thirds of Americans, approximately 130 million consumers, reported that they were likely to switch brands (66% in 1993, 65% in 1998) or retailers (62% in 1993, 61% in 1998) to ones associated with a good cause. According to an international consumer survey, consumers indicated that they would more likely switch brands because a company was associated with a good cause: UK (86%), Italy (75%), Australia (73%) and Belgium (65%), Adkins (2000) as cited by Weiser and Zadeck (2000). Adkins (1999) was cited by Weiser and Zadeck (2000) to have surveyed 1935 British adults and found that within twelve months of survey date, 30% had bought a product or service because of a link to a charitable organization, and 28% had boycotted a company's product on ethical grounds.

From the foregoing, the rationale for CSR possibly lay in several issues including, potential attraction of customers to a firm, the external pressures from social groups, pressure from politicians, government regulations, achieving high public visibility, core values of a company and, long-term strategy. This study sought to establish which of these factors were ranked as rationales for CSR involvement among firms in Kenya.

2.2 Theories behind CSR determinants

2.2.1 CSR and Agency theory
CSR could be studied within the context of agency theory by viewing the modern firm as a nexus of contracts between principals (risk-bearing shareholders) and agents (managers with specialized expertise), (Aguilera and Jackson, 2003). Given the potential conflict and dysfunctional behaviour inherent in firms, various mechanisms are needed to align the interests of principals and agents, Fama and Jensen (1983) and Jensen and Meckling (1976). Shareholder's objective is to maximize returns at reasonable risk while focusing on high dividends and rising stock prices. Conversely, managers may prefer profits to growth (empire building may bring prestige or higher salaries), may be lazy or

fraudulent, and may maintain costly labor or product standards above the necessary competitive minimum. Agency costs arise because shareholders face problems in monitoring management. Managers may have more information than shareholders which makes it difficult for shareholders to counter check management decisions, (Eisenhardt, 1989).

CSR engagements may cause agency conflicts. This impacts adversely on the performance of a firm since any resource spent on them decimates a firm's earnings. This situation undermines a firm's growth and profitability. Rational investors expect management to invest retained earnings in projects that will increase the value of the firm, (Jensen and Mekling, 1976). Modigliani and Miller (MM), (1961) proposition is that the value of a firm is unaffected by the dividends but earnings. According to MM (1961) therefore, if a firm invests on a CSR activity that turns out to have negative Net Present Value (NPV), then the value of the firm will decrease and hence a conflict will manifest itself. The results of this research are therefore useful as firms can use them in selecting appropriate CSR activities before engaging in them hence managing agency conflicts.

2.2.2 CSR, Theory of the firm and Profitability

Commercial firms' dominant objective is to maximize the value of shareholder's wealth, (Peterson and Lewis, 2001). This translates to maximizing value of a firm by maximizing the earnings (profits). The value of a firm is affected by both current and future cash flows and is expressed as:

$$PV(\Pi) = \Pi_1/(1+r) + \Pi_2/(1 + r)^2 + \text{--------} + \Pi_n/(1 + r)^n$$

where Π_t is profit in time period t,

r is appropriate discount rate.

Thus maximizing value means maximizing Π (profit) in the above equation. Since CSR consumes a firm's resources immediately, it then reduces a firm's profit in anticipation of uncertain future benefit of unknown magnitude. The results of this research are useful to firms in evaluating CSR activities before engaging in them to establish whether they are in support of above value and profit maximization theories.

2.2.3 CSR and Portfolio theory

Markowitz's (1959) portfolio theory advises investors to reduce the risks in their investments through diversification. Diversification requires investing in a portfolio of uncorrelated assets whose returns move in different directions. CSR's impact on return and risk characteristics of an investor's portfolio therefore needs to be known. Barnett and Salomon (2002) cited Collin and Moore (2000) to have found that at portfolio level, the decrease in the choice set due to exclusion of non-ethical companies, may not be substantial enough to cause diversification of socially responsible investment (SRI) funds. Unsystematic risk may be offset by as few as ten stocks. Though strict social standards may prevent SRI fund from investing in some firms, there may well be ample other firms that do meet the social criteria while still allowing the firms to diversify away unsystematic risk.

Thus this research sought to establish levels, rationales and determinants of CSR which can be used to evaluate the risk/return criteria of CSR activities alongside other firm's investments to establish their effect in portfolio context.

2.3 Proposed Determinants of CSR

Some prior CSR researchers implicitly or directly used various factors and defined criteria to select sample firms for their studies. Cochran and Wood (1984) used industry specific control groups, asset turnover and asset age as significant explanatory variables. Their analysis showed that the key variable that correlates with CSR is asset age and that the omission of this variable in previous studies may have led to spurious positive correlation between CSR and financial performance. Weiser and Zadek (2000) found determinants of CSR to be external pressures, core values of companies, and long term strategies. Thus the determinants that featured most commonly or prominently in above studies were external pressures, core values of companies, long term strategies, asset age and tangibility, industry sector, size of firm, profitability, business risk, growth and management style. Their various characteristics discussed in detail here below are common in most firms. They also exhibited both positive and negative, correlation with CSR in previous studies.

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2.3.1 Asset Tangibility

Large tangible assets tie large amounts of a firm's capital and usually are for long term business purposes. This means that firms intending to invest in such tangible assets may find it necessary to establish good relationship with the respective community as an insurance against possible hostility and rejection. On the other hand, firms already having vast investments in tangible assets may want to maintain good relations, through CSR activities, with the communities to avoid hostility and possible destruction of these assets. Wokutch and Spencer (1995) was cited by Wadock and Graves (1999) to have used tangible asset structure as a selection criteria when examining the relationship between measures of CSR or responsiveness and corporate financial performance for the 500 oldest companies in the USA. The results showed that these old companies faired better financially than similar ones that did not practice CSR.

Beresford (1973) was cited by Cochran and Wood (1984) to have analyzed data for Fortune 500 Best Companies to work for in America and America's most admired companies in comparison to stock market, the results showed that these companies outperformed the S&P 500 index by more than double. To qualify for listing as a Fortune 500 best company, companies must excel in certain issues like CSR. These results therefore show that companies that engaged in CSR performed better than those that did not.

Weiser and Zadek (2000) cited Collins and Porras (1994) to have done a critical analysis of eighteen (18) companies in the US identified as "Built To Last" (BTL). These were visionary companies that had trillions worth of dollars in tangible assets and with goals that extended beyond just maximizing profit. Because of their vast investments in tangible assets, these firms' interests went well beyond profitability to cover the social and environmental interest of communities in which they operated. Such firms could have had significant concern for social and environmental issues since they had invested so much and would have wanted to use a positive relationship as a means of protection for their investments. The analysis compared BTL companies' performance to 18 non-BTL companies of similar size in the same industry. The results showed that BTL companies outperformed their non-BTL counterparts. Waddock and Graves (1997) extended the analysis by Collins and Porras (1994) above, but due to mergers, bankruptcies and unavailability of data, only analyzed eleven (11) out of the eighteen (18) original pairs.

They found that the BTL companies significantly exceeded the non-BTL companies in both financial measures and CSR measures, BTL companies had Return on Equity (ROE) that was 9.8% higher over a ten year period than non-BTL companies. Their Return on assets (ROA) was about four percent (3.55%) higher, and Return on Sales (ROS) that was about three percent (2.79%) higher. The ten year relative total return to shareholders averaged about sixty four percent (63.5%) higher for BTL companies than for non-BTL companies, BTL companies also outperformed their non-BTL compatriots on CSR measures. Using Kinder, Lydenberg, Domini (1995) data for five CSR variables, Graves and Waddock (1999) found that BTL companies outperformed non-BTL companies by an average of .578 points on a 5-point scale roughly twelve percent (11.6%).

Thus, it was possible that managers, being concerned about massive amounts of dollars tied on tangible assets relied on CSR to create a cordial social relationship with their current and potential customers and the surrounding community. This kind of situation is anticipated where the firm's waste could be harmful to the environment. The assumption is that CSR is an insurance against possible rejection or destruction of the assets. The Tiomin mining firm experienced heavy resistance from the local community in Kwale in Kenya for fear of the possible destruction that the firm was likely to inflict on the society and environment, and lack of adequate compensation. As part of their long-term strategy therefore, Tiomin could possibly have engaged in CSR activities within that community so as to gain acceptance before investing in expected large tangible assets. This suggested possible existence of a relation between asset tangibility and CSR involvement an issue which this research addressed itself to. As to whether asset tangibility leads to CSR or CSR leads to asset tangibility was beyond the scope of this research.

2.3.2 Profitability

The dominant objective of a commercial firm is to achieve superior financial performance. One of the short-term measures of financial performance is profitability. Firms engage in projects that will increase their profitability in the short-term and overall financial performance in the long run, (Cochran and Wood, 1984) citing (Moskowitz, 1972). Strong social performance can improve a firm's relationship with key stakeholder groups. This translates into cost savings in the areas like marketing, litigation, and rejection to the affected firm. Socially responsible behaviour creates competitive advantage for a firm,

(Porter, 1980) and (PricewaterhouseCoopers, 2002). This is because socially responsible behaviour is proxy for underlying positive firm image and management talent, (Alexander and Bucholtz, 1978) and (Bowman and Heinz, 1975) both as cited by Barnett and Solomon (2002). A survey targeting 1,161 CEOs from 33 countries reported that more than half of the CEOs saw the link between CSR and company profitability, (Corporate Concern, 2002). This suggested that firms could improve their profitability as a result of engaging in CSR practices.

Several scholars in the U.K and USA spent much effort studying the relationship between CSR and financial performance. Heinz et al (1999) cited Bromiley and Marcus (1989) and Jaggi and Freedman (1992) to have found negative correlation between ethics and profits indicating that firms exhibiting high ethical values reported lower profits. Herremans et al (1987) was cited by Heinz et al (1999) to have found that CSR and financial performance were positively linked to the extent that corporate reputation was a factor in the measurement of CSR. Aupperle and Caroll (1985), Brown and Perry (1994), and Griffin and Mahon (1997) were also cited by Heinz et al (1999) to have found no significant correlation between CSR and financial performance. Thus CSR and financial performance relationship did not seem to have been conclusively established.

Two possible relations between profit and CSR may be inferred from above. One is that firms could benefit by retaining old customers while other firms could be getting new customers who are particular about engagement in responsible behaviour (CSR). In this case, CSR should then be evaluated as any other investment project before it is undertaken by a firm. Secondly, companies may contribute to CSR because they have the financial ability to do so. For example from observation, most firms that contributed to CSR also reported some profit. This could reduce CSR to a discretionary cashflow residual disposal decision. This research sought to establish whether profitability was a factor for firms to engage in CSR activities. The determination of causality between CSR and profitability was beyond the scope of this study and was therefore not explored.

2.3.3   Company Growth
Growth is an important objective that most commercial firms do pursue using various different strategies. It features dominantly in most firms long-term strategies (Porter, 1980). CSR may be used to

enhance a firms growth opportunities through increase in sales, market expansion, and introduction of new products. Customer loyalty is a powerful competitive strategy that a firm may use to sustain and even increase its sales volumes resulting in company growth, (Kotler, 2000). CSR can be used to enhance customer loyalty when firms practicing it demonstrate their concern for the society beyond the use and attributes of their products. Weiser and Zadeck (2000) quoted Business and Social Responsibility (2000) to have reported that, Coca-Cola experienced a four hundred and ninety percent (490%) increase in sales of its products at 450 Wal-Mart stores during a six-week campaign in 1997, with Mothers-Against-Drunk-Driving, in which the company donated a portion of its sales to the organization. Diageo plc of London was also reported to have helped raise $600,000 while increasing sales of tracked brands by 37% between 1994 and 1998 from 22 CSR related projects. Weiser and Zadek (2000) further quoted (Adkins, 1999) to have reported that Sears and Roebeck, created a partnership with Gilda's club, (a not-for-profit organization based in USA that provides a network of local meeting places where people living with cancer can come together for emotional support, social events and laughter) to promote special ties, scarves, and levis 550 jeans. Sears sold 100,000 ties, and 30,000 scarves in several months and sales of 550 jeans increased in store by 56% in Gilda's club activities compared to 16% in non Gilda's clubs. However, it is not clear from above studies whether it is growth that leads to CSR or CSR that leads to growth, a puzzle beyond the scope of this research. Thus this research sought to establish whether growth is related to and is one of the factors that firms considered before taking up a CSR activity.

2.3.4 Business Risk

Sources of business risk include operations process, product quality, customer relations, financial stability, lawsuits and reputation. These issues are critical to the success of a firm hence firms review them frequently. Such risks translate to significant volatility in the earnings that is subsequently echoed in stock prices, lost sales or increased advertising expenditure and marketing activities. Wesier and Zadeck (2000) quoted Frooman (1997) to have analyzed twenty seven (27) event studies that measured the stock markets' reaction to actions classified as socially irresponsible and illegal. The study used product recalls, environmental lawsuits, anti-trust lawsuits and regulatory fines as indicators of socially irresponsible behaviour. The findings revealed that companies that engaged in irresponsible or illegal behaviours in ways that were egregious enough to invoke regulatory and legal sanctions suffered very

significant losses in shareholder wealth, which were not ever recovered. Weiser and Zadeck (2000) suggested that:

- Firms not behaving in a socially responsible manner may suffer financial loses as consumers may not want to support a firm that violated the law.

- Firms that have poor financial performance may need to reduce CSR contributions and may tend to cut corners and hence commit more crimes.

- Bad management may be reason enough for both illegal activity and being insensitive to the outside public.

This research sought to establish whether business risk is related to and is a determinant of CSR levels of involvement in Kenya.

2.3.5   Company Size

Companies that are large in size in terms of turnover, and total assets are perceived by the customers and other stakeholders to be profitable, successful and powerful (Heinz et al 1999). Large size may make such companies establish a positive relationship, by engaging in CSR activities, with the society to win the support of the community. The expectations of the society and the communities in which they operate are high and positive and it is not uncommon to see them being approached to participate in or contribute to various charitable events. The companies themselves also want to retain such positions which are not only prestigious and advantageous but also carry elements of reputation (Herreman et al 1993).

Several studies like Gordon and Deegan (1996) as cited by Richardson et al (1999) found that size effect was particularly pronounced in sensitive industries. Their results showed that large firms in the oil and gas industry were more likely to practice responsible environmental and CSR behaviours or disclosures than small firms in that industry. This relationship was also found to be positive by accounting researchers (for example Watts and Zimmerman, (1990) as cited by Richardson et al (1999)) where the

positive relationship had been attributed to the need to manage political visibility and the potential resulting costs through financial disclosure management.

From casual observation in Kenya, firms which had enormous asset bases and also were leaders in their own operations like Magadi Soda, Kenya Breweries, Nation Media, Barclays Bank, and Safaricom were the most prominent in CSR activities. By investing in CSR, large firms are also able to diversify their investments and hence reduce the unsystematic risks compared to smaller firms (Elton and Grubber, 1977) as cited by Barnett and Salomon (2002). Firm size may therefore be a factor that explains firms' engagement in CSR activities.

PricewaterhouseCoopers (2001) using a sample of 1,160 companies from 33 countries worldwide found that majority of the CEOs identified with good CSR practices that include, good environmental practices, support for community projects, provision of health and safe working conditions and responsibility towards all company stakeholders regardless of legal implications (Corporate Concern, 2002). The survey further established that, "large retail chains for instance saw benefits in improving roads that enabled improved access to consumers. The study also found that some large companies saw the benefit in the preventive healthcare of their staff most notably with the HIV/AIDS scourge. According to the study most visionary CEOs should look 5-10 years ahead and cast strategies that ensured their companies' future growth and profitability in order to sustain its size and share of the market. Thus size was a probable factor that drove firms to a CSR engagement which this research sought to establish.

2.3.6 Management Style

Management style may be referred to as a combination of managerial attitudes and actions that mark the intensity and character of each management's "commitment" to meeting environmental responsibilities Kagan et al (2003). Kagan et al (2003) found that considerable emphasis has been placed on corporate environmental and CSR management systems and report that CSR is conceived as formalized procedures for making and implementing corporate environmental policies, auditing results, and responding to shortcomings. Kagan et al (2003) cited Coglianese (2001) to have asserted that managerial attitudes and actions (what he labeled "commitment") were the key variables in shaping corporate

environmental performance. Kagan et al (2003) focused on both attitudes and actions because managerial attitudes towards environmental matters could best be inferred from manager's accounts of decisions and actions they had taken in response to particular regulator and or community challenges.

Thus, they based their assessment of management style on manager's "expressed attitudes" towards environmental problems, manager's actions and implementation efforts to meet specific economic, regulatory and community challenges, and their explanations for those actions. They scored management style on three related dimensions of commitment to the environmental values that included the intensity of managerial scanning for environmentally relevant information, the management's degree of responsiveness to environmentally relevant information, and the assiduousness with which the facilities had institutionalized implementing routines to ensure high levels of environmental consciousness and control or capacity. Their findings revealed existence of statistically significant relationship between management style and environmental performance. This study sought to explore if management style is related to and is a factor that influenced engagement in CSR activities among commercial firms in Kenya.

2.3.7   Industry Sector

It is reasonable to imagine that the volume of CSR disclosures and activities will vary over industries (Richardson et al, 1999). This is because certain industries' activities cause more harm to the society and environment than others. Such industries may feel compelled to act in a manner that will reduce such negative notion, perceived or real, by engaging in CSR activities. Heinz et al (1999) stated that, it is clear that socially responsible activities can vary from industry to industry. Heinz et al (1999) cited Dedan and Gordon (1996) to have found that natural resources companies (e.g. mining, forestry, oil and gas) and heavy manufacturing companies (e.g. smelting, chemical production) were closely monitored for environmental performance than companies in other industries. Industries with contentious products such as tobacco and alcohol were assumed responsible for social consequences of their products (Miles, 1982) as cited by Richardson, Welker and Hutchinson (1999). Pattern (1991) was cited by Heinz et al (1999) to have found that industry classification was related to level of CSR disclosure. Heinz et al (1999) established that companies within industry groups e.g. chemicals, soaps and cosmetics, forest and paper products, electronics and semiconductors had a very strong correlation between CSR and industry

sector while companies in groups such as petroleum and refining, computer peripherals, publishing and printing, and mining exhibited weak relation between CSR and Industry sector. This grouping was both interesting and seemed contradictory since one would have expected that businesses in industries that may cause harm to the society or environment should all exhibit strong positive correlation with CSR. This shows that the results were mixed, an issue that this study explored with regard to establishing whether industry sector is related to and is a determinant of CSR.

For the purposes of analyzing CSR involvement by industry sectors in this study, the sector was subdivided into categorical variables of product, finance and other sectors (ICT, hotel and tourism, and services). Companies operating in sectors such as industrial and allied which is within product sector may be more regulated (e.g. have a set minimum biological oxygen demand - BOD for effluent quality). Such industries may feel more compelled towards CSR. Ufadhili Trust and Kenya Community Development Trust (UT & KCDT) (2002), analyzed CSR contributions from a sample of 210 firms in Kenya, they found a relationship between CSR contributions and the industry sector, Corporate Concern (2002). In 2001, UT & KCDT found that 59 firms from the manufacturing sector contributed 28% of total contribution followed by 32 firms from service sector with a contribution of 15%, finance and insurance firms with 14 and 12 firms had 6.6% and 5.7% respectively while petroleum with 6 companies made a contribution of 2.9%. In a similar analysis up to August 2002, they found that out of 103 companies in the sample, manufacturing sector with 31 sample companies made 29.8% of total contribution, service industry with 25 companies made 24%, finance with 29 companies made a contribution of 8.7% , 8 Petroleum companies made 7.7% contribution while 6 insurance companies made 5.8% contribution, Corporate Concern (2002). Above results agree with Heinz et al (1999) who found that firms investing in ethical companies were increasing in number in the US and throughout the world as well. They also found that product industry groups differ substantially with regard to their ethics and profit relations. Since the UT & KCDT's analysis plus several others like Heinz et al (1999), and Dedan and Gordon (1996) as cited by Richardson et al (1999), indicated that a lot of companies within different industries were contributing towards CSR, it is possible that industry sector and CSR are related.

Magadi Soda company built schools and health centres which offered services at subsidized costs to the

Maasai community to try and win their support. The Maasai community do not seem satisfied with these activities as evidenced by their hostility towards the company during which they publicly opposed and demonstrated against the renewal of the company's business license (Daily Nation, November 2003). On the contrary some companies operating in relatively environmentally friendly industries are also very active in CSR. Safaricom, Barclays Bank, and Kencell all operated in industry sectors that were comparatively less harmful to the public and the environment yet they were very active in CSR activities. This raises a fundamental issue as to whether CSR involvement is related to and determined by the industry sector to which a firm belongs or not, a puzzle which this research addressed itself to.

Above factors are theoretically related to and could be determinants of CSR since some studies outside Kenya have shown mixed results. Kenya is a unique country with different social, cultural, political, legal, economic, technological factors and even approaches to management. One does not therefore expect whatever is happening elsewhere to automatically hold in Kenya. These factors manifest themselves differently in Kenya from UK and USA where most research on CSR focused on and some determinants established. This study was therefore important as it sought to fill the knowledge gap that existed with regard to firms' CSR levels, rationale and determinants in Kenya.

2.4   Measurement of CSR

In arriving at some of the reviewed results, some researchers reported encountering problems with the measurement of CSR involvement level (Cochran and Wood, 1984). Two methods that were categorized as reputation index and items and content analysis proved popular among researchers. Beresford (1973, 1975, 1976) was cited by Chochran and Wood (1984) to have used item and content analysis method whereby he simply noted either a qualitative or quantitative report, mention or existence of a CSR activity, say pollution control in the company's bulletin or the annual report. Richardson et al (1999) also cited Bowman and Haire (1975) to have used a combination of content analysis and existence of designated CSR items in the food processing industry and developed their own index based on the number of lines on the annual report devoted to CSR activities. Subsequently several other researchers (e.g. Abbort and Monsen, 1979), (Anderson and Frankle, 1980), (Ingram, 1978) and (Preston, 1978) have been cited by Cochran and Wood, (1984) to have used similar methods to measure CSR involvement level. This method has been criticized as lacking in objectivity because it relied on the

knowledge of individual observers which were not based on any standard measure (Cochran and Wood, 1984).

An alternative and popular method of measuring CSR involvement level, reputation index is based on peoples' perception about companies' involvement in CSR activities, (Weiser and Zadek, 2000). In this method, CSR researchers carried out surveys by asking groups such as company representatives, investors, general public, and civil society groups questions that helped them come up with a CSR rating for all the companies in the survey. Responses from these groups were then compiled into databases from which rankings were done depicting companies from low CSR participation progressively to high CSR involvement. These indices were then published in magazines such as Fortune, Most Admired Companies, and Top Best Companies. The information in these databases could then be developed into scales for rating companies from which their level of CSR involvement could be determined.

The problem of measuring CSR or firms' responsiveness to it therefore clearly needs considerably more attention since even the two methods described above still have their shortcomings due to assumptions they were based on and the fact that they do not measure CSR directly. These methods have however been used widely by several researchers whose results have been consistent. This research used the item and activities analysis method in a similar approach whereby presence or absence of the various designated CSR items and activities were noted. An index showing companies' participation levels was then developed based on the scores of 1- presence and 0 – absence and used as a measure for CSR performance levels. To determine the value of "Y ", the CSR variable, scores of 1 for "YES' or presence and 0 for "NO' or absence were assigned to responses about various items and activities from the questionnaire (see 3.5 – Data specifications and measurements).

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research design

The research approach was descriptive using hypotheses and theories that were proposed earlier like existence of correlation between profitability and CSR. This research therefore used these theories and hypotheses to explore levels, rationales and determinants of levels of CSR among commercial firms in Kenya.

3.2   Population

The target population was all the 48 firms that have been listed continuously at the Nairobi Stock Exchange (NSE) from 1997 to 2001 and the 497 commercial firms listed in boxes in the 2002 Nairobi Postel Directory. The population frames were NSE directory of listed firms and the 2002 edition of Nairobi Postel Directory. Choice of NSE listed firms as a frame facilitated comparison of levels of participation of listed and non-listed firms as well as testing of some rationale variables (for example listing status). Choice of Nairobi Postel Directory box entries as another frame represented more than ninety percent of all publicity and recognition conscious commercial firms which were the target population of this study. Firms that did not seek listing in boxes were either cash-strained and did not seek publicity and recognition (listing in boxes costs extra money) and therefore were unlikely to participate in CSR activities.

Other possible frames like Kenya Association of Manufacturers and Kenya Industrial Research and Development Institute directories were considered but found to contain only manufacturing firms and therefore inadequate for the purposes of this study. The 497 firms listed in boxes in Nairobi telephone directory were edited to omit non-commercial firm entries that included educational institutions, health institutions, NGOs, civil society organizations, high commissions, regulatory authorities and government institutions to arrive at a figure of 240 firms.

3.3 Sampling

The initial sample size was one hundred firms. This was considered adequate since other researchers like Weiser and Zadek (2000) used a similar sample size of one hundred in a similar study in the U.K. However an actual sample size of eighty three firms was used in this study. This was due to the problems encountered when tracing the firms in the original sample. The seventeen firms which could not be included in the final sample had changed their addresses, e-mails and telephone contacts and therefore could not be contacted after all efforts were exhausted. Proportions for each sub sample were calculated as follows:

NSE: $(48/240)*100 = 20$; Nairobi Postel directory: $100-20 = 80$

Simple random sampling technique was then used to arrive at the final sample of 100 firms for the study.

The period of study of 1997 to 2001 was considered suitable because prior to 1997, there was not much CSR activity in Kenya. The little that took place was lumped together under marketing and advertisement (Corporate Concern, 2002).

3.4 Data collection methods

Data for research was drawn from both secondary and primary sources. Annual financial statements were obtained from NSE, for the listed companies in the sample and were used as secondary source of financial performance data. A structured questionnaire was used to collect information on CSR activities among all firms in the sample and financial data for non-listed firms. Its major sections were demographic data, data on CSR and its management, data on rationale and finally financial data. A total of eighty three questionnaires were distributed to the respondents using two methods. The drop and pick method was used for twenty percent of the questionnaires while e-mail was used to dispatch eighty percent. Telephone, e-mail and physical follow-ups were then used where necessary. The drop and pick method proved cumbersome, expensive and inconvenient and was therefore less effective. The e-mail method coupled with telephone follow ups proved very effective achieving more than sixty eight percent of the respondents.

3.5 Data specifications

3.5.1 Levels of CSR involvement

CSR involvement levels were evaluated using the following items and activities within firms.

i) Y_1 = Contribution to a CSR cause which was obtained from responses to questions 9.

ii) Y_2 = Existence of a CSR policy which was established by a 'Yes' or 'No' response to question 5.

iii) Y_3 = Existence of a code of conduct/ethics which was obtained from responses to question 15.

iv) Y_4 = Participation in Company of the Year Awards which was established from response to question 23.

v) Y_5 = Response to disasters which was established from the responses to question 11.

vi) Y_6 = Recipient of an Award for CSR which was established from question 24

vii) Y_7 = Existence of staff welfare programs which was obtained from question 14

viii) Y_8 = Reporting of CSR activities in annual reports or in house company magazines which was obtained from question 13.

The highest or maximum expected score for CSR in a company was 8.

The total value of "Y" used as a proxy for a firm's level of involvement in CSR was then arrived at by summing up the scores for each CSR measure, "Y_i", in the company, i.e. ΣY_i, for i =1 to 8. The value of "Y" so obtained was adjusted by expressing it as a percentage of the highest possible value (8) of "Y" for all the companies.

Illustration: Let Y_T = total CSR score for one company and Y_H = potential highest "Y" value. The adjusted score, $Y_A = (100 \times Y_T / Y_H)\%$.

Richardson et al (1999) cited Cahan and Malone (1995) to have used this method to determine the scores for financial disclosure of CSR activities or behaviours when examining the relationship between CSR and financial disclosure. They found that the level of voluntary financial disclosure was significantly related to the proportion of net income given to charities.

3.5.2 Rationales for CSR involvement

Data for rationale for CSR involvement was obtained from responses to the following issues in section 2 question 25 of the questionnaire which were based on rating scale of 0,1,2, and 3.

i)   Response to pressure from civil society groups

ii)   Response to pressure from politicians

iii)   Response to the government and regulation requirements

iv)   Use of CSR as part of broader long term strategy

v)   Use of CSR for competitive advantage

vi)   CSR is a way of expressing our level of responsibility and concern to the society

vii)   CSR is one of our marketing tools

viii)   We contribute to CSR when we have healthy cash flows

ix)   CSR enables us have high public visibility

x)   We are part of a multinational company and are therefore bound by practices of our parent company of which CSR is one

xi)   We are a public company and therefore it is our obligation to be socially responsible to the public

3.5.3 Determinants of levels of CSR involvement

The following were considered as potential determinants of CSR and to compute their values and proxies, the following approach is used.

i) X_1= Profits of the firm was given by earnings before tax and dividends using responses to question 26

ii) X_2= Size of the firm was given by log of all assets using responses from question 26

iii) X_3= Business risk was obtained as variance of operating income, using responses to question 26

iv) X_4= Growth was calculated as average percentage change in total assets annually {(last year – current year)/ last year} using responses from question 26

v) X_5 = Assets tangibility was obtained as log of {(total assets - current assets)/ total assets} using responses from question 26.

vi) X_6= Industry type was obtained by assigning proxies to each industry using response from

question 2.

vii) X_7= Management style was computed as the total from responses to questions 7 & 17-21, with possible maximum of 8 scores.

viii) X_8= Average earnings before tax and dividends over the five year study period was obtained using data from responses to question 26

ix) X_9= Listing status which was assigned a proxy of 1 for listed and 0 for non-listed

x) X_{10} = Multinational status which was assigned a proxy of 1 for multinational or subsidiary and 0 for local firms.

3.6 Data analysis

Data was analyzed in three main dimensions to conform to the requirements of each of the three objectives of this research.

3.6.1   Levels of CSR involvement

To work out levels of CSR involvement, individual score for each of the CSR items listed in 3.5 (Data specifications) was added to obtain a total score for the firm. The total CSR score for each firm was then expressed as a percentage of the highest possible total score of 8. The resulting percentages were then grouped into four quartiles. A firm's level of involvement was then determined as low, medium, high or very high depending on which quartile its calculated percent value fell (see table 4.30).

3.6.2   Rationales for CSR involvement

In determining rationales for involvement, scores for each rationale, as listed in section 3.5-Data specifications were added across all the respondents giving two totals. One total for each rationale and the other one, overall grand total rationale for all firms in the study. The totals for each rationale was then expressed as a percentage of the overall grand total to arrive at a percent value for each rationale type. The resulting percentages were then grouped into four quartiles which are as given in table 4.40. A rationale was then rated very high, high, medium or low, based on where its calculated percent value fell within these quartiles.

3.6.3 Determinants of levels of CSR involvement

Finally the last objective of establishing the determinants of levels of CSR involvement was achieved by calculating the correlation coefficient between the dependent variable, CSR and each explanatory variable. Limited Dependent Variable Model (Limdev) regression model was used in this analysis. This model was preferred to ordinary least squares regression model - (OLS) because the values of the dependent variable, CSR were within a specific range of 3 to 8. Using Limdev model therefore ensured that no predicted values of CSR would fall out of the given range. If OLS model was used, this assurance would be lost since OLS has no in built facility for censured regression and therefore some predicted values would fall below plus three or above plus eight.

Using Limdev model, "Y" – the CSR dependent variable was regressed against "X_i" – the determinant explanatory variables. The explanatory variables took values of size, growth, profitability, assets tangibility, business risk, listing status, industry sector, management style, multinational status and average profits to establish their regression coefficients, standard errors and significance for each year in the period. The multiple regression model used was of the form:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} + \epsilon$$

Where:

Y is the total CSR score for each company

α - mean score of CSR when the determinants are all zero (constant)

$\beta_1, \beta_2, \text{----}, \beta_{10}$ are regression coefficients for each respective determinant

$X_1, X_2, \text{----}, X_{10}$ is the determinant of CSR

ϵ – Standard error

Adjusted R^2 values were then calculated and used to explain the amount of CSR that is represented in each model.

t-statistics were also computed at p-values of .01 and .05 respectively. The resulting "t" value was then used to test the significance levels of each of the proposed determinants.

The results of the correlation and multiple regression analyses are summarized and tabulated in Tables 4.50 and 4.60 and discussed in detail in chapter four.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Responses Analysis

4.1.1   Distributed questionnaires

Details of the questionnaires that were distributed are provided in table 4.10 below. They show that twenty (20) questionnaires or twenty four percent (24%) were sent to firms listed at the Nairobi Stock Exchange while sixty three (63) or seventy six percent (76%) were sent to non-listed ones. Twelve (12) or sixty percent (60%) of the listed firms were from the product sector and five (5) or twenty five percent (25%) from finance sector while 15% from other sectors. For the non-listed firms, twenty five (25) or forty percent (40%) were from product sector, eighteen (18) or twenty nine percent (29%) from the finance sector, and twenty (20) or thirty-one (31%) were from other sectors.

Table 4.10 –Questionnaires distributed

Industry Sectors	Listed firms		Non-listed firms		Local firms		Multinationals	
	Actual	Percent	Actual	Percent	Actual	Percent	Actual	Percent
Product	12	60	25	40	10	48	28	44
Finance	5	25	18	29	1	5	20	32
ICT	0	0	9	14	2	10	8	13
Hotel	0	0	7	11	5	24	3	5
Services	3	15	4	6	3	14	3	5
Totals	**20**	**100**	**63**	**100**	**21**	**100**	**62**	**100**

Analysis of distribution by multinational status showed that a total of twenty one (21) or twenty five percent (25%) of the questionnaires were distributed to local firms while sixty two (62) or seventy four percent (74%) were sent to subsidiaries of multinational firms. Of the ones sent to local firms, ten (10) or forty eight percent (48%) percent went to product sector, five (5) or twenty four percent (24%) percent to hotel and tourism sector, and three (3) or fourteen percent (14%) to the services sector. For the multinational subsidiaries, twenty eight (28) or forty five percent (45%) went to product sector and twenty (20) or thirty two percent (32%) to finance.

4.1.2 Received Questionnaires

After elaborate efforts, a total of fifty nine (59) completed questionnaires out of the distributed eighty three (83) were received at the end of the collection period. This represented an overall response rate of seventy one (71%) percent. Out of the fifty nine (59) questionnaires which were received, only forty (40) had complete data, both CSR and financial which represented a response rate of forty eight percent (48%). Nineteen (19) questionnaires had only CSR data as the management of the firms considered their financial data to be confidential. Both response rates were considered satisfactory given experiences of other survey studies in Kenya, (Karuu 1992). Karuu (1992) had a response rate of thirty seven percent (37%) which he considered adequate. The seventy one percent (71%) and forty eight percent (48%) response rates respectively was therefore generally high as it compared favourably with other survey based studies. Analysis for CSR levels and rationale was therefore done based on all the fifty nine (59) questionnaires while only forty (40) questionnaires were used in the analysis for determinants of CSR levels. In either case, the data received and analyzed can therefore be taken as representative in terms of CSR activities among the firms in the study. The relatively higher response rate may be attributed to the greater follow up effort by the researcher on the respondents.

Details of the received questionnaires are given in table 4.20 below which show analysis of the forty questionnaires received by industry sector, listing, and multinational attributes.

Table 4.20 – Questionnaires received

Industry Sectors	Listed firms		Non-listed firms		Local firms		Multinationals	
	Actual	Percent	Actual	Percent	Actual	Percent	Actual	Percent
Product	7	59	13	46	4	31	16	59
Finance	4	33	6	21	1	8	9	33
ICT	0	0	4	14	3	23	1	4
Hotel	0	0	3	11	3	23	0	0
Services	1	8	2	7	2	15	1	4
Totals	**12**	**100**	**28**	**100**	**13**	**100**	**27**	**100**

The analysis showed that twelve (12) questionnaires or thirty percent (30%) were received from firms listed at the Nairobi Stock Exchange while twenty eight questionnaires or seventy percent (70%) were received from non-listed ones. Seven or fifty nine percent (59%) of the responding listed firms were from the product sector, and four or thirty three percent (33%) from finance. For the non-listed firms,

thirteen or forty two percent (42%) were from product sector, six or twenty one percent (21%) from the finance sector and four or fourteen percent (14%) from ICT sector. Analysis of receipts by other sectors is as summarized in table 4.20 above. Questionnaire receipt analysis by multinational status showed that a total of thirteen or thirty three percent (33%) of the questionnaires received were from local firms while twenty seven or sixty eight percent (68%) were from subsidiaries of multinational firms. For the multinational subsidiaries, sixteen or fifty nine percent (59%) were from product sector while nine or thirty three percent (33%) were from finance. Analysis of receipts by other sectors is as summarized in table 4.20 above.

The forgoing analysis indicates no apparent response bias since there was no significant shift in proportions of questionnaires distributed and received by local against multinational attribute and listed against non-listed attribute (see table 4.30 below).

Table 4.30 – Proportions of distributed and received to total questionnaires

Attribute	Distributed proportion	Received Proportion
Local	25%	33%
Multinational	75%	67%
Listed	24%	30%
Unlisted	76%	70%

4.2 Levels of involvement in CSR activities

Levels of CSR involvement are indicative of the extent to which a firm participates or engages in CSR activities. The levels were obtained by adding the scores for all CSR items for each firm to arrive at the total CSR score for the firm. The larger the total score for a firm's CSR items, the higher the level of involvement. This total CSR score was expressed as a percentage of the highest possible total CSR score of eight, (8) within each firm to obtain percentage values. The resulting percentages were then grouped into four quartiles to facilitate rating (see table 4.40).

Table 4.40 – Levels of CSR involvement and their ratings

Quartiles of CSR levels	Number of firms	CSR Levels			
		Percentage of firms in the quartiles	Cumulative percentages	Percentage CSR score ranges	Ratings scale
4th	8	20%	20%	76 – 100%	Very High
3rd	26	65%	85%	51 – 75%	High
2nd	6	15%	100%	26 – 50%	Medium
1st	0	0%	100%	1 – 25 %	Low

A firm's level of involvement was then determined to be low if its percentage score was in the first quartile or ranged from 1% to 25%, medium if it was in the second quartile or ranged from 26% to 50%, high if it was in the third quartile or ranged from 51% to 75% and very high if it was in the fourth quartile or ranged from 76% to 100% (see table 4.40).

The results show no firm to have had low level of involvement in CSR. This implies that all firms responded to have participated in CSR activities during the study period in one way or the other. A huge proportion, eighty percent (80%) of firms was noted in the second and third quartiles suggesting that a huge majority of firms had medium to high levels of involvement in CSR. Twenty percent (20%) of the firms in the study were in the fourth or highest quartile indicating that they had very high levels of CSR involvement. Cumulatively a significant majority, eighty five percent (85%) of the firms had high to very high levels of involvement in CSR meaning that commercial firms in the study not only involved themselves in CSR but did so very heavily. The foregoing results therefore indicate that many of the commercial firms in Kenya not only involved themselves in CSR but did so very significantly. This is in agreement with Corporate Concern (2002) and Daily Nation (2002) which reported an increase in the number of firms participating in CSR activities in Kenya. It also agrees with Weiser and Zadek (2000) who reported a similar increase in the U.K and USA (see literature review page 9).

Further analysis of proportions of respondents by multinational and listing attributes and industry sectors indicate that multinational subsidiaries, unlisted firms and firms within the product industry sector involved themselves more in CSR activities during the period of study (see table 4.50).

Table 4.50 – Proportions of levels of CSR involvement by various sectors in the quartiles

Combined Quartiles	Number of Firms (#)	Proportions of firms within sector/status													
		Multinational status				Listing Status				Industry sector					
		Multinational		Local		Listed		Unlisted		Product		Finance		Others	
		#	%	#	%	#	%	#	%	#	%	#	%	#	%
3rd and 4th (Upper)	34	24	60	10	25	11	27.5	23	57.5	15	37.5	9	22.5	10	25
1st and 2nd (Lower)	6	3	7.5	3	7.5	1	2.5	5	12.5	5	12.5	1	2.5	0	0
Totals	40	27	67.5	13	32.5	12	30	28	70	20	50	10	25	10	25

From table 4.50 above more multinational firms, sixty (60) percent responded in the upper (3rd and 4th) quartiles with higher levels of CSR involvement compared to twenty five (25) percent of local firms in the same quartiles. The rest, fifteen percent (15%) responded in the lower, (1st and 2nd) quartiles. This suggests that multinational status may be a factor that is associated with higher levels of CSR involvement. On the other hand, local firms may be constrained by lack of policies that are in support of CSR activities hence their smaller proportion in the upper, (3rd and 4th) quartiles. Analysis by listing status showed that more unlisted firms, fifty seven point five (57.5) percent responded within the upper quartiles i.e. to have higher levels of CSR involvement compared to their listed counterparts of whom only 27.5% responded in the upper quartiles. This suggests that not being listed in the stock exchange may be associated with higher levels of CSR involvement. Industry wise thirty seven point five percent (37.5%) of product based firms responded in the upper quartiles i.e. to have higher levels of involvement in CSR compared to finance based and other firms which responded to have 22.5% and 25% respectively. This suggests that within the industry sector, product based exhibited higher levels of CSR involvement perhaps owing to the destructive effects most products tend to have on the society and the environment. Above findings on industry sectors correspond to some earlier findings e.g. (Richardson et al, 1999), (Heinz et al 1999), and (Corporate Concern, 2002), who reported that firms in certain industries like chemicals, soaps & cosmetics, forest & paper products, electronics and semiconductors had a very strong correlation with CSR. A small number, 6 or 15% of firms responded in the lower, (1st

and 2nd) quartiles with lower levels of CSR involvement. This becomes even smaller when analyzed by sectors and status (see table 4.50 above) indicating that indeed majority, 34 or (85%) of firms in the study exhibited higher levels of CSR involvement.

Statistical tests were also done to determine levels of significance for the proportions in table 4.50 above by category or sector within the upper, (3rd and 4th) quartiles. In the case of multinational status, the tests resulted in a Standard Normal Distribution (SND) value of 2.4 for the twenty-four multinational firms that responded in the upper quartiles. Since this SND value lies between 1.96 and 2.58 critical values, the level of significance for multinational firms in the upper quartiles is between 1% and 5%. This means that multinationals that reported levels of CSR in the upper, (3rd and 4th) quartiles are statistically significant at $0.01 < p < 0.05$. As for listing status, the tests resulted in an SND value of 2.05 for the twenty-three non-listed firms in the upper quartiles. This means that non-listed firms that reported higher levels of CSR are statistically significant at $0.01 < p < 0.05$. Within the industry sector, statistical tests done for individual sectors i.e. product, finance and others resulted in SND values of -0.68, -2.7 and -2.4 respectively which were in any case negative and therefore all less than 1.96 meaning that these sectors were not individually statistically significant in the upper quartiles. However when the product and finance sector respondents were combined and their levels of significance tested together, a combined SND value of 2.4 for the 24 firms was arrived at. Since this combined SND value of 2.4 lies between 1.96 and 2.58 critical values, the level of significance for the combined product and finance sector firms in the upper quartiles is between 1% and 5%. This means that the levels of CSR reported by the product and finance sectors together, in the upper, (3rd and 4th) quartiles were statistically significant at $0.01 < p < 0.05$.

4.3 Rationale for involvement in CSR activities

Rationale is a principle or reason that explains a particular decision, course of action or belief as regards an issue, in this case involvement in CSR activities. Firms may have same or different principles or reasons hence rationale for involvement in CSR activities. Values of rationales were obtained by adding the score for each rationale type across all the firms in the study. The actual maximum grand total rationale of 863 was then arrived at by adding up the totals for all the individual rationales. The expected maximum grand total score for all rationales of 1,320 for all the firms was obtained by multiplying three

(the expected possible maximum score for each rationale) by eleven (the total number of rationales) by forty (the total number of respondents). The actual score for each rationale type was then expressed as a percent of the expected total score of 1,320 to arrive at the equivalent percentage value for each rationale type. Cumulative rationale percentages were calculated by adding up each individual rationale percentage values cumulatively from the highest to the lowest (see table 4.60). The total cumulative percentage value was 65.4%, which means a total of 34.6% of the responses had a zero score for a rationale.

Table 4.60 – Rationale rankings and ratings

Rationale types	Rationale ratings	Rationale rankings		
		Actual score	Individual percentages	Cumulative percentages
Use of CSR as part of long term strategy	4th Quartile	138	10.5%	10.5%
To enable us have high public visibility		137	10.4%	20.9%
To show responsibility and concern to society		131	9.9%	30.8%
Use of CSR for competitive advantage		119	9.0%	39.8%
CSR is one of our marketing tools	3rd Quartile	97	7.4%	47.2%
Having healthy cash flows	2nd Quartile	70	5.3%	52.5%
Being a listed company		59	4.5%	57.0%
Response to government regulation		45	3.4%	60.4%
Response to pressure from civil society	1st Quartile	30	2.3%	62.7%
Response to pressure from politicians		23	1.7%	64.4%
Being a subsidiary of multinational company		12	1.0%	65.4%
Totals		**863**	**65.4%**	**65.4%**

The analysis shows that "use of CSR as part of a long-term strategy", "use of CSR to achieve high public visibility", "use of CSR to express a firm's level of responsibility and concern to the society", and "use of CSR to achieve competitive advantage" were all rated in the 4th or top most quartile. These four rationales had the highest percentage values ranging from 9.0 to 10.5 suggesting that they were the top rationales. This is further supported by their combined total percentage value of 39.8 out of a maximum of 65.4 percent meaning that their combined effect explains 61 percent of all the eleven rationales. These findings agree with those of Weiser and Zadek (2000) (see literature review page 9) who found external pressure, long-term strategy and core values of a company to be among the principal rationales. Use of

CSR as a marketing tool was scored at 7.4 percent meaning that it is was not perceived to be relatively strong rationale. Rationales such as "healthy cashflows", "being a public company", "pressures from government policy and regulation requirement", "pressure from civil society and politicians", and "being part of a multinational company", were all ranked in 2nd quartile with values ranging from 1.0 – 5.3 percent suggesting they had insignificant influence on most firms' decisions about CSR activities.

4.4   Determinants of levels of CSR involvement

Several preliminary regression analyses were done using the model in section 3.6.3 which helped in identifying predictor variables for inclusion in the final regression. Annual profit was dropped in favour of average profit because of its higher explanatory power, i.e. their significance and adjusted R^2 values were 0.028 and 0.276 respectively compared to 0.009 and 0.48 respectively. Company size was selected in favour of asset tangibility because of its higher significant value. Industry was split into three categorical variables of product, finance, and others (ICT, hotel and tourism, and services) to facilitate analysis by sector. Product and finance sectors were included in the analyses to represent the industry effect because they represented more firms in the study.

4.4.1   Correlation analysis

The correlation analysis for all the years was done for dependent variable against the independent variables. Table 4.70 shows correlation coefficients between CSR and the independent variables for various years. The only variable whose coefficient value changed across the periods is company size. This is because it was measured by change in assets from one year to the next. Other independent variables had the same values in the entire period as they were either measured by proxies or averaged out.

The correlation analysis results in table 4.70 show that all the eight explanatory variables in the model had some association, albeit at different strengths, with CSR during the period of study (1997 to 2001).

Table 4.70 – Correlation coefficients between CSR and the independent variables in different periods

Explanatory Variables	Correlation Coefficients				
	2001	2000	1999	1998	1997
Constant	64.667	63.982	64.597	65.106	65.411
Company size	0.022	0.044	0.026	0.010	0.007
Average profits	0.340	0.340	0.340	0.340	0.340
Business risk	0.248	0.248	0.248	0.248	0.248
Average growth	0.189	0.189	0.189	0.189	0.189
Product Industry	0.267	0.267	0.267	0.267	0.267
Finance Industry	0.106	0.106	0.106	0.106	0.106
Management style	0.578	0.578	0.578	0.578	0.578
Multinational	0.482	0.482	0.482	0.482	0.482
Listing	0.292	0.292	0.292	0.292	0.292

The results for the correlation analysis may be written mathematically in the following form:

$$CSR = 64.8 + 0.34X_1 + 0.22X_2 + 0.248X_3 + 0.189X_4 + 0.373X_5 + 0.578X_6 + 0.292X_7 + 0.482X_8$$

Where:

CSR total score for each company

64.8 = constant score of CSR when the determinants are all zero (constant)

X_1 = Average profits, X_2 = Company size, X_3 = Business risk, X_4 = Average growth, X_5 = Industry, X_6 = Management style, X_7 = Listing status, X_8 = Multinational status

From above, management style, multinational status and industry variables all depicted the strongest association with CSR owing to their larger coefficient values of 0.578, 0.482 and 0.373 respectively. They were followed by average profitability with 0.340, listing status with 0.292 and industry with a combined value of 0.267. The variables that had the smallest coefficients were business risk with 0.248, average growth 0.189 and company size with an average of 0.0218. These correlation analysis results therefore indicate that out of the eight independent variables in the equation, management style,

multinational status and industry associate with CSR most strongly followed by average profitability, and listing status. The least influential determinants were business risk, average growth and company size.

4.4.2 Regression analysis

Regression analysis was done using the model on section 3.6.3 of CSR on the independent variables to determine the extent to which the model can be used to explain CSR level of involvement. The results summarized in Table 4.80 were obtained. A pattern emerged from the regression analysis results whereby the constant had a strong and significant coefficient during the entire period. Average profitability, industry sector represented by product and finance categorical variables had a strong, positive and significant association with CSR in the period. Some deviation from this pattern was however noted in the cases of business risk, company size, and average growth whose coefficients were weak and negative throughout the period but only significant in 1998.

Table 4.80 – Limited Dependent Variable (Limdev) Regression model results (Dependent variable is CSR)

Explanatory variables	Regression Coefficients and standard errors									
	2001		2000		1999		1998		1997	
	Coeff.	S.E	Coeff.	S.E	Coeff.	S.E	Coeff.	S.E	Coeff.	S.E
Constant	2.245	0.611	2.361	0.648	2.430	0.590	2.036	0.580	2.430	0.601
Company size	-0.001	0.001	-0.001	0.001	-0.001	0.008	-0.045	0.017	-0.000	0.001
Average profit	0.002	0.001	0.002	0.001	0.001	0.001	0.001	0.005	0.001	0.001
Business risk	-0.000	0.000	-0.000	0.000	-0.000	0.000	-0.000	0.000	-0.000	0.000
Average growth	-0.002	0.001	-0.000	0.000	-0.000	0.001	-0.04	0.017	-0.005	0.007
Product sector	0.620	0.310	0.578	0.330	0.608	0.303	0.637	0.288	0.600	0.308
Finance sector	1.080	0.361	1.041	0.379	1.041	0.348	1.220	0.338	1.036	0.350
Listing in NSE	0.182	0.311	0.245	0.330	0.241	0.302	0.173	0.288	0.243	0.304
Multinational	0.170	0.310	0.180	0.330	0.162	0.301	0.142	0.285	0.161	0.301
Management style	0.380	0.106	0.360	0.110	0.356	0.103	0.366	0.098	0.357	0.104
Adjusted R^2	0.475		0.475		0.468		0.521		0.465	

Note: Coefficient values for Average profitability are in millions

The detailed analysis of the regression results shows that in 1997 the Adjusted R^2 was 0.465. This means that the 1997 model could be used to explain 46.5% of the CSR involvement, while 53.5% may be due to other variables and chance. Average profitability had a very large coefficient of 1,000 suggesting that this factor strongly influenced firms' involvement in CSR in 1997. This was followed by industry and management style that both had large coefficients of 1.636 and 0.357 respectively. Listing and multinational status had much smaller coefficients of 0.243 and 0.161 respectively which suggests their weaker influence on CSR in that year. Coefficients for company size, average growth and business risk were all negative and very small indicating their very weak influence on CSR.

In 1998 the adjusted R^2 was 0.521 which means that the 1998 model could be used to explain 52.1% of the CSR involvement, while 47.9% may be due to other variables and chance. Average profitability had a very large coefficient of 1,000 suggesting that this factor strongly influenced firms' involvement in CSR in 1998. This was followed by industry and management style that both had large coefficients of 1.857 and 0.366 respectively. Listing and multinational status had much smaller coefficients of 0.173 and 0.142 respectively which suggests their weaker influence on CSR in that year. Coefficients for company size, average growth and business risk were all negative and very small indicating their very weak and negative influence on CSR.

In 1999 the adjusted R^2 was 0.468. This means that the 1999 model could be used to explain 46.8% of the CSR involvement, while 53.2% may be due to other variables and chance. Average profitability had a very large coefficient of 1,000 suggesting that this factor strongly influenced firms' involvement in CSR in 1999. This was followed by industry and management style that both had coefficients of 1.649 and 0.356 respectively. Listing and multinational variables both had much smaller coefficients of 0.241 and 0.162 respectively which made their influence on CSR much weaker. Coefficients for company size, average growth and business risk were negative and very small indicating their very weak influence on CSR in 1999.

In 2000, the adjusted R^2 was 0.475 which means that the 2000 model could be used to explain 47.5% of the CSR involvement, while 52.5% may be due to other variables and chance. Average profitability had a very large coefficient of 2,000 suggesting that this factor strongly influenced firms' involvement in

CSR in 2000. It was followed by industry and management style that both had large coefficients of 1.619 and 0.360 respectively. Listing and multinational status had much smaller coefficients of 0.245 and 0.180 respectively which suggests their weaker influence on CSR in that year. Company size, average growth and business risk all had very small and negative coefficients indicating their insignificant influence on CSR.

In 2001, the adjusted R^2 was 0.475 which means that the 2001 model could be used to explain 47.5% of the CSR involvement that year, while 52.5% may be due to other variables and chance. Average profitability had a very large coefficient of 2,000 suggesting that this factor strongly influenced firms' involvement in CSR in 1997. It was followed by industry and management style that both had relatively smaller coefficients of 1.006 and 0.380 respectively. Listing and multinational status both had much smaller coefficients of 0.182 and 0.170 respectively which made their influence on CSR much weaker in that year. Coefficients for company size, average growth and business risk were all negative and very small indicating their very weak influence on CSR.

Comparison of above findings with those of prior similar studies yielded mixed results whereby some findings were similar while others differed. This study's findings on average profitability for the entire period (1997 to 2001) indicated the existence of its strong and positive influence on CSR which is consistent with Bromiley and Marcus (1989) as was quoted by Heinz et al (1999) (see page 12) and Herremans et al (1987). The findings however differed with Aupperle and Caroll (1995) who found insignificant association between CSR and average profitability (see page 12). Management style consistently showed a strong association with CSR in the entire period which agrees with Coglianese (2001) as cited by Kagan et al (2003) (see page 15). The positive results for industry sector also compare favourably with those of Dedan and Gordon (1996) as quoted by Heinz et al (1999) (see page 16). Company size showed weak and negative influence on CSR during the entire period. This finding contradicts Watts and Zimmerman (1990) who was cited by Richardson et al (1999) to have found strong association between company size and CSR. The results are however consistent with this study's rationale analysis which showed that quest for public visibility is a top rationale. Hence large which usually are the visible ones see less need for more CSR involvement having attained high public visibility. The results for average growth contradict earlier researches e.g. by Adkins (1999) who was

quoted by Weiser and Zadek (2000) to have found a positive relationship between growth and CSR involvement when they used "increase in sales" to measure growth. This difference could partly be attributed to differences in measurement methods used as this research used change in total assets, (see page 13). Business risk had a negative and small coefficient indicating its weak influence on CSR throughout the study period as its coefficient was close to zero.

Generally, the results for most variables in this research were consistent across the entire period of study. They showed that average profitability, industry sector and management style had strong, positive and significant association with CSR. Company size, average growth and business risk exhibited very small and negative coefficient. The inverse (negative) relationship found between CSR involvement and the two variables i.e. company size and average growth respectively could be attributed to a number of reasons. One reason could be that companies exhibiting these attributes may be having marketing drivers that are different from CSR. It is also possible that such companies identify niche markets that do not require persuading and incentives through the use of CSR or other drivers. As for growth, such companies usually experience resource scarcity and therefore only channel the little available to essential areas of production. This makes such companies relegate CSR to the bottom of their priority lists in terms of resource allocation and distribution. Thus companies would still register growth leading to large size despite shunning CSR involvement.

This study therefore identified average profitability, industry sector, and management style to be the factors that determined CSR involvement levels during the study period. These findings suggested that firms that had high average profitability, together with those that operated within product and finance industry sectors and those that adopted management styles which were positive to CSR and paid attention to social and environmental issues involved themselves more in CSR activities.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary and Findings

The objectives of this study were three. One, to establish levels of CSR involvement among firms in Kenya, two, to determine the rationales for CSR involvement among firms in Kenya and lastly to establish factors that determine the level of a firm's participation in CSR activities in Kenya.

5.1.1 Levels of CSR involvement

This study has established that above average levels of CSR involvement existed among commercial firms in Kenya in the period of study. Eighty five percent (85%) of the firms in the study had levels of fifty one percent (51%) and above while not a single firm had a level less than 26%. The results indicate that all the firms in the study were aware of and participated in CSR activities. The levels were found to be particularly high within Product and Finance industry categories since the majority, seventy five percent of the firms in the study were drawn from these two industry categories (see table 4.10). Also since many firms were subsidiaries of multinationals, involvement levels can be said to have been high among the multinational subsidiaries. These findings are consistent with literature review on page 3 where Corporate Governance Bulletin (2002) and Corporate Concern (2002) were quoted to have reported that levels of CSR among firms in Kenya have been high over the last few years.

5.1.2 Rationale for CSR involvement

The study found four prevalent rationales. These were "long-term strategy', "high public visibility", "responsibility and concern to the society", and "competitive advantage" which were all ranked in the fourth and top most quartile with a combined total percentage value of sixty one. Only one rationale, "marketing tool", was ranked in the third or next to the top most quartile. These results indicated that "high public visibility", "long-term strategy", "concern for the society", and "competitive advantage" were the most dominant rationales that firms' involvement with CSR could be attributed to in the study period.

5.1.3   Determinants of levels of CSR involvement

Any decision process must be based on or guided by relevant information and facts. In the case of CSR involvement, this study identified three leading factors as being dominant in determining levels of CSR. Average profitability, industry sector, and management style all exhibited significant and positive association with CSR involvement in the entire study period. This suggested that these factors influenced the decisions of many firms in the study when selecting a CSR activity. These findings were also found to be consistent with existing literature e.g. Peterson and Lewis (2001) (see literature page 8) who argued that a firm's main objective being profit maximization, firms should only engage in CSR activities if such activities result in profitability. Listing and multinational attributes both had strong but insignificant association with CSR suggesting they had a spurious association with CSR.

The study also found company size and average growth to be significant but only in 1998. This could have been a signal for change to positive management perception about CSR since the phenomenon did no recur thereafter. The results also revealed that large firms and those experiencing earnings volatility or are growing do not involve themselves much in CSR activities. The results for size and growth are however puzzling since they contradict the hypotheses of this study. The behavour of company size may however be explained by a number of reasons. Partly, it could be due to the strong rating of "use of CSR in achieving high public visibility" and "use of CSR to achieve long-term strategy" as top rationales for CSR involvement. Such firms having set off to use CSR involvement in achieving these objectives could slow their CSR activities after achieving them. This inverse (negative) relationship could also be attributed to companies adopting marketing drivers other than CSR that enable them achieve similar business objectives. The other possibility is that such companies identify niche markets that may not require persuading and incentives through the use of CSR or other drivers. As for growth, such companies usually experience resource scarcity and therefore only channel the little available to essential areas of production. This makes such companies relegate CSR to the bottom of their priority lists in terms of resource allocation and distribution. Thus companies would still register growth leading to large size despite shunning CSR involvement. Business risk may also be explained by the fact that

companies experiencing earnings volatility feel insecure and may shun CSR as they opt for more direct strategies to stabilize their earnings.

5.2 Recommendations

This study has established that CSR is an activity that most commercial firms in Kenya involved themselves in during the period of study. CSR activities are also many and varied and all of them consume resources either directly or indirectly through product donations, non-monetary contributions and personnel time. The results of this study can therefore be used by firms to evaluate CSR activities in order to determine the possible benefits before engaging in them. This study has also established that long-term strategy, high public visibility, responsibility and concern for the society, and competitive advantage are the top rationales for CSR involvement. This means that firms in the study that engaged themselves in CSR activities realized these objectives. Firms that are not engaging in CSR are therefore loosing out and should therefore take up CSR in order to achieve these objectives. Some other rationale types that were not among the top four should however not be ignored. Use of CSR as a marketing tool was rated high and therefore can contribute immensely towards achieving a firms marketing objective.

As for determinants, the study identified average profitability, industry sector, and management style as factors that determined firms' involvement in CSR in Kenya. A factor such as average profitability is a core objective among all commercial firms. Similarly firms within certain industries e.g. product industry are more prone to the wrath of the law and the surrounding communities. Such firms should engage more in CSR to conform to regulations and forestall possible losses from litigation or rejection by communities. Management style also turned out to be a very important determinant of CSR. This means that firms should adopt management styles that are not only positive but also deliberately support social issues. There are a number of benefits such firms could realize like high employee morale and increased productivity. These factors should therefore be studied carefully by firms to facilitate their informed choice and decision making when selecting the CSR activities to engage in. Firms should also establish CSR audit procedures to evaluate and determine whether the CSR activities they engage in help them achieve their intended objectives. Firms should also pay attention to factors that had low scores like company size, business risk, listing and multinational attributes. Much as these factors have not

shown strong association with CSR, they should not be ignored since the business environment is risky and dynamic (see page 1) such that the identified determinants could be evolving from these ones.

5.3   Conclusion and Implications

This research analyzed levels of involvement, rationale and determinants of CSR among commercial firms in Kenya and found that most of them involve themselves in CSR activities. The study also found "long-term strategy", "high public visibility", "response to society's needs" and "use of CSR as a competitive strategy" to be the top four rationales. Finally the study established average profitability, industry sector and management style as factors that determined levels of CSR involvement in Kenya. The findings also suggest that "high level of involvement in CSR" should be a strong signal to the business community in Kenya. This is because most firms involving themselves more in CSR were also associated with other success factors e.g. "high level of profitability", "good and positive relationship with the society", and "high public visibility". The strong signal should be of particular importance to those firms that have not embraced the CSR concept. Awareness about social rights has increased significantly among various communities as was reported by Daily Nation, June 2003, Corporate Governance Bulletin, 2002 and Corporate Concern, 2002. Some of the communities, e.g. Maasai sued Magadi Soda Company for the use of "their" land and demanded that the firm discontinues its business operations unless they are compensated, (Daily Nation, February 2004). Olkaria Geothermal Company also experienced strong demands from the local community for employment. Failure to participate in CSR may therefore have some adverse and undesirable consequences to the firm. The top four rationales identified were also found to be in line with most firms' standard business objectives. This means that firms could pursue CSR along side other business goals by simply allocating specific resources to it but not necessarily making special effort other than that needed to achieve other normal business objectives.

The three top determinants of CSR identified in this research also happen to be important factors in other key areas of the business. Pursuit of profitability is a fairly standard and direct objective for most commercial firms the world over. Since these findings suggest that CSR is also associated with profitability, firms pursuing this objective may be killing two birds with one stone, i.e. achieving their normal business objectives as well as benefiting through high employee morale and loyalty, and

harmonious community relationship that accrue from CSR involvement. Certain industries are perceived to be destructive and harmful to the environment. Firms in such industries therefore perhaps engaged in CSR to establish good relationship with the communities while at the same time enjoying other benefits accruing from CSR. Management style emerged as one of the top determinants of CSR. Management style that is positive to CSR also extends to other areas of the business since it leads to high morale among employees and increase in productivity. Management style that is positive to CSR could have been adopted by firms because it also enabled them enjoy such benefits. Company size, business risk and average growth however showed a negative correlation with CSR suggesting an inverse relation. This may mean that firms with high score in these attributes involve themselves less in CSR activities. This finding is however inconclusive given that the coefficients are insignificant.

5.4   Limitations of the Study

This study was limited in several dimensions. The researcher was not in a position to avail all the financial resources that were necessary to adequately cover all the expenses of the project. Time was another major constraint because of the requirement that the research be completed in one semester is too constraining especially where primary method of data collection is used. Another constraint was no response problem. This was a major limitation particularly after the researcher used all the follow up methods including personal visits where possible to no avail. This meant that not all the firms in the sample are included in the analysis. Incomplete questionnaires were also a major problem. Some firms treated some information requested for in the questionnaires such as financial data and future CSR actions as confidential in nature and therefore could not disclose these with the result that such information was not received and therefore could not be used in the analysis.

All the firms in the study are scattered all over Kenya, a limitation that made it difficult and sometimes impossible to communicate with some firms for questionnaire distribution and follow up purposes. Lack of up to date contact lists was a major problem since the only available list was the telephone directory which in some cases did not have accurate or adequate contact information. Several cases of typing errors, companies having relocated, and change of addresses, e-mails, telephone numbers were encountered which made it impossible to deliver questionnaires to relevant firms with the result that

thirteen questionnaires were not distributed.

Measurement of the dependent variable, CSR and some independent variables like business risk, management style, company growth, and profitability all have several possible different measurement methods. The researcher found it a problem selecting the appropriate criteria of measurement as no previous research has suggested a standard one. This could have led to differences in some of the results like for growth where several methods, e.g. change in assets, change in sales, and change in market share were used in prior studies with different results. CSR has not attracted a lot of researchers in Kenya, a limitation that made it difficult to share discussions and ideas. Lack of reputation index databases for firms in Kenya was a major limitation in this study. These databases would have been useful in determining CSR ratings for various firms. Some of these limitations that are researchable have also been recommended for further research.

5.5   Suggestions for further research

Further research in this topic could proceed in a number of directions. Better measures of CSR are desperately needed as alluded to in the measurement section of this report. It may never be possible to measure CSR objectively and as such further research in this area could focus on perceptions of stakeholders towards CSR in Kenya. Regular surveys of business people, business writers, business schools and public at large could give researchers reliable reputation indices that could be used to establish data bases for time series studies and hence lead to better and more objective methods for measuring CSR. Also appropriate measures of business risk, company growth, profitability and management style should be researched on.

The next area is additional explanatory variables for CSR. The results of this study have pointed to average profitability, industry sector and management style as the explanatory variables which show some association with CSR. But these at best only explain a maximum of 52% of CSR involvement. This means there still could be significant variables not included in this study which future research may help uncover. Variables like asset age, physical location of firm, capital structure, shareholder perception, and others should be investigated.

Causality is another important aspect that should be further researched on to determine whether it is CSR that leads to the established determinants or the determinants that lead to CSR. One possible method to use is an event study. However, in order to conduct an event study, better and more extensive CSR rankings will be required. The issue of when management action translates into CSR activity should also be explored. It could be possible that management actions taken during the earlier years do not translate into CSR benefits immediately but at a later date. Perhaps this supports why average profit leads to a higher R-squared value thereby being a better factor than yearly profits. Such a study could also be achieved through event studies.

Do CSR activities benefit communities they are targeted for or not? This question is crucial and such a survey could help companies participating in CSR to concentrate on the few CSR activities that add value to both the firms themselves and the respective communities. A related area worth researching is the impact of Corporate Social Responsibility on capital markets. Several countries have experienced economic and investment sanctions as a result of not pursuing or adhering to social and human rights issues. These sanctions may have affected the operations, developments and functioning of the capital markets, an issue which further research can explain.

Finally, NPV assessment of CSR projects is another area of possible research. It is possible that CSR has a long run cash flow consequence for the firm. For example, a decision to ensure that the firm does not contaminate the environment may be a value-maximizing net present value decision compared with the costs of future law suits and site restoration.

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Appendix 1 – Letter to management and Questionnaire

Managing Director / CEO
Dear Sir,

Re: Study of determinants of levels of Corporate Social Responsibility (CSR) among firms in Kenya.

This study seeks to establish factors that firms consider when engaging or participating in issues dealing with society, environment and communities with which such firms interact during the course of their businesses. We would therefore appreciate if you could take sometime and respond to the questions that follow herein. Your responses will be kept completely confidential and will be used only for the purposes of this research. There will also be no specific mention of any issue that you consider confidential about your company directly in the report(s). Should you be interested in the outcome of the survey, we shall be more than willing to share with you the results therefrom.

Due to time constraints, we request that you please return the completed questionnaire at your earliest opportunity.

Thank you
Yours truly,

Washington Okeyo
MBA Student – University Of Nairobi

Section 1. Company Profile

1. Please state the year in which your company started doing business in Kenya. ----------------

2a) Please state the industry sector in which your company may be classified. ----------------------

2b) Please state the number of permanent employees in your company. -------------------------

3. Where would you rank your company in terms of market share relative to other companies in the same industry? a) top 10% -------, b) middle 80%------, c) lowest 10% -------

4. Is your company a subsidiary of a multinational company? ---- yes ----- no

Section 2. Information on CSR and its management

5. Does your company have a Corporate Social Responsibility Policy?

    ---------Yes   --------No

6. If yes, please state the year when it became effective.

    ----

7. Does your company have an employee in charge of coordinating Corporate Social Responsibility activities?

    ---------Yes   --------No

8. From the social areas given below, please **RANK** the ones your company participates in your order of priority,(Health, Education and Scholarships, Environment conservation, National disasters, Children's homes, Professional associations, Employee welfare and recreations, Harambees). You may add more as necessary.

    i) --

    ii) --

    iii) --

    iv) --

    v) --

    vi) --

    vii) --

    viii) --

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ix)   ---

x)   ---

9. Has your company ever made any monetary or material contribution towards a Social/Community cause?

   ---------Yes   --------No

10. If your answer to question 9 is "yes", please fill in the table below the total annual monetary or material contributions to CSR for the following years:

1997	1998	1999	2000	2001	2002
Kshs.(000)	Ksh. (000)	Ksh. (000)	Ksh. (000)	Ksh.(000)	Ksh.(000)

   Totals.   ----------   -----------   -----------   ------------   ----------   --------

11. Has your company ever responded to any national disaster?

   ---------Yes   --------No

12. If your response to 11 above is yes, please state below which disasters and the nature of response your company took.

   i) Disaster type--------------------------- Nature of response----------------------------------

   ii) Disaster type--------------------------- Nature of response----------------------------------

   ----

13. Does your company report its CSR participation in its annual reports or company newsletter?

   -------Yes   --------No

14. Does your company organize staff welfare activities like recreation, sports and family events?

   --------Yes   --------No

15. Does your company have a code of ethics or conduct?

   ---------Yes   --------No

16. If yes, please state the year when it became effective.------------

17. How do your top management perceive CSR as an issue to your organization? Please tick the appropriate one based on a scale of 0 – irrelevant, 1 – Not important, 2 – important, 3 – Very important.
    a) Very important
    b) Important
    c) Not Important
    d) Irrelevant

18. Does your company have established CSR/Environmental audit procedures?
    ------ Yes ----- No

19. If your answer to 18 above is yes, has your company ever done a CSR/ Environmental audit?
    ------ Yes ------ No

20. Do you think it is important to do a CSR/ Environmental audit?
    ------ Yes ------ No
    Please explain --

21. In your view, is it worthwhile spending company's resources on CSR/Environmental issues?
    ------ Yes ------ No
    If yes, please explain ---

22. Please list below **in order of priority** other practical actions, if any, that your management is taking or intending to take towards CSR/Environmental issues?
    1 -----------------------------
    2 -----------------------------
    3 -----------------------------

23. Has your company ever participated in Company of the Year Awards (COYA) events in Kenya?
    ---------Yes   --------No

24. Has your company or an employee ever won an award for its contribution in social, community or environmental issues or events in Kenya?

----------Yes   --------No

Section 3. Rationale for CSR involvement among firms in Kenya

25. How significantly have the following factors contributed to your position on social/community
    causes? Please tick against each factor, your rating based on a scale of 0 – Not at all; 1 –
    insignificantly, 2 – significantly, 3 – very significantly

		0	1	2	3
i)	Response to pressure from civil society groups	☐	☐	☐	☐
ii)	Response to pressure from politicians	☐	☐	☐	☐
iii)	Response to the government and regulation requirements	☐	☐	☐	☐
iv)	Use of CSR as part of broader long term strategy	☐	☐	☐	☐
v)	Use of CSR for competitive advantage	☐	☐	☐	☐
vi)	Expressing our level of responsibility and concern to the society	☐	☐	☐	☐
vii)	CSR is one of our marketing tools	☐	☐	☐	☐
viii)	We contribute to CSR when we have healthy cash flows	☐	☐	☐	☐
ix)	CSR enables us have high public visibility	☐	☐	☐	☐
x)	We are part of a multinational company and therefore are bound by the practices of our parent company of which CSR is one	☐	☐	☐	☐
xi)	We are a public company and therefore are obliged to be socially responsible to the public	☐	☐	☐	☐

Section 4. Financial data

26. Please fill the following financial information for your company in the table below:

	1997 Kshs.(000)	1998 Ksh. (000)	1999 Ksh. (000)	2000 Ksh. (000)	2001 Ksh.(000)	2002 Ksh.(000)
Earnings before (tax & dividends)	---------	-----------	------------	--------------	-----------	-------
Gross operating in come	---------	-----------	------------	--------------	-----------	---------

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| Current assets | --------- | ----------- | ------------ | ============== | =========== | ========= |
| Total assets | --------- | ------------ | ------------ | ============== | =========== | ========= |

Appendix II – List of firms in the study

A) Firms listed at the Nairobi Stock Exchange

No	COMPANY NAME
1	Athi River Mining
2	Bamburi Portland
3	Barclays Bank Kenya Ltd.
4	British America Tobacco
5	Brooke Bond
6	C.F.C Bank Ltd
7	CMC Motors
8	Kenya Breweries Ltd
9	Express Kenya Ltd
10	Kenol
11	Kenya Airways
12	Kenya Commercial Bank
13	Mumias Sugar Company
14	Nation Media
15	NIC Bank Ltd
16	Rea Vipingo Plantations
17	Standard Chartered Bank
18	Standard Newspapers
19	Total Kenya
20	Uchumi Supermarkets

B) Firms not listed at the Nairobi Stock Exchange

No	COMPANY NAME
21	African Cargo handling Ltd
22	Ags Worldwide movers Ltd.
23	Air Kenya Aviation Ltd
24	Alico Kenya
25	Amedo Kenya Ltd
26	AO Bayusuf & sons
27	Aon Minet Insurance Brokers
28	Bata Shoe Company Ltd
29	Berger Paints Kenya Ltd
30	Bitumen Products Ltd
31	British American Insurance Co Ltd
32	Caltex Oil (Kenya) Ltd
33	CDC Capital Partners
34	Citibank N A
35	CMC Motors
36	Co-operative Bank of Kenya
37	Co-operative Merchant Bank Ltd
38	Commercial Bank Of Africa
39	Cooper Kenya Ltd
40	Coro FM Radio
41	Dawa pharmaceuticals Ltd
42	DHL international
43	DT Dobie and Co Ltd
44	EARS Group Ltd.

45 East Africa Spectre Ltd

46 EastAfrica Reinsurance Co Ltd

47 Eastern&South African Trade&devel.
   Bank

48 Economic Housing Group

49 Farmers Choice Ltd

50 FinTech (K) Ltd

51 First Assurance Co Ltd

52 General Motors Kenya Ltd

53 Geopath.net

54 GlaxoSmithkline

55 Grand Regency hotel

56 Henkel Chemicals (EA)

57 Hiedelberg East Africa Ltd

58 Highway Carriers Ltd

59 Hotel Intercontinental Nairobi

60 IberaAfrica Power (EA) Ltd

61 ICL Kenya Ltd

62 Insurance Company Of East africa Ltd

63 Interfreight East africa

64 International Casino

65 Kencell Communications Ltd

66 Kenya Airfreight Handling Co

67 Kenya Bus Services

68 Kenya Electricity Generating Co

69 Kenya National Trading Cooperation

70 Kenya Postel Directories

71 Kenya Television Network

72 Lonrho Hotels Kenya Ltd

73 Magadi Soda Company

74 Mechanized Cargo Systems Ltd

75 Mobil Oil Kenya Ltd

76 Multichoice Kenya Ltd

77 National Cash Register

78 Nestle Foods Kenya Ltd

79 Old Mutual Life assurance Co. Ltd

80 Panpaper Mills (EA) Ltd

81 PricewaterhouseCoopers

82 Rai Plywoods K Ltd

83 RLCO Steel Fabricators Ltd

84 Safaricom Ltd

85 Safaripark Hotel & Casino

86 Sarova Hotels Ltd

87 Scotts Company Ltd

88 Securicor (k) Ltd

89 Sharp electronics Technology Ltd

90 Shell (k) Ltd

91 Sita Regional Management for EA

92 Symphony

93 The Panafric Hotel

94 The Stanley Nairobi

95	Timsales Ltd
96	Trident Insurance Company Ltd
97	Twiga Paints Ltd
98	Unilever (k) Ltd
99	Wananchi Online Ltd
100	Zakhem Construction (K) Ltd