

The relationship between corporate social responsibility practices and financial performance of firms in the manufacturing, construction and allied sector of the Nairobi Securities Exchange

Abstract:

Literature provides conflicting results on the relationship between corporate social responsibility (CSR) practice and firm financial performance with some studies showing a positive relationship (Waddock & Graves, 1997; Cheruiyot, 2010), others negative (Cordeiro & Sarkis, 1997; Wagner et al, 2002) and still others showing that there is no relationship between the two variables (McWilliams & Siegel, 2000; Aragon & Lopez, 2007). It is with this background that this study sought to establish the relationship between corporate social responsibility practice and financial performance of firms listed in the manufacturing, construction and allied sector of the Nairobi Securities Exchange. Although the study was meant to be a census survey, non-availability of complete data for some of the companies resulted in only 10 out of the 14 companies in the sector being studied. Secondary data was obtained from the audited financial reports of the companies for the period from 2007 to 2011. Corporate social responsibility score was obtained using content analysis of reports of the companies on various components of corporate social responsibility as reported in their audited financial reports. A multiple regression model was established to determine the relationship between the two variables. Control variables of manufacturing efficiency and capital intensity were also introduced in the regression model. The results indicated the existence of a relationship between the independent variables (corporate social responsibility score, manufacturing efficiency and capital intensity) used in the model and the dependent variable (return on assets) with a correlation coefficient of 0.870. The results of the study also showed that there was an insignificant positive relationship between corporate social responsibility practice and financial performance. Financial performance and manufacturing efficiency was found to have a significant linear inverse relationship.