

**THE RELATIONSHIP BETWEEN CORPORATE SOCIAL
RESPONSIBILITY AND FINANCIAL PERFORMANCE OF
COMPANIES LISTED AT THE NAIROBI STOCK
EXCHANGE**

BY

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DECLARATION

I, the undersigned, declare that this research project is my original work and has not been presented for examination to any university or college for the award of degree, diploma or certificate.

Signed:  _____ Date **4 ii r w ***

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ABSTRACT

In recent years, firms have greatly increased the amount of resources allocated to activities classified as Corporate Social Responsibility (CSR). While the CSR activities may be consistent with the firm value maximization, should managers maximize the present value of their firms cash flow in making strategic choices favouring the shareholders or sometimes abandon wealth maximizing interests of firms shareholders for the good other firm's stakeholders? The question was addressed through a research study that investigated whether these activities addressing the plight of other stakeholders will improve, have no impact or deteriorate on firm's corporate performance. The researcher sampled companies listed at the Nairobi Stock Exchange (NSE) Main Market segment over a five year period interval.

According to the major findings of the study, CSR has a positive relationship to the financial performance of firms. The major significance is noted in the Return on assets (ROA) and Return on sales (ROS).

The study concluded that there is a positive relationship between CSR and financial performance of companies listed at the Nairobi Stock exchange and companies should focus more CSR in order to achieve greater financial performance.

As recommendations for improvement all stakeholders should embrace the importance of CSR in order to achieve the greater performance efficiency. The government should develop a CSR index for all companies and annually published in order to promote this emerging phenomenon.

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Thank you and God bless you.

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DEDICATION

To my dear wife Sylvia Kimuge and our beautiful daughter Michelle, My love, this project is in your honour. You have always been there for me, physically, mentally, financially and even spiritually.

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ACRONYMS

CFP	-	Corporate Financial Performance
CSP	-	Corporate Social Reporting
CSR	-	Corporate Social Responsibility
SPSS	-	Statistical Package for the Social Sciences
R&D	-	Research and Development
CRI	-	Corporate Reputational Index
NSE	-	Nairobi Stock Exchange

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Within the world of business, the main responsibility for corporations has historically been to make money and increase shareholder value. In other words, corporate financial responsibility has been the sole bottom line driving force Friedman, (1962). However, nearly the last two decades, a movement defining broader corporate responsibilities- for the environment, for local communities, for working conditions, and for ethical practices-has gathered momentum and taken hold. This new driving force is known as *corporate social responsibility* (CSR). CSR is oftentimes also described as the corporate triple bottom line (TBL) that is the totality of the corporation's financial, social, and environmental performance in conducting its business (Elkington, 1999).

Godfrey and Hatch, (2007) defines Corporate Social Responsibility as the actions that appear to further some social good, extends beyond the explicit economic interests of the firm and is not required by the law. Owen (2007) defines Corporate Social Responsibility as referring to how business takes account of its economic, social and environmental impacts in the way it operates. Rue and Byars (1992) concluded that social responsibility involves only voluntary actions and not giving in to pressure groups, adverse publicity or legal requirements.

This study aimed at establishing the relationship between financial performance and Corporate Social Responsibility of companies listed at the Nairobi Stock exchange (NSE). In this context, financial performance measures which capture profitability and asset utilization will be employed. Listed companies are those companies whose shares are listed by stock exchange and available for buying and selling to the general public. The Nairobi Stock exchange is mandated by law to list companies meeting some specific listing rules and obligations. Briefly, The Stock Exchange is a market that deals in the exchange of securities issued by publicly quoted companies and the Government The major role that the stock exchange has played, and continues to play

in many economies is that it promotes a culture of thrift, or saving. The very fact that institutions exist where savers can safely invest their money and in addition earn a return, is an incentive to people to consume less and save more. Secondly, the stock exchange assists in the transfer of savings to investment in productive enterprises as an alternative to keeping the savings idle. The most relevant function of NSE to this study is promotion of higher standards of accounting, resource management and transparency in the management of business. It's a requirement that all listed companies should ensure availability and reliability of financial records (NSE Listing Manual).

Thus, concept of Corporate Social Responsibility (CSR) has gained a substantive focus in the global economy. The emphasis on the need for more socially responsible firms has moved from being the preserve of the developed economies to being the concern of both the emerging and the developing nations thanks to globalization. Over nearly two decades, the relationship between organizations and society has been subject to much debate, often of a critical nature. The decades have seen protests concerning the actions of organizations, exposures of corporate exploitation and unfolding accounting scandals for example Lehman Brothers in 2010 which failed to disclose transactions to investors (Valukas, 2010), Satyam Computer Services in 2009 which falsified accounts (Chen, 2009) and Bernard L. Madoff Investment Securities LLC in 2008 which defrauded investors through a ponzi scheme (Reid, 2008) and the famous Enron scandal in 2001 which committed irregular Accounting procedures (as cited in Bryce, 2002). Meanwhile, ethical behaviour and a concern for the environment have been shown to have a positive correlation with corporate performance. The nature of corporate social responsibility (CSR) is therefore a highly topical one for business. The majority of organizations around the world are taking steps to demonstrate and enhance their CSR credentials, including committing to sustainable development. Public interest in these issues is great but is mixed with widespread skepticism about the sincerity of corporate engagement with social and environmental programmes. In order to capture the compliance with the times, Companies have shifted from the capitalist notion of doing business. Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. (Friedman, 1962)

As a result of the adoption of Corporate Social Responsibility, A view is emerging that corporate social responsibility can contribute to the financial performance of a company. That is the 'enlightened shareholder approach'. Brian, Brown and Hacket, (2006) suggests that corporate decision-makers must consider a range of social and environmental matters if they are to maximise long-term financial returns.

Although numerous researches have explored the empirical relationship between Corporate Social Responsibility and Financial Performance, no definitive consensus exists and the results have often been contradictory Griffin and Mahon, (1997). Some researchers found a negative relationship; Bromiley and Marcus, (1989), Davidson, Chandy and Cross, (1987), Davidson and Worrel,(1988), Eckbo, (1983). Others found inconclusive relationship; Alexander and Buchholz,(1978), Abbot and Monsen, (1989), Freedman and Jaggi, (1986). Others have found a positive relationship and includes Bowman, (1978), Bowman and Haire, (1975), Moskowitz, (1972, 1975), Newgren et al., (1985) Waddock and Graves (1994) and (Orlitzky et al, 2003).

This paper was intended to establish the impact of corporate social responsibility on financial performance acquired by companies in Kenya as result of adopting the emerging phenomena. The point of emphasis was to establish whether there is a positive link between CSR and financial performance of companies in Kenya.

1.2 Statement of the problem

A first minimal definition of social responsibility is generally related to the corporate choice of not breaching laws and regulations when pursuing shareholders' wealth maximization goals (Becchetti, Giacomo and Pinnacchio, 2005). A second approach considers that CSR is more than just following the law (McWilliams and Siegel, 2001), as it also involves actions which are expected to affect positively an identifiable social stake holder's welfare. In a view to justify the emergence of this new concept into our Kenyan companies, the study aims to answer whether: adoption of corporate social Responsibility translates to Corporate Financial performance and should companies spend more on CSR activities because it translates to a positive relationship to financial performance and increased shareholder value?

Studies have shown conflicting results on CSR and corporate financial performance in that different studies found different results. For example, Waddock and Graves, (1997a) provided inconsistent findings. They found a significant negative relationship between corporate financial performance and CSR. Later, they found no correlation. Mc Williams and Siegel, (2001) found that there is no relationship. Preston and O'Bannon, (1997) and Orlitzky and Benjamin, (2001) in their studies found a positive relationship between CSR and financial performance. Waddock and Graves, (1997) later, cited that prior high levels of financial performance may provide slack resources necessary to engage in CSR and responsiveness because financial performance often represents an area of relatively high managerial discretion and to a larger extent dictates initiation or cancellation of voluntary social and environment policies basing on availability of excess funds. Orlitzky, Schmidt, and Rynes, (2003) found a high correlation between financial performance and CSR.

A number of studies on CSR (Kamau, 2001 Kiarie, 1997, Kweyu, 1993, Mulwa, 2002, Gichana 2004, Ominde 2006, Kwalanda 2007) have been carried out in Kenya. Most of these studies Kamau, (2001), Kiarie, (1997), Kweyu, (1998) Mulwa, (2002) focused on manager's attitudes towards CSR. Ominde, (2006) focused on how the social responsibility actions are linked to corporate strategy. Odhiambo, (2006) focused on CSR as a strategic tool for stakeholder management. Gichana, (2004) focused on CSR practices by companies listed at NSE.

In an attempt to link CSR and performance, Obusubiri, (2006) in a study on CSR and portfolio performance at NSE found out that there was a relationship between CSR and portfolio performance and those companies that ranked high on basis of CSR performed better than low ranked. Okeyo, (2004) found out that firms exhibited high level of involvement in CSR to achieve high public visibility, use of CSR for competitive strategy and response to societal needs. Anyona, (2005) focused on social responsibility and performance of commercial banks. She established that financial constraints, attitudes and preferences of individual managers limit banks in CSR involvement.

Mutuku, (2005) in his study established no relationship between CSR and financial performance, in support of a study done by McWilliams and Siegel, (2001) who argued that CSR is only a way to attain differentiation and does not directly affect profit rate. He carried out a single year analysis that is the year 2003 to carry out the study and a single dimensional CSR score based on either its presence; yes for 1 and absence for 0 was used. The study failed to capture the level of the implementation of CSR.

Because of these shortcomings, A knowledge gap of using multidimensional CSR indicators to carry a multi-period study therefore exist which studies the impact of CSR on financial performance. A 5 year study with a CSR index based on different level of implementations and dimensions was carried out in order to address the limitations.

1.3 Objective of the study

The study sought to establish relationship between corporate social Responsibility and financial performance of firms listed at the Nairobi Stock Exchange

1.4 Importance of the study

The study will benefit all the stakeholders in the business arena. It makes the management and shareholders of companies aware of the importance of engaging on social welfare and by and large to what extent. The research will also help the policy makers especially in government to entrench Corporate Social Reporting in the company's act as a requirement by all companies.

Kenya National Bureau of Statistics has not developed a CSR index of companies in Kenya. This research will' act as a blue print document towards establishing a comprehensive CSR index of Kenyan companies listed at NSE. Also the study is a proven, comprehensive business management tool that will assist companies to develop best practice across all the areas of corporate responsibility.

And lastly, academicians and researchers who wish to have a deeper knowledge subject especially when doing a similar study to identify the knowledge gap w the study as a point ofreference.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, critical literature is reviewed. The general objective of the study was to determine the relationship between CSR and financial performance of companies listed at the Nairobi Stock Exchange (NSE). The review focused on key issues of the study. These are: The corporate social responsibility and theories behind it, the empirical research carried in past studies on CSR and corporate financial performance, and the justifications of using financial measures rather than market measures to carry the study.

2.1 Corporate Social Responsibility

While there is no universally accepted definition of corporate social responsibility, it is usually described in terms of a company considering, managing and balancing the economic, social and environmental impacts of its activities Brine, Brown and Hackett, (2006), Wood, (1991) defined CSR as a business organizations' configuration of principles of social responsibility, process of social responsiveness, policies, programs and other outcomes as they relate to firms societal relationships. McWilliams and Siegel, (2001) described CSR as actions that appear to further some social good beyond the interest of the firm and that required by law. In general terms, CSR encompasses the responsibility that businesses have to the societies within which these business operates (Makokha, 2008).

The European Commission defines Corporate Social Responsibility as a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment (Hartman et al, 2007). Thus CSR is the management of an organization's total impact upon the society within which it operates and being accountable to all its stakeholders in all its operations and activities with the aim of achieving sustainable development not only in the economic dimension but also in the social and environmental dimension (Makokha, 2008).

2 2 Theories of Corporate Social Responsibility

2.3.1 Classical Theory

This theory is based on the classical thought of 'business of business is business'. This theory overemphasizes the cost of social involvement of business and either underestimates the potential benefits of Corporate Social Responsibility in terms of cost savings, resource productivity and product differentiation Quazi, (2003). Friedman (1968,1989,1970), maintained that there is one and only one social responsibility of business and that is to use its resources and engage in activities designed to increase its profits as long as its stays within the rules of game that is engaging in open and free competition without deception or fraud (Coelho, et al 2002). Under this theory the primary criteria of business performance are economic efficiency and growth in production of good and services.

2.3.2 Stakeholder Theory

This theory is based on the concept of social contracting which maintains that Corporate Social Responsibility is a function of ongoing terms of general agreements between business and the society. This theory was endorsed by various authors; Porter, (1980), Weiss, (1994), Clarkson, (1995), Cornell and Shapiro, (1987), Donald and Preston, (1995), Jones (1995) and Freeman, (1984). This theory states that instead of serving only interests of shareholders, corporations ought to operate for the benefit of all those who have a stake in the enterprise, including employees, customers, suppliers and the local community. Corporations interact continually with its stakeholder groups and much success of the firm depends on how well the all these stakeholder relations are managed. Under this theory, corporations have social responsibilities that extend beyond the pursuit of shareholders benefit to 'stakeholders' that is responsiveness to elastic list of stakeholders (Coelho, 2002).

Stakeholder theory suggests that organizational survival is contingent on satisfying both its economic and non-economic objectives by meeting the needs of the firm's various stakeholders Pirsch et al, (2007).

2.4 Empirical Research

A huge number of empirical papers in the past have tested the relationship between social responsibility and corporate performance. The first category of the empirical papers found a positive relationship between CSR and corporate performance. Soloman and Hansen, (1985) found that the costs of having a high level of CSR are more than compensated by benefits in employee morale and productivity. Pava and Krausz, (1996) and Preston and O'Bannon, (1997) observed that CSR is positively associated with financial performance, while positive synergies between corporate performance and good stakeholders relationships are found by Stanwick and Stanwick (1998) and by Verschoor, (1998). Ruf et al. (2001) found that change in CSR is positively associated with growth in sales and that returns on sales are positively associated with CSR for three financial periods. Simpson and Kohers, (2002) documented a positive link between social and financial performance on a sample of banking firms.

The second group of papers found no significant direction in the link between CSR and corporate performance. McWilliams and Siegel, (2001) observed that the financial performance of the Domini index constituents is not significantly different from that of a control sample when per capita Research and Development expenditure is added among regressors. Other papers which found inconclusive results are those of Anderson and Frankle, (1980), Freedman and Jaggi, (1986) and (Aupperle, Carroll and Hatfield, 1985).

The third group of contributions documented a negative relationship between CSR and corporate performance which is consistent with the managerial opportunism hypothesis. Preston and O'Bannon, (1997) suggested that managers reduce expenditures on social performance to increase short-term profitability and their personal compensation, but, when financial performance is poor, they divert attention by expenditures on social programs. Other papers which documented a negative relationship are those of Freedman and Jaggi, (1982), Ingram and Frazier, (1983), Waddock and Graves, (1997).

2 5 The measurement of corporate social Responsibility:

Various studies have quantified Corporate Social Responsibility (CSR) according to five different methods.

The first method is Content analysis. This consist the evaluation of the area dedicated to social Responsibility in documents published regarding companies. One can proceed with a simple count of words, lines or sentences, to the calculation of the amount of social information provided or with an analysis of their quality. The use of this method presupposes the acceptance of the hypothesis that social disclosure is a good proxy of corporate social performance (Ullmann, 1985)

The second method is done through the Surveys carried out using questionnaires. This concerns questionnaires, sent to top company managers, analyzed by researchers who then elaborate the answers received giving an appraisal of the level of social performance achieved by the firms. The point is that such a judgment is, by character, purely internal and predominantly reflects the orientation and the perception of managers on the theme of social responsibility.

Another method of quantifying Corporate Social Responsibility is through the Reputational measures. These are ratios worked out by researchers or specialized journals that, on the basis of a subjective definition of social performance, calculate a score on the goodwill associated with the reputation a company may have.

Although Moskowitz, (1972) and the journal, Business and Society Review, were the first to develop indicators of this type in 1972, the reputational measurement most used to this day is the Corporate Reputational Index (CRI). The journal, Fortune, has annually drawn up a classification of American companies based on the CRI since 1983, and is continuously redrafted thanks to the carrying out of surveys on professionals. The approximation of CSP with reputational indicators implies the acceptance of two hypotheses. One is the reputation perceived by third parties is a good proxy of responsible behaviour actually practised by companies and the reputational measures are not influenced by the good financial-economic performance of companies.

Another method of quantifying CSR is by use of uni-dimensional indicators. This concerns indicators that express a judgment on a single aspect of various socially **responsible** practices that companies can undertake. The CSP proxies most used in the literature have been: dialogue with local community and philanthropy, orientation towards the client, the degree of involvement in illegal practices and respect for the environment.

And finally, Ethical rating is also to quantify Corporate Social Responsibility. This concerns a multi-dimensional index elaborated by specialized agencies. Each one of these has devised its own model of quantification on the social results of companies that foresee the selection of some indicators (for the most part concerning stakeholder typologies with which companies interface) to which is singularly attributed a score, then aggregated into a synthetic result (ethical rating) according to an arithmetic or weighted average.

The five methodologies described above have been used to quantify social performance in numerous empirical studies that have established the possible relationship between CSP and CFP. Various authors have systematically revised quantitative investigations aimed at identifying the link between the two variables with the purpose of evaluating the results as a whole: such studies have largely been represented following a temporal criterion.

For the purpose of this study, I will adopt the incremental spending on the CSR activities the company engages itself in the society and establish if such incremental has a relationship with the corporate financial measures.

2.6 Corporate Financial Performance

Previous research had inconsistently used one or only a few measures to assess financial performance based apparently on the criteria of convenience to the researcher and in terms of ease in getting data for analysis. Friedman, (1962 and 1970) used net income. Vance, (1975) used earnings per share. Abbott and Monsen, (1975) used return to investors and Bowman and Haire, (1975) used return on equity. Most recent researchers have used growth indices such as 5 year return on equity

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Cochram and Wood, (1984) or asset utilization measures such as return on Assets (Wokutch and McKinney, 1991)

A wide variety of definitions of firm performance have also been proposed in the literature (Barney, 2002). Both accounting and market definitions have been used to study the relationship between corporate social responsibility and firms' performance Orlitzky, Schmidt, & Rynes, (2003). Herfert, (1991) defined profitability in two folds, The management and the Shareholders perspective. The management perceives profitability as effective employment of total assets to generate profits. On this context; net profit. To the shareholders it's their return on their funds invested.

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

In order to link CSR and performance, Obusubiri, (2006) in a study on CSR and portfolio performance at NSE found out that there was a relationship between CSR and portfolio performance and those companies that ranked high on basis of CSR performed better than low ranked. Okeyo, (2004) focused on the strategic aspect of CSR found out that firms exhibited high level of involvement in CSR to achieve high public visibility. Anyona, (2005) focused on social responsibility and performance of commercial banks and concluded that financial constraints, attitudes and preferences of individual managers limit banks in CSR involvement.

Mutuku, (2006) carried out a similar study and in his findings he concluded that there was no relationship between CSR and financial performance. Other studies purely focused on the strategic aspect and managerial attitudes of CSR (Odhiambo, 2006 and Gichana, (2004)

Financial measures rather than market-derived measures will be used in this study because market measures may be assessing more than just financial outcome of the organization (Shane and Spicer, 1983).

2.7 Previous research

There have been a number of studies based on United States and European data that seek to test the extent to which the economic drivers for corporate social responsibility deliver improved financial performance. The studies adopt different methodologies for measuring corporate social responsibility and financial performance, and not unexpectedly present quite different results.

A notable source is a Meta analysis undertaken by Orlitzky, Schmidt, and Rynes, (2003), which integrated 30 years of research from 52 previous studies and used Meta analytical techniques to support the proposition that corporate social performance and corporate financial performance are positively correlated and statistically significant. Interestingly, the Meta analysis found a higher correlation between financial performance and a company's management of its social impact than between financial performance and a company's management of its environmental performance.

Studies by investment analysts and funds managers on the performance of socially responsible investment fund products and sustainability indices are also regularly reported in order to attract investors and encourage participation. For example, in the year 2005 AMP Capital Investors published an analysis of the corporate social responsibility rating technique to approximately 300 listed Australian companies and analyzed their financial performance from a 10 year period, it determined that companies with a higher corporate social responsibility rating outperformed companies with a lower corporate social responsibility rating by more than 3.0 per cent per annum over a 4 and 10 year period (Rey and Nguyen, 2005).

This paper seeks to contribute to the existing body of research in this area by examining the extent to which corporate social responsibility impacts on the corporate financial performance.

2.8 Summary

The chapter looked at the critical literature concerning the Corporate Social Responsibility and Corporate Financial Performance. It is noted that Corporate Social Responsibility describes the responsiveness of the company to societal needs besides the pursuit of its core reason of existence. Subsequently, empirical relationship between Corporate Social Responsibility and financial performance depicted mixed results and have been a lively debate since Friedman,(1962) challenge that " a corporation social responsibility is to make profit" Friedman's comments added intellectual challenge to the debate and triggered additional interest either proving or disapproving the relationship between CSR and financial performance.

Although numerous researchers have explored the empirical relationship between corporate social responsibility (CSR) and financial performance, no definitive consensus exists. This study will attempt to unlock the puzzle in the debate on the Kenyan context.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology and procedures used to carry out the study. The chapter looks at the research design, population and sample, data collection methods, research procedures and the data analysis methods to be employed in the study.

3.2 Research Design

The design of the study is non-experimental that is ex-post facto, which means it will be specifically a cross-sectional survey of companies listed at the NSE. This is to find out whether there exist a relationship between the Independent variable; CSR and dependent variable; financial performance.

3.3 Population

The target population of the study is all the listed companies at Nairobi Stock exchange in the main segment as at 31st December 2009. The population size is 47 companies as annexed.

3.4 Sample

A sample size is a section of part that represents the whole. Denscombe, (2003) contend that the absolute size of the sample will depend on the complexity of the population and the research questions being investigated. The researcher used the formula for proportions to arrive at the sample size. According to Oveson, (2007), the formula used for proportions should be used any time you are interested in percentages. The sample size was calculated using the formula:

$$n > \frac{Np(1-p)}{(N-1)D + p(1-p)}$$

And;

$$D = \frac{(\text{Margin of Error})}{Z_{\alpha/2}}$$

N = Represents the population size (In this case, N is 47).

p = Is a prior assumption of the population parameter.
(Since no prior information was available, p was hereby assumed to be 0.5 or 50% - which is the most conservative estimate of sample size).

D = The design effect, which is a coefficient which reflects How sampling design affects the computation of significance levels. A design effect greater than 1.0 means the sampling design reduces precision of estimate whereas a design effect less than 1.0 means the sampling design increases precision (Garson, 2006).

$Z_{\alpha/2}$ Represents the number of standard deviations relative to the mean of the standard normal curve corresponding to the level of confidence. At 95% confidence level (usually the accepted standard), $Z = 1.96$.

Margin of Error = A value added to and subtracted from the estimate which establishes an interval, which interval contains the true population parameter, given a certain level of confidence. Given resource constraints, the researcher accepted a confidence interval value of + 8%

Substituting the formula above:

$$D = \frac{(0.08)^2}{(1.96)^2}$$

$$D = 0.001666$$

And;

$$n > \frac{(47 \sqrt{0.5 \cdot 1 - 0.5})^2}{(47 - 1)0.00166 + 0.5(1 - 0.5)}$$

Therefore, $n = 36$

This study will target a sample size of 36 companies equivalent to 77% of the entire population.

The researcher will use random sampling technique for objectivity reason. This will ensure that all individuals in the population will have an equal chance of being selected as a member of the sample and the results will give a true picture of the all population.

The sample size per stratum was calculated as follows:

$$\text{Sample size} = \frac{\% \text{ population per stratum}}{100} \times 36$$

Where;

$$\% \text{ population per stratum} = \frac{\text{Stratum population}}{\text{Total population}} \times 100$$

Table 3:1 Population and Sample Distribution

No	Strata	Population	Percentage	Sample Size
	<i>Sector</i>			
1.	Agricultural	3	6.4	2
2.	Commercial and Services	12	25.5	9
3.	Finance and Investment	15	31.9	12
4.	Industrial and Allied	17	36.2	13
	Total	47	100%	36

Source: Author (2010)

3.3 Data Collection

In order to meet the objectives of the study, both primary and secondary data was used. Primary data was obtained using a structured questionnaire which captured all the dimensions of CSR. One questionnaire per company was administered through drop and pick method, email or personal administration as convenient to the respondents. The targeted respondent in each company is a senior management staff in charge of CSR, Corporate communications or Public relations. The primary data was used to generate Corporate Social Responsibility Index.

Secondary data was obtained in form of publicly available financial reports at NSE or respective websites of companies. This data was used to extract financial results for the period of study and for computing the performance measures.

3.5 Data Analysis Method

CSR was operationalized using various dimensions measuring specific areas of CSR in the company. Each question in the questionnaire will be measured numerically by using a scoring system of 0,1,2,3 based on the extent to which the company adopts/implements the indicated policy as follows:

None - (0) nothing in place and only sporadic or ad hoc activity takes place

Partial or efforts - (1) Objectives/systems in place but not meeting acceptable level of CSR practices or efforts are being made to set objectives.

Full/Complete (2) Objectives/Systems are in place and are reported

Exceeding (3) Objectives/Systems are in place exceeding the level of acceptable CSR practices.

Each dimension (CSR strategy and reporting, stakeholder engagement, workplace quality, environmental performance, supply chain and community investment) had a total allowable score, which was translated into a total mark out of 100.

The data collected was coded and captured into the computer for analysis using the Statistical Package for Social Sciences (SPSS) version 17. In order to attain the objective of the study, a two level **analysis is** carried out.

First **company's** financial performance measures are matched to its score so as to establish the relationship between CSR index and performance. And secondly, a regression model is used so as to establish the relationship between the CSR index and Corporate Financial performance indicators over the period of the study. A Five year period between year 2004 and the year 2008 both inclusive was studied and accounting measures, as opposed to market measures as mentioned earlier, was used to evaluate the financial performance of each company. The financial performance measures to be used are return on assets, return on equity and return on sales. Each of these accounting measures gives us different information about a company (McGuire, Sundgren and Schneeweis, 1988).

Return on assets represents the amount of earnings (before interest and tax) a company can achieve for each shilling of assets it controls and is a good indicator of a firm's profitability. Return on equity measures how well a company uses reinvested earnings to generate additional earnings, giving a general indication of the company's efficiency. Return on sales is equal to a firm's pre-tax income divided by total sales, measuring a firm's profit per shilling of sales (Bodie, Kane and Marcus, 2002).

The justification of using Return on assets, return on equity and return on sales as measures of financial performance is because other measures such as market based measures may be assessing more than just financial outcome of companies (Shane and Spicer, 1983). Also another important justification is based on the criteria of convenience in getting the data for analysis.

Regression analysis, utilizing the ordinary least squares method, was also used to test the hypothesis[^]that Corporate Social Responsibility (CSR) would improve the financial performance of an organization. Our independent variable is corporate social responsibility with financial performance to be used as the dependent variable.

The regression model employed is as follows;

$$\text{Corporate Social Responsibility (CSR)} = p_0 + p_1\text{ROA} + p_2\text{ROE} + p_3\text{ROS} + \epsilon$$

Where;

ROA=Return on Assets

ROE=Return on Equity

ROS=Return on Sales

e = Error term

3.6 Data Validity and reliability

In order to test validity, the researcher tested content validity. The questionnaire was designed systematically and precisely to make specific content universal. Concurrent validity test was also conducted where questionnaire was issued to two respondents in the same company at the same time then the two measures were correlated. In order to test reliability, test-retest method was conducted where two questionnaires were issued to the same company separated by some time delay that is a few days. The CSR scores of the two questionnaires were then correlated.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The purpose of this study was to establish relationship between Corporate Social Responsibility and financial performance of firms listed at the Nairobi Stock Exchange.

The research design that was used in this study was descriptive and the population was drawn from companies that were continuously listed in the main segment sector of the Nairobi Stock Exchange between 2004 and 2008. The sample included 22 companies that were continuously listed during the study period and had complete data. The study excluded all the companies in the financial and investment sector because they did not disclose data on turnover and book-equity. The newly listed firms such as Eveready, Scan group, Equity Bank, Safaricom, Cooperative bank and Scangroup were also excluded from analysis. Also excluded were firms that had ^complete data. The companies that were not continuously listed have been excluded to avoid mortality of subjects which might introduce bias in the results.

Firm annual accounts were studied to establish Corporate Social Responsibility and firm performance. An Index score was constructed to reflect Corporate Social Responsibility. Accounting measures of performance such as Return on Assets, Return on Equity and Return on Sales were used.

Data collected was then analyzed using Statistical Package for Social Science (SPSS) version 17. Correlation analysis and regression model was then used to determine the relationship between firm performance and corporate social responsibility. The results of the analysis are hereby presented using tables and charts.

The regression model employed is as follows;

$$\text{Corporate Social Responsibility (CSR)} = p_0 + p_1\text{ROA} + p_2\text{ROE} + p_3\text{ROS} + e$$

Where; ROA is the Return on Assets, ROE is the Return on Equity, ROS is the Return on Sales and e is the Error term

4.2 Results

4.2.1 Response Rate

The result in table 1 shows the number of sampled companies by sector. There were a total of 22 companies that were sampled for this analysis for the period between 2004 and 2008 because they were contiguously listed and had complete data.

Table 1: Number of Companies included in the study by sector by per year

Sector	Year				
	2004	2005	2006	2007	2008
Agriculture	2	2	2	2	2
Commercials and Services	0	6	6	6	6
Industrial and Allied	14	14	14	14	14
Total	22	22	22	22	22

4.3 Summary Statistics

Table 2 gives the descriptive statistics of the financial ratios as used in the study. Return on assets represents the amount of earnings (before interest and tax) a company can achieve for each shilling of assets it controls and is a good indicator of a firm's profitability. Return on equity measures how well a company uses reinvested earnings to generate additional earnings giving a general indication of the company's efficiency. Return on sales is equal to a firm's pre-tax income divided by total sales, measuring a firm's profit per shilling of sales (Bodie, Kane and Marcus, 2002). According to the table, the average Return on Equity for most of the firms was 18.8% while the average Return on Assets was 9.3%.

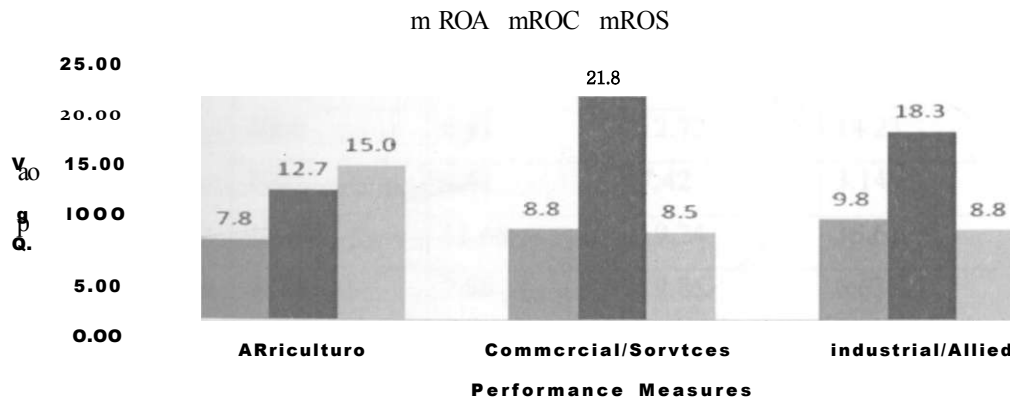
2: Descriptive Statistics of financial Ratios Variables in the study (%)

	Minimum	Maximum	Mean	Std. Deviation
Return on Assets	-3.60	27.62	9.33	6.48
Return on Equity	-14.93	52.43	18.76	12.79
Return on Sales	-6.46	60.81	9.26	7.81

According to figure 1 below, firms in the Industrial and Allied sectors have the highest Return on Assets followed by firms in the Commercial and Services Sector and lastly by firms in the Agricultural sector. Commercial and Services Sector have the highest Return on Equity (21.8%) followed by Industrial and Allied (18.3%). Agricultural sector have the least Return on Equity (12.7%).

Agricultural sector had the highest percentage Return on Sales (15%) followed by Industrial and Allied Sector (8.8%) and Commercial and Services (8.8%).

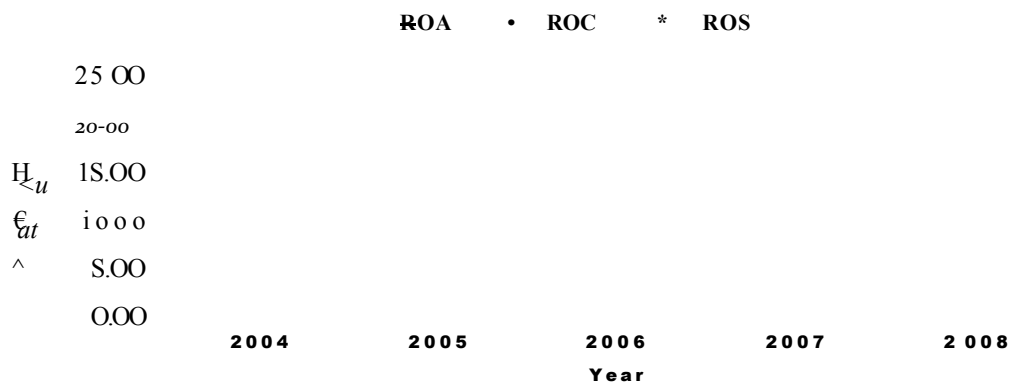
Figure 1: Mean Financial Ratios by Sector



4.4 Trend Analysis

Figure 2 below shows the trends in the accounting measures over the years. The figure shows that the percentage of performance measures has been constant over the years with very few fluctuations.

Figure 2: Trend of the Financial Ratios (2004-2008)



The result in table 3 below is the trend of the accounting ratios (Return on Assets, Return on Equity and Return on sales) over the years. The result shows that the mean percentage measures of performance were highest in the year 2008 for Agricultural sector, 2007 for the Commercial Sectors and 2005 for the Industrial and Allied Sector.

Table 3 Average Financial Ratios by Year per Sector (%)

	Year	ROA	ROE	ROS
	Year	Mean	Mean	Mean
Agriculture	2004	6.16	11.05	7.01
	2005	8.26	13.00	14.17
	2006	8.41	12.72	14.23
	2007	4.41	7.42	3.14
	2008	11.66	19.24	36.61
Commercial/Services	2004	7.35	19.85	6.63
	2005	8.63	19.98	7.89
	2006	9.49	23.33	9.05
	2007	9.67	24.31	9.97
	2008	9.04	21.36	9.06
Industrial/Allied	2004	9.54	14.54	7.38
	2005	11.00	20.49	9.66
	2006	9.09	17.71	8.71
	2007	9.94	19.80	9.01
	2008	9.28	19.17	9.00

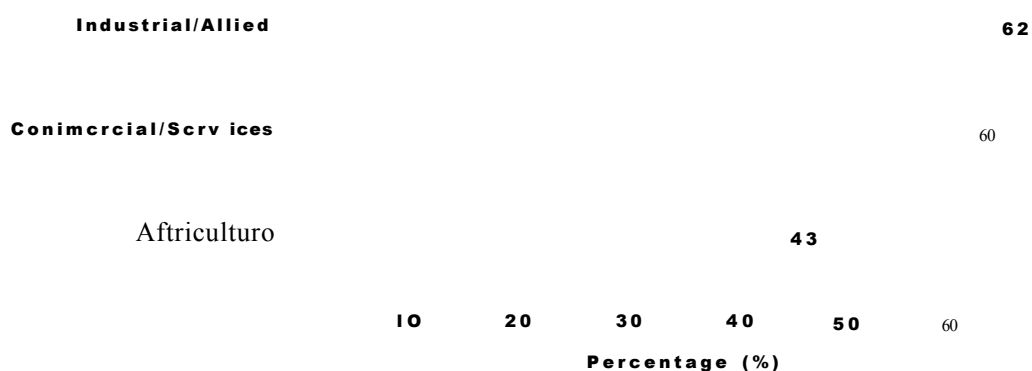
4.5 Corporate Social Responsibility (CSR)

Godfrey and Hatch, (2007) defines Corporate Social Responsibility as the actions that **pear** to further some social good, extends beyond the explicit economic interests of **the** firm and is not required by the law. Owen (2007) defines Corporate Social Responsibility as referring to how business takes account of its economic, social and **environmental** impacts in the way it operates. Rue and Byars (1992) concluded that social **responsibility** involves only voluntary actions and not giving in to pressure groups, adverse publicity or legal requirements.

Primary data capturing all dimensions of Corporate Social Responsibility was collected and used to generate Corporate Social Responsibility Index.

Figure 3 below shows the mean CSR index by sector. According to the figure, the CSR Index was highest for Industrial and Allied sector (62%) followed by Commercial and Services sector (60%). Firms in the agricultural Sector had the least mean CSR Index (43%).

Figure 3: Average Corporate Social Responsibility Index by Sector



4.6 Correlation Matrix

Table 4 below shows Correlation Matrix. A correlation matrix was describes correlation between two or more predictor variables in a regression. It is also used to test for the presence of multicollinearity before attempting a regression model.

The result below shows that there exist significant positive correlation between Corporate Social Responsibility Index and Return on Assets (R=0.321, p-value=0.001) and Return on Equity (R=0.325, p-value=0.001) at 5% level of

significance. This implies that there is a positive relationship between firm performance and Corporate Social Responsibility.

There also exists a significantly positive correlation between Return on Assets and Return on Equity ($R=0.818$, $p\text{-value}=0.000$) and between Return on Assets and Return on Sales ($R=0.635$, $p\text{-value}=0.000$). The results also show a statistically significant positive correlation between Return on Sales and Return on Equity at 5% level of significance ($R=0.670$, $p\text{-value}=0.000$).

Table 4: Correlation Matrix of the variables used in the study

		CSRIndex	ROA	ROE	ROS
CSRIndex	R	1	.321"	.325"	.014
	Sig		.001	.001	.884
ROA	R	.321"	1	.818"	.635"
	Sig	.001		.000	.000
ROE	R	.325"	.818"	1	.450"
	Sig	.001	.000		.000
ROS	R	.014	.635"	.450"	1
	Sig	.884	.000	.000	

** . Correlation is significant at the 0.01 level (2-tailed).

R=Pearson Correlation Coefficient.

Further analysis on the correlation matrix by sector is presented in table 5 below. The results shows that for Agricultural Sector there exists a significant but negative correlation between corporate social responsibility index and Return on Assets ($R=-0.664$, $p\text{-value}=0.036$) and Return on Equity ($R=-0.759$, $p\text{-value}=0.011$) at 5% level of significance. The opposite is true for Commercial and Services Sector where there exists a significant positive correlation between CSR Index and Return on assets ($R=0.475$, $p\text{-value}=0.008$) and Return on Equity ($R=0.554$, $p\text{-value}=0.002$) at 5% level of significance. There is also an observed significant and positive correlation between CSR index and Return on Assets for Industrial and Allied sector ($R=0.306$, $p\text{-value}=0.01$) at 5% level of significance.

For all the sectors, there exists a significantly positive correlation between Return on Assets and Return on Equity and between Return on Sales and Return on Assets at 5% level of significance.

Table 5 Correlation Matrix between CRS Index by Sector

Sector			CSRIndex	ROA	ROE	ROS	
Agriculture	CSRIndex	R	1	-.664	-.759*	.215	
		Sig		.036	.011	.552	
	ROA	R	-.664*	1	.985"	.568	
		Sig	.036		.000	.087	
	ROE	R	-.759'	.985"	1	.456	
		Sig	.011	.000		.186	
	ROS	R	.215	.568	.456	1	
		Sig	.552	.087	.186		
	Commercial/Services	CSRIndex	R	1	.475"	.554"	.125
			Sig		.008	.002	.511
		ROA	R	.475"	1	.634"	.803"
			Sig	.008		.000	.000
ROE		R	.554"	.634**	1	.312	
		Sig	.002	.000		.094	
ROS		R	.125	.803	.312	1	
		Sig	.511	.000	.094		
Industrial/Allied		CSRIndex	R	1	.306**	.229	.200
			Sig		.010	.057	.096
		ROA	R	.306**	1	.899**	.810**
			Sig	.010		.000	.000
	ROE	R	.229	.899'*	1	.711"	
		Sig	.057	.000		.000	
	ROS	R	.200	.810"	.711**	1	
		Sig	.096	.000	.000		

(2-tailed). *. Correlation is significant

at the 0.05 level (2-tailed).

4.7 General Regression Model

A general regression model for all the sectors was conducted. The model summary in table 6 below shows the value of R-square value for the regression model. The multiple coefficient of determination, R^2 , is used to measure the proportion of the variation in the dependent variable that is explained by the combination of the independent variables in the multiple regression model of equation. The R-squared (R^2) value ranging from 0 to 1 or the 'corrected R-squared' (R^2) which is adjusted for degrees of freedom indicates the explanatory power (goodness of fit) of the model. The R-square value according to the table is 16.8% while the adjusted R-square is given as 14.5% implying that the regression model explains about 15% of the dependent variable (CSR Index).

The Durbin-Watson statistics to test for serial autocorrelation shows that there exists no autocorrelation since the value of the Durbin Watson is less than 7.0. Autocorrelation test is a reliable measure for testing of either dependence or independence of random variables in a series.

Table 6: Model Summary (R-square)

R	R Square	Adjusted R Square	Durbin-Watson
0.410	0.168	0.145	0.490

To test for the existence of a linear relationship between the dependent and the independent variables, Analysis of Variance was employed. The results from the analysis of variance below shows that the regression model is statistically significant at 5% level of significance ($F=7.15$, $p\text{-value}=0.000$) implying that there exists a linear relationship between Corporate Social Responsibility and firm Performance.

Table 7: Analysis of Variance (ANOVA)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	2383.91	3	794.64	7.150	.000
Residual	11780.87	106	111.14		
Total	14164.77	109			

results in table 8 below show the test of significance of individual regression eters The results show that the coefficient of Return on Assets is positive and significantly related with Corporate Social Responsibility Index. The coefficient of Return on Equity is not significant in the model while the coefficient of Return on Sales is negative but is significantly linearly related to the CSR index.

Table 8: Regression Model

	Coefficients	t-value	P-value
Intercept	55.20	29.20	.000
Return on Assets	0.72	2.27	.025
Return on Equity	0.11	0.81	.417
Return on Sales	-0.44	-2.61	.010

4.7.1 Regression Model by Sector

In order to capture sector-specific variations in the model, a second approach was attempted whereby the regression analysis was done by sector. The results are shown below. According to table 9 below, it is noted that the explanatory power of the regression model, as depicted by the value of Adjusted R-square, is significantly higher for the Agricultural and Industrial and Allied sectors (Adj. R-square=95.8% and 37% respectively). This implies that the relationship between Corporate Social Responsibility and accounting measures of performance can be best explained for firms in the agricultural and Industrial and Allied sectors but not for firms in the Commercial and Services sector. The explanatory of the model for the Commercial and Services sector is only 7.3%.

Table 9: Model Summary by Sector

Sector	R	R Square	Adjusted R Square	Durbin-Watson
Agriculture	0.986	0.972	0.958	1.62
Industrial and Allied	0.660	0.436	0.370	0.77
Commercials Services	0.337	0.113	0.073	0.53

Analysis of Variance to test for the existence of a linear relationship between Corporate Social Responsibility and measures of performance by sector was employed. The results show that there exists a significant linear relationship between CSR index and measures of performance for all sectors at 5% level of significance (p-value=0.000, 0.002 and 0.046 for Agricultural, Industrial and Allied and Commercial and Services respectively).

Table 10: Analysis of Variance of the Regression Model by Sector

Sector		Sum of Squares	df	Mean Square	F	P-value.
Agriculture	Regression	38.88	3	12.96	69.50	.000
	Residual	1.12	6	0.19		
	Total	40.00	9			
Industrial and Allied	Regression	1278.02	3	426.01	6.69	.002
	Residual	1656.15	26	63.70		
	Total	2934.17	29			
Commercials Services	Regression	898.61	3	299.54	2.81	.046
	Residual	7035.67	66	106.60		
	Total	7934.29	69			

The resulting regression parameters from the above regression model are presented in table 11 below. It is observed that the Corporate Social Responsibility is significantly linearly related to at least one of the measures of performance (ROA, ROE and ROS) for all the sectors.

For Agricultural sector, Return on Sales is positively and significantly related to CSR Index while for Industrial and Allied Return on Assets and Return on Sales is significantly related to CSR index. For Commercial and Services, it is observed that only Return on Assets is significantly related to Corporate Social Responsibility Index.

The resulting regression equations for the sectors based on the below regression parameters are shown below;

1. **Agricultural:**

$$\text{Corporate Social Responsibility (CSR)} = 45 - 0.01 \text{ROA} - 0.25 \text{ROE} + 0.09 \text{ROS} + e$$

2. **Industrial and Allied:**

$$\text{Corporate Social Responsibility (CSR)} = 55.2 + 1.66 \text{ROA} + 0.17 \text{ROE} - 1.57 \text{ROS} + e$$

3. **Commercial and Services:**

$$\text{Corporate Social Responsibility (CSR)} = 58.8 + 0.99 \text{ROA} - 0.22 \text{ROE} + 0.24 \text{ROS} + e$$

Table 11: Regression Model by Sector

Sector		B	t	Sig.
Agriculture	(Constant)	45.00	170.54	0.000
	Return on Assets	-0.01	-0.04	0.971
	Return on Equity	-0.25	-1.77	0.127
	Return on Sales	0.09	5.76	0.001
Industrial Allied	(Constant)	55.20	13.37	0.000
	Return on Assets	1.66	2.41	0.023
	Return on Equity	0.17	1.07	0.296
	Return on Sales	-1.57	-2.18	0.038
Commercials Services	(Constant)	58.77	26.40	0.000
	Return on Assets	0.99	2.08	0.042
	Return on Equity	-0.22	-0.98	0.332
	Return on Sales	-0.24	-0.77	0.445

Th study sought to establish relationship between Corporate Social Responsibility **d financial** performance of firms listed at the Nairobi Stock Exchange. The above **f dings showed** that there is a relationship between Corporate Social Responsibility **d financial** performance. Further analysis by sector revealed sector-specific **relationship** between Corporate Social Responsibility and financial performance. This **findin therefore**, disagrees with Mutuku, (2005) who established no relationship **between** CSR and financial performance. The research study further agrees with **Orlitzky and Benjamin**, (2001) in their studies who found a positive relationship **between** CSR and financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, the findings are discussed and conclusions are made from which recommendations are submitted.

5.2 Summary

The general objective of the study was to establish the relationship between CSR and financial performance of companies listed at the Nairobi stock exchange. In summary, the initial regression analysis on the companies listed on the NSE main market segment reveals a statistically significant positive relationship between the Corporate Social Responsibility (CSR) and financial performance. Further analysis by sector revealed sector-specific relationship between Corporate Social Responsibility and financial performance.

However, in conducting the analysis a number of opportunities for refining the research were identified below as recommendations. As such, this paper could be considered as a further step in testing the relationship between Corporate Social Responsibility (CSR) and financial performance in Kenya

The overriding research constraint faced by the researcher in conducting this analysis was lack of established measure of CSR. Although assessing return on equity, return on assets and return on sales for the period of study that is year 2004 - 2008 is relatively clear cut, the same cannot be said about assessing the extent to which corporate decision making encompasses the social and environmental consequences of a course of action.

There is need to develop a measure of corporate social responsibility index in Kenya. The development of the Corporate Responsibility index dubbed CSR index by the researcher covering all the dimensions outlined in the questionnaire may assist in this

ard More reliable measurement of the extent to which a company has adopted **CSR will allow a** more accurate analysis on the financial performance.

5.3 Conclusion

The following conclusions were made following the foregoing discussions above, **each corresponding** to the specific objectives of the study as under: There is a clear **relationship** between CSR and financial performance in each sector. In order to capture **sector-specific** variations in the model, a regression analysis was done by sector and it is noted that the explanatory power of the regression model, as depicted by the value of Adjusted **R-square**, is significantly for Agricultural and Industrial and Allied sectors though weak in Commercial and Services sector. This implies that the relationship between Corporate Social Responsibility and accounting measures of performance was best explained for firms.

5.4 Recommendations

In respect to the conclusions made in the study, it is quite evident; this new phenomenon of CSR has a positive relationship with the financial performance of firms. The companies should now refocus on a "Triple- Bottom Approach" TBL that is the totality of the corporation's financial, social, and environmental performance in conducting its business if they are to remain profitable in the future.

5.4.1 Recommendations for Managers

Despite previous assumptions of inconclusive findings mentioned earlier in the literature the researcher can legitimately derive implications for corporate strategy from the study. First and foremost, market forces generally do not penalize companies that are high in corporate social performance; thus, managers can afford to be socially responsible. If managers believe that CSR is an antecedent of Financial Performance, they may eventually actively pursue CSR because they think the market will reward them for doing so. Top managers must learn to use CSR as a reputational lever and be attentive to the perceptions of third parties, regardless of whether they are market analysts, public interest groups, or the media. Whereas social audits in companies are only moderately beneficial, a company that is high in CSR may especially benefit

• • public endorsement from government agencies such as the National Environmental Management Authority (NEMA) or Directorate of Occupational and Health (DOSHS) in the ministry of Labour. As Fombrun, (1990) suggested, Zeyl reaping benefits from CSR is a return from reputation.

As findings about the positive relationships between CSR and financial performance become clear in this study, managers may be more likely to pursue CSR as part of their strategy for attaining high financial performance. These strategic management considerations would be consistent with Baron's (2000) managerial approach to the business-society interface. Baron (2000) argues that successful executives are able to integrate market strategies with non-market strategies in order to position their firm for optimal effectiveness. Baron's (2000) book offers guidelines as to how firms can strategically achieve this integration in a number of areas (such as the news media, activists, social movements, legislatures, ethics, and so on).

Alternatively, social performance may increase through less deliberate decision processes, as firms emulate others that are experiencing high financial success.

5.4.2 Recommendations for government agencies

The government should also conduct research to establish a more comprehensive social performance index measure through the Kenya National Bureau of Statistics (KNBS) and develop a mechanism of enforcing it as part of listing regulations. This will enhance social action within the players which further a social good among the stakeholders.

5.5 Limitations of the Study

Despite the findings, various limitations were faced during the study. First, the time and financial resources constrained the exercise of carrying out the research work. More time could have allowed deeper explorations of analysis. Another constraint is the lack of a CSR index in Kenya. Therefore, there is need to develop a measure of corporate social responsibility index in Kenya by the Kenya National Bureau of Statistics (KNBS) to overcome this limitation in future.

5.6 Suggestions for Further Research

There are a number of areas where future research in this area could proceed. First, the analysis included on the listed companies at the Nairobi stock exchange main market segment. Increasing the sample size, potentially to other companies not necessarily listed; potentially to 250 top companies in Kenya may allow for a better measure of the effect that CSR has on the financial performance of Kenyan companies.

It may also be useful to determine whether significant relationships emerge and change as longer term financial information becomes available. The study period could be extended and short-term and long-term measures of financial performance could be employed.

Finally, more case studies should be done on CSR and multiple dimensions of financial performance within the context of a single industry. This is because individual industries operate within distinctively different contexts and with dissimilar social and environmental concerns and patterns of stakeholder involvement and activism. As a consequence, it may be shown that similar studies like this which have been across industries may have hidden specific industry effects and actual social and financial performance shown to be related over time. The focus of future research should be on one industry to increase internal validity of the findings on a single set of CSR and financial performance criterion. In that way further understanding of CSR and financial performance relationship in specific industry contexts will be enhanced and will offer more relevant insights to individual firms and the stakeholders.

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APPENDICES

APPENDIX Is RESEARCH QUESTIONNAIRE

BACKGROUND INFORMATION

Please tick where appropriate

Company Details

1. Company Name
2. Ownership Structure
Locally Owned Foreign Owned Joint Venture Owned
3. Classification at Nairobi Stock Exchange
Agricultural sector
Commercial & Services Sector
Financial and Investment Sector
Industrial and Allied Sector •
4. Total number of Employees (In full time Equivalents)
Male
Female

CSR STRATEGY AND REPORTING

5. Is there any board-level responsibility for CSR in your company?
Yes • No •

If yes, please provide details (*Include name of specialized board committee dedicated to CSR and their responsibilities*)

6. Does the company have a code of ethics in relation to the following issues?
- Confidentiality of Information D Corruption and Bribery
 - Money -laundering and/or insider trading/dealing Human right
 - Responsibility of your products and services Whistle-blowing
 - None/don't know
7. Does your company have a monitoring mechanism for implementation of code of ethics?
- Yes D No N/A (no such code or policy exists)
8. Does your company PUBLICLY report on CSR/Sustainability Performance?
- Yes No

If yes please provide the medium of reporting

9. Which of the following matters are included in your CSR reporting?
- Community development
 - D CSR strategy
 - Environmental Protection
 - Workplace quality
 - Other (Please specify)

STAKEHOLDER ENGAGEMENT

10. Does your company have a policy or stated commitment for stakeholder engagement?
- Yes, already in effect
 - Yes, likely to come into effect in the next year or so.

A NO

11. Has your company initiated stakeholder dialogue with the following **groups**?

- Shareholder or investors Customers
- Customers Employees
- J Trade unions Suppliers
- NGOs or community groups other (Please specify)

12. Has your company engaged stakeholders in relation to the following CSR issues in the last year?

- D Community Investment C J CSR strategy and reporting
- Workplace quality Environmental Protection

13. How has your company responded to key issues/concerns raised in stakeholder engagement in the last one year?

- Formal response to stakeholder group Public report
- Internal report to relevant department Public meeting
- Other (Please specify)

WORKPLACE QUALITY

14. How many days of staff training did your employees receive on **average** over the last financial year?

- DDays
- No training offered

15. Do you have a policy that explicitly allows trade union membership?

- Yes • No

16. Does your company have a formal written policy on equal opportunities or managing diversity?

- a Yes a No

If yes please provide details (*Include whether it covers all employees or not*)

17. Does the policy specifically address equality of treatment or discrimination on any of the grounds listed below?

- Age D Disability • HIV/AIDS O Family status
- Race Religion Sexual Harassment
- Trade union Association Other, Please specify

18. What mechanisms are in place to deal with grievances in relation to equality of treatment or discrimination?

- Counselling Helpline Whistle-blowing policy
- Independent person or department in charge of solving complaints
- Other mechanisms, please specify

19. Was there any work related injuries and fatalities did your company record in the following period

/ Work related injuries | fatalities

 Last financial year

 The year before last year

20. Does your company have a policy on maximum/standard hours for full time employees?

- Yes • No

21. Does your company have a system in place in relation to overtime compensation?

- D Yes • No

If yes, please state whether it cover all the employees or not?

22. Are there options for staff whose job nature allows it to have the opportunity of enjoying flexible hours?

- a Yes D No

23. What percentage of your senior and middle management comprises women as a share of total senior and middle management? %

24. Has your company laid off any employees in the last financial year due to economic downturn? ^

- Yes D No

If yes, please specify any consultations, negotiations or other measures with employees that have been made

ENVIRONMENTAL PERFORMANCE

25. Does your company have a policy on environmental protection?

- Yes, covers all operations
- Yes cover some operations

- No

26. Does your company set improvement plans for any of the following items?

- Energy consumption Water consumption
- Paper consumption Green Houses gases

If yes please specify briefly

SUPPLY CHAIN

27. Does your company have an ethical sourcing policy or supplier's code of ethics?

- Yes, covers all operations Yes cover some operations
- No

COMMUNITY INVESTMENT

28. Does your company align any of its community investment initiatives towards development programs

Yes No

29. In the last Financial year what was the monetary value of corporate giving (Shs)

Direct cash

Foundation cash

Product donations

Promo giving

30. In summary please provide in the table below amount spent in CSR activities in the past 5 years

	2005	2006	2007	2008	2009
Amount spend on CSR					
Activity					
Any other CSR related cost					

31. Does your company have a system to measure the impact of the company community investment on communities?

Yes No

32. In the last year, did your company have any volunteering programmes in place?

Yes organized during workday for which an employee was being paid

Yes organized during an employee's personal time for which there was no staff cost incurred.

No

Thank you for completing the questionnaire

APPENDIX II: LIST OF COMPANIES LISTED AT NSE

Agriculture

1. Rea Vipingo Ltd.
2. Sasini Tea & Coffee Ltd.
3. Kakuzi Ltd.

Commercial and Services

- | | |
|------------------------------------|-----------------------------|
| 1. Access Kenya Group | 7. Uchumi Supermarkets Ltd. |
| 2. Marshalls E.A. Ltd. | Suspended |
| 3. Car & General Ltd. | 8. Nation Media Group Ltd. |
| 4. Hutchings Biemer Ltd. Suspended | 9. TPS (Serena) Ltd. |
| 5. Kenya Airways Ltd. | 10. ScanGroup Ltd. |
| 6. CMC Holdings Ltd. | 11. Standard Group Ltd. |
| | 12. Safaricom Ltd. |

Finance and Investment

- | | |
|--|---|
| 1. Barclays Bank of Kenya Ltd. | 8. Diamond Trust Bank of Kenya Ltd. |
| 2. CFC Stanbic Bank Ltd. | 9. Jubilee Insurance Co. Ltd |
| 3. Housing Finance Ltd. | 10. Standard Chartered Bank Ltd. |
| 4. Centum Investment Ltd. | 11. NIC Bank Ltd. |
| 5. Kenya Commercial Bank Ltd. | 12. Equity Bank Ltd. |
| 6. National Bank of Kenya Ltd. | 13. Olympia Capital Holdings Ltd |
| 7. Pan Africa Insurance Holdings Co. Ltd | 14. The Co-operative Bank of Kenya Ltd. |
| | 15. Kenya Re-Insurance Ltd. |

Industrial and Allied

- | | |
|--|-------------------------------------|
| 1. Athi River Mining Ltd. | 11. Bamburi Cement Ltd. |
| 2. BOC Kenya Ltd. | 12. Crown berger (K) Ltd. |
| 3. British American Tobacco Kenya Ltd. | 13. E.A Portland Cement Co. Ltd. |
| 4. Carbacid Investments Ltd. . | 14. Kenya Power & Lighting Co. Ltd. |
| 5. E.A. Cables Ltd. | 15. Total Kenya Ltd. |
| 6. E.A. Breweries Ltd. | 16. Eveready East Africa Ltd. |
| 7. Sameer Africa Ltd. | 17. Kengen Ltd. |
| 8. Kenya Oil Ltd. | |
| 9. Mumias Sugar Company Ltd. | |
| 10. Unga Group Ltd. | |

APPENDIX III: LIST OF THE FIRMS INCLUDED IN THE STUDY

Sector	Name of the Firm
Agricultural	1. Rea Vipingo Ltd.
	2. Sasini Tea & Coffee Ltd.
Commercial and Services	3. Car & General Ltd.
	4. Kenya Airways Ltd.
	5. CMC Holdings Ltd.
	6. Nation Media Group Ltd.
	7. TPS (Serena) Ltd.
	8. Standard Group Ltd.
Industrial and Allied	9. Athi River Mining Ltd.
	10. BOC Kenya Ltd.
	11. British American Tobacco K
	12. E.A. Cables Ltd.
	13. E.A. Breweries Ltd.
	14. Mumias Sugar Company Ltd.
	15. Unga Group Ltd.
	16. Bamburi Cement Ltd.
	17. E.A Portland Cement Co. Lt
	18. Kenya Power & Lighting Co.
	19. Total Kenya Ltd.
	20. Crown berger (K) Ltd.
	21. Sameer Africa Ltd.
	22. Kenya Oil Ltd.

Source: Author

APPENDIX IV: LETTER TO THE RESPONDENT

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
P.O BOX 30197-00100
NAIROBI

Dated

Dear Sir/Madam,

**RE: A SURVEY ON THE RELATIONSHIP BETWEEN CORPORATE SOCIAL
RESPONSIBILITY PRACTICES AND CORPORATE FINANCIAL PERFORMANCE
IN A CASE OF LISTED COMPANIES AT NSE**

I am a postgraduate student undertaking a Master of Business Administration Degree at the School of Business, University of Nairobi. I am currently carrying out a research on CSR activities by listed companies and the impact on the corporate financial performance.

I kindly request you to provide information by responding to the questions in the questionnaire. The information required is purely for academic purposes and will be treated in the strictest confidentiality.

The results of the report will be availed to you upon request. I will appreciate your co-operation in this academic exercise. Thank you in advance.

Yours faithfully,

Francis Cheruiyot