THE IMPACT OF THE CORPORATE SOCIAL RESPONSIBILITY ON THE CORPORATE FINANCIAL PERFORMANCE IN THE CORPORATE AND NGO PARTNERSHIPS IN KENYA

BY

MWAI ROSALIND WAMBUI

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DECLARATION

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

MWAI ROSALIND WAMBUI

REG. No. D63/75607/2012

Signed ........................................ Date .........................

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

DR. JOSIAH ADUDA

Sign .......................... Date ..........................
DEDICATION

I dedicate my project to my family and many friends. A special feeling of gratitude to my loving husband, Ndungu Benson N. whose words of encouragement and push for tenacity ring in my ears and to my parents who taught me that even the largest task can be accomplished if it is done one step at a time.
ACKNOWLEDGMENTS

It would have not been possible to write this project without the help and support of kind people around me, only some to whom it is possible to give particular mention here. Much gratitude goes to Almighty God for his providence and good health during my study.

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ABSTRACT

The Study attempted to address the question whether Corporate Social Responsibility can be linked to corporate financial performance of Corporate that engage in partnership with NGO. Using descriptive research design and inferential analysis, the study tested the sign of the relationship between Corporate Social Responsibility and Corporate financial performance in NGO-Corporate. The study used data covering a five year period from 2008 to 2012. The target population consisted of all the NGO and Corporate partnerships in Kenya. Stratified random sampling was then used to select a sample of 6 Corporate engaged in partnership with the NGO. Analysis was based on descriptive statistics using secondary data that was obtained. The study also used multiple regression analysis to establish the relationship between the two variables. Control variables of leverage and Cash Conversion Cycle were introduced in the multiple regression models.

The study found out a significant positive correlation between Corporate Social Responsibility and Corporate Financial Performance of Corporate engaging in partnership with NGO. The correlation result of the study model found a positive correlation between Corporate Social Responsibility and with both Corporate Size (log of assets) and Cash Conversion Cycle. Additionally, the correlation result found a negative relationship between Corporate Social Responsibility and Leverage.
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<tr>
<td>CCC</td>
<td>Cash Conversion Cycle</td>
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<tr>
<td>D/E</td>
<td>Debt/Equity</td>
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<tr>
<td>CEP</td>
<td>Council on Economic Priorities</td>
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<td>CFP</td>
<td>Corporate Financial Performance</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>FP</td>
<td>Financial Performance</td>
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<td>MDG</td>
<td>Millennium Development Goals</td>
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<tr>
<td>NGO</td>
<td>Non governmental Organization</td>
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<td>ROA</td>
<td>Return on Assets</td>
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<td>UN</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Joint efforts between corporate and NGO organisations in the context of CSR are on the rise. Strategic partnerships have the potential to address challenges and opportunities that could not have been handled in the same way outside of a partnership. By joining forces with the private sector, NGOs can access valuable solutions that can contribute in fulfilling their own missions. The Corporate get to target key social and environmental issues in their value chain to better equip themselves for the future. Society as a whole can also benefit because NGOs typically represent aspects of public opinion. According to the Millennium Development Goals Report of the United Nations (UN MDG Report 2010), in order to achieve the goal of partnership for development, government and non-governmental organisations have to cooperate with the private sector. This statement represents an ongoing debate in the Corporate Social Responsibility (CSR) literature, which is discussed whether or not, or how government and non-governmental organizations (NGOs) should cooperate with the private sector in social performance (Peloza & Falkenber, 2009; Selsky & Parker, 2005; London & Hart, 2004). These collaborations vary from environmental to social issues.

Partnerships between NGOs and Corporate can be seen as solution because of NGOs’ and corporate diverging but complementing characteristics, resources and activities. Corporate are very powerful organizations and can have much impact on the fact whether or not CSR programs are carried out. NGOs can pressure the Corporate but in the end, they themselves decide what they will do. Corporate also have the power and resource to create jobs, wealth
and innovation that improve the standard of living in economies (Porter & Kramer 2006). Because of the fact that Corporate play such a large role in society, they also have the ability to cause great harm to the environment and the communities of the countries in which they operate (Jain & Vachanni, 2006). Corporate by nature are equipped with among others managerial and financial resources (Das and Teng, 2009).

1.1.1 Corporate Social Responsibility

According to Caroll, CSR activities can be grouped into four main categories: economic, legal, ethical and philanthropic (Carrol, 1979). Such classification assumes abiding by the CSR principles, where company’s responsibility towards the society is based on normal profit maximization, following of the legal rules, and moral responsibility as well as philanthropic activities. CSR as a concept is based on relationship between business world and society, and on behaviour of company’s towards its main interest groups such as: employees, buyers, investors, suppliers, local community and special interest groups (Hick 2000). The definition of CSR that we adhere to in this article is based on the Business for Social Responsibility definition, where corporate social responsibility is described as achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment.

In essence the concept of responsible companies includes taking into account a view broader than merely company’s looking exclusively into financial result, although it still remains the primary driver and prerequisite of company’s growth and prospect, where now the century old industrial company view has evolved with the change in paradigm to include all interested company stakeholders and beyond. CSR has become a standard for modern companies, therefore it is not uncommon to look at the CSR as the realization that
companies can and should play an important role in their communities, across the nation and around the world, while making a profit (Waddock and Graves, 1997).

In order for organization to be sustainable it must be financially secure, decrease its negative environmental impact and act in conformity with the expectations of society. Although the prime focus of business is generating profits, corporations can also contribute to social and environmental goals by applying corporate social responsibility as a strategic line in their core business practices, corporate governance, and management instruments (Waddock and Graves 1997).

1.1.2 Measures of Financial Performance

Financial performance refers to the measure of how well a firm can use assets from its primary mode of business and generate revenue (Haber & Reichel, 2005). Different perspectives of how to evaluate a firm’s financial performance have different theoretical implications (Hillman and Keim, 2001) and each is subject to particular biases (McGuire, Schneeweis, & Hill, 1986). In that manner, certain researchers have used market measures (Alexander and Buchholz, 1978; Vance 1975), while others have put forth the accounting measures (Waddock and Graves, 1997; Cochran and Wood, 1984), while some adopt both of these (McGuire, Sundgreen, Schmeeweis, 1988).

Focus of our analysis in this study was on accounting measures specifically Corporate Size specifically on Return on Assets (ROA). The shortcoming of this approach is in sense that it only captures historical data and aspects of a company (McGuire, Sundgren and Schneeweis, 1988). Such information is however subject to general managerial discretion of fund allocation and thus reflects internal decision making capabilities and managerial

The controlling variables were liquidity and leverage. Liquidity measures the ability of a firm to meet its short-term obligation in due course. Liquidity measures the ability of a company to pay its short-term debt and meet unexpected cash needs. Failure to meet its obligations as a result of lack of liquidity results into bad ratings and loss of creditor’s confidence among others. Leverage represents an enterprise risk that could affect the company’s financial performance in the future (Rahmawati and Dianita, 2011).

1.1.3 The effects of CSR on financial performance

The effect of CSR and CFP has raised argument among scholars (Dodd, 1932; Jarrel and Peltzman, 1985; Hoffer et al., 1988; Preston and O’banno, 1997; Waddock and Graves, 1997; Griffins and Mahon, 1997; McWilliams and Siegel, 2000; Simpsons and Kohers, 2002). As previous literature has stated, the CSP and CFP effect of the relationship may be negative, neutral or positive.

The viewpoint for positive correlation between CSP and CFP suggest that as a company’s explicit costs are opposite of the hidden costs of stakeholders, therefore, this viewpoint is proposed from the perspective of avoiding cost to major stakeholders and considering their satisfaction (Cornell and Shapiro, 1987). In addition, this theory further infers that commitment to CSR would result to increased costs to competitiveness and decrease the hidden cost of stakeholders who are necessary for the survival of the company. Bowman and Haire (1975) pointed out that some stakeholders’ regard CSR as a symbolic management skill, namely, CSR is a symbol of reputation, and the company reputation was improved by actions to support the community, resulting in positive influence on sales.
Therefore, when a company increases its costs by improving CSP in order to increase competitive advantage, such CSR activities can enhance company reputation, thus, in the long run CFP can be improved, by sacrificing the short term CFP;

The viewpoint for negative effect between CSR and CFP suggests that the fulfilment of CSR will bring competitive disadvantages to the company (Aupperle et al., 1985) as the consequence costs may request other methods or need to bear other costs. When carrying out CSR activities, increased costs will result in little gain if measured in economic interests. When neglecting some stakeholder, such as employed or the employees or environment, result in a lower CSP for the enterprise, the CFP may be improved. Hence, Waddock and Graves (1997) indicated that this theory was based on the assumption of negative effect of CSR and CFP.

Some other studies suggested that CSR is not related to CFP at all. Ullmann (1985) pointed out that there is no reason to anticipate the existence of any relationship between CSR and CFP, as there are many variables in between the two.

1.1.4 NGO and Corporate Partnership in Kenya

Since the enactment of the NGOs Act (Cap 19) of 1990 and the operationalization of the NGOs Co-ordination Board in 1992, the NGO sector has grown significantly. By December 2012, the Board had registered over 8,500 organizations.

1.2 Research Problem

CSR is an important issue which concerns about the ethics, society, natural environment, employees and also working environment as a whole. The question of how CSR affects financial performance of the firms is still being researched. Although there is evidence
showing positive relationship between CSR and financial performance, it still has some limitation of conclusion and mixed results. Margolis and Walsh (2002) stated in review of 95 empirical studies conducted between 1972 to 2001 that when treated as an independent variable, corporate social performance is found to have a positive relationship to financial performance in 42 studies (53%), no relationship in 19 studies (24%), a negative relationship in 4 studies (5%), and a mixed relationship in 15 studies (19%).

CSR emerge as a way for organization assume its responsibilities and contribute to a sustainable development, it also raise the question about how can CSR positively affect economic performance in a way that can generate resources to continually invest in social and environmental demands. According to Waddock and Graves suggest that high levels of financial performance can provide the resource necessary to invest in CSR practices (Waddock and Graves 2011). Also Ullmann argued that in periods of low economic return, companies have other priorities than investment in CSR which may suggest that a satisfactory financial performance can have a positive influence in future commitment with social responsibility practices (Balabanis, Phillips, Lyall, 1998).

CSR writers suggest a central role for business in development, while critical writers suggest development objectives will always be subservient to corporate priorities. Corporate/NGO partnership represents a potential channel for dialogue but the existing literature on partnership tends towards an instrumental approach, which overlooks its inherent messiness, hidden dynamics and power relations. This research focuses on partnership as a potential mechanism through which Corporate and NGO actors may negotiate and reframe their respective objectives. The study will try to find out the impact of Corporate-NGO partnership on the corporate financial performance. The study therefore
will seek to answer the following questions: What is the CSR impact on the corporate financial performance in Corporate- NGO partnership? The study will analyse the link between the social costs and social activities engaged by the Corporate in partnership with the NGOs? Does the company size have positive influence toward corporate social responsibility? And how is the relationship between CSR and CFP affected by leverage and liquidity of the corporate?

1.3 Research Objective

The impact of the Corporate Social Responsibility on the Corporate financial performance in the Corporate and NGO partnership in Kenya.

1.4 Value of the Study

This study focuses on how businesses can create shared value. This is where the business is able to remain competitive while at the same time contributing to sustainable development. By innovating on its core work and leveraging on strategic philanthropy based on their capabilities the business can become competitive while serving the community.

The results of the study will provide additional evidence to the literature about the relationship between CSR and corporate financial performance in the emerging economies. It remains important for businesses to measure how this demand for their engagement in sustainable business practice will impact their business and the society.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature that is relevant to the specific objectives outlined in chapter one. 2.1 is introduction, 2.2 is theoretical review, 2.3: is empirical studies review, 2.4 and 2.5: is a General literature of key concepts, and other relevant information related to the field, 2.7: is summary from Literature review.

2.2 Theoretical Review

There are many studies that figure out the relationship between CSR and financial performance of the firm that are based on a number of theories relevant to this issue.

Those theories are divided into three aspects: theories suggest the positive relationship, the other describe this relationship as a negative impact, and beside that some theory state a neutral relationship between CSR and financial performance. But this study only focuses on theories which describe the positive and the negative relationship.

2.2.1 Relevant theory suggest the positive relationship

2.2.1.1 Stakeholder theory

After publication of a stakeholder Approach (1984) of Edward Freeman’s Strategic Management, stakeholder management, stakeholder theory, and other variation of stakeholder study have taken a big deal of management research.

Freeman said that business relationships should comprise all people who can affect or be affected by a firm. Methods to solve this problem have focused on relationships between
firms and stakeholders based on trade transactions, authority dependencies, legitimacy claims, or other claims. Researchers have attempted to mix stakeholder theory with other management perspectives, mostly theories of governance and agency. Stakeholder theory is helpful as both an instrumental and normative frame. Normative stakeholder arguments have emerged declaring firms have a moral obligation to uphold the interests of all corporate stakeholders (Wicks, Gilbert, and Freeman, 1994; Evans and Freeman, 1983). According to Donaldson and Preston, Instrumental stakeholder theory recommends managers must induce constructive contributions from their stakeholders to attain goals of company efficiently. If a cross point between normative and instrumental stakeholder theory retain CSR is not a stand on moral values or not actual, it will not affect the financial performance gains (Jones, 1995; Frank 1998).

2.2.1.2 Competitive advantage theory

Harrison, Bosse and Phillips (2007) develop on the definition of competitive advantage representing that companies must perform more than build a competitive advantage which is attractive to customers. In order to build a right competitive advantage, Harisson states that: Competitive advantage implies more than merely creating value. Rather, the key is to create more than competitors are able to create. A firm is said to have a competitive advantage if it creates and appropriates more value than the least efficient rival capable of breaking even. Simply extending the prior logic, this occurs when the firm drives a wedge between the willingness to pay it generates among buyers and the costs it incurs and then collects returns in excess of its on opportunity costs. Socially complex resources or capabilities that are not easily copied are necessary to retain a company’s competitive advantage. CSR helps firms develop internal resources making a firm more prepared and able to adapt to the fast moving
of demands and crises. CSR also expands external reputation benefits, increasing its attractiveness to customers and potential employees, investors and bankers.

2.2.2 Relevant theory suggest the negative relationship

2.2.2.1 Trade off theory

Trade off theory assumes a negative relationship between CSR and financial performance. Stand on Friedman (1970), this theory analysis investment as tradeoffs between stakeholders leading toward to tradeoffs between profit maximization and socially responsive purpose. Therefore, corporate social performance (CSP) might lower the financial performance of firms because CSR funds use the resources that could be used in a more profit-maximizing way.

2.2.2.2 Slack Resource Theory

In explaining the relationship between CSP and CFP two theories from management literature may be adapted: (1) slack resource theory, and (2) good management theory or resource-based perspective of competitive advantage (Miles et al., 2000). Slack resource theory is developed based on the view that a company is able to carry out its activities because of the resources owned by the company, which have normally been dedicated to the predefined activities. The function of the resource is to enable the company to successfully adapt to internal pressure for adjustment or to external pressures for change (Buchholtz et al., 1999). The resource needed by the company to successfully adapt is slack in nature, which is defined as any available or free resource financial and other organization resource used to attain the company’s certain goal (see for example Bourgeois, 1981; Jensen, 1986).
According to Waddock and Grave (1997), when a company’s financial performance improves, slack resources were available to enable the company to conduct corporate social performance such as society and community relation, employee relation, and environment performance. Some activities conducted by the company in the domain of corporate social performance are meant to develop and enhance the company’s competitive advantage through image, reputation, segmentation, and long term cost saving (Miles & Covin, 2000; Miles & Russel, 1997; Miles et al., 1997).

2.2.2.4 Good Management Theory

Good management theory, taken on by Waddock and Grave (1997) in explaining CSP-CFP link, is further articulation of stakeholder theory (Donaldson & Preston, 1995). Proposition developed under the good management theory is that a company should try to satisfy its stakeholders without presupposing its financial condition. In so doing, the company will have good image and reputation. Based on resource-based perspective, the attributes are one of company’s assets in the intangible component that is one component contributing to the company’s competitive advantage (Barney, 1991). Essentially, the theory encourages managers of a company to continuously seek better ways to improve the company’s competitive advantage, which ultimately can enhance the company’s financial performance.

According to Miles and Covin (2000), environmental performance is an alternative way to satisfy stakeholders and can be a distinct layer of advantage that intensifies competitive power. Good management theory proponents also suggest that good management practice has high relation to CSP because it can improve a company’s relationship to its stakeholders, and this in turn will improve the company’s financial performance (Donaldson & Preston, 1995; Freeman, 1994; Waddock & Grave, 1997) and its competitive advantage.
Good management theory has received some empirical support (McGuire, 1988, 1990; Waddock & Grave, 1997).

2.3 Empirical Studies

The quantity of research produced has increased enormously over the last decade, and touches nearly every facet of business theory and some of these research's are:

Oyenje, (2012) carried out a research to establish the relationship between CSR practices and financial performance of Firms 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 of the companies resulted to 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. 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. Her conclusion was that there existed a relationship between the independent variables (CSR score, manufacturing efficiency and capital intensity) used in the model and dependent variable (return on assets) with a correlation coefficient of 0.870. The results of the study also showed that there was insignificant positive relationship between CSR practice and financial performance. Financial performance and manufacturing efficiency was found to have a significant linear inverse relationship.

Cheruiyot, (2010) aimed to explain the relationship between corporate social responsibility and financial performance of firms listed at the Nairobi stock exchange. A 5 year study with CSR index based on different level of implementation and dimensions was carried out in order to address multidimensional CSR indicators. This was a cross sectional study of all the
47 listed companies in the NSE’s main segment as at 31st December 2009. Using regression analysis he sought to establish the relationship between CSR index and financial performance measured in terms of return on assets, return on equity and return on sales. He found that there was a statistically significant relationship between CSR and financial performance. A knowledge gap of using multidimensional CSR indicators to carry out a multi-period study therefore exist which studies the impact of CSR on financial performance. A 5 year study with CSR index based on different level of implementation and dimensions was carried out in order to address the limitations.

Obusubiri, (2006) aimed at explain the relationship between CSR and portfolio performance in Kenya. He also found a positive relationship between CSR and portfolio performance. He attributed this relationship to the good corporate image that comes with CSR making investors prefer such companies implying that good CSR behaviour has a reputational benefit for the practicing firm.

Pava and Krausz, (1996) aimed to explain the relationship between CSR and traditional financial performance, through examining long-term financial performance. They used the literature review in the first section to show that the paradox of social cost could be explained by five explanations and used The CEP ratings, based on an assessment of 12 specific CSR components as a measurement of (CSR), and then put the criteria for measurement of the financial performance depend on market base, accounting base, measure of Risk, other firm specific characteristic They took 53 company listed in Council on Economic Priorities (CEP) socially response and compared the financial performance of this group with another group as a control sample, which is similar in both size and industry,
and they found a little evidence to suggest a positive association between CSR and traditional financial performance.

Preston and O’Bannon, (1997) analyzed the relationship between indicators of Social Responsibilities and Financial Performance, through examining data from 67 large U.S Corporation for 1982-1992, by using a typology and analysis; they used four trends in discussing this relation 1) social impact hypothesis 2) Trade-off hypothesis 3) available Fund and 4) Finally managerial opportunism hypothesis, and they found a strong positive correlation either by positive synergies or by available funding.

Orlitzky, (2001) in this study the researcher investigated the relationship between CSP and CFP regarding to level of the corporate size and the researcher for this purpose integrated three variables of meta-analysis first: CSP and CFP , second: Total Cost of CSR activities and CSP, third: Total Cost of CSR activities and CFP. The individual-link and fit analysis suggest that organizational size has no significant path to CSP or CFP, and the only path that cannot be dropped in these three variables model, is from CSP to CFP.

Mackey, (2007) in this paper, the researchers built a theory on a sample observation that equity holders may sometimes have interest besides simply maximizing their wealth when they make their investment decisions. They developed a model adapting a market definition of firm’s performance by focusing on how socially responsible corporate activities affect firms market value. This model was used to describe the impact of the present value of firm’s cash flow will have on the firm’s market value at the beginning or at the end of socially responsible activities. The model suggests that there was a positive correlation between firm’s choices about investing in socially responsible activities and firm’s value.
The paper provides an explanation of when the investment in these kinds of socially responsible activities will occur.

Shen and Chang, (2009), The purpose of their study was to investigate the financial performance with regarding to CSR and NON-CSR, they used a sample of Taiwan’s data from 2005-2006, and used matching theory and propensity score matching methodology to emphasize the effect of adapting CSR on financial performance and distinguish between two a broach, first: the social impact hypothesis and the second: the shift of focus hypothesis. They found a positive relation with the CFP regarding to CSP companies.

Surroca (2010), examined the relationship between CSP and CFP with regarding to intangible recourses, they advanced the understanding of the relationship between CSR and CFP in three ways: theoretically, empirically, and methodologically. The main proposition of this paper is that intangibles mediate the relationship between CRP and CFP which operates in both directions, they used an international database provided by sustainalytic responsible investment services, and their sample was 599 firms from 28 nations. The result of this study shows positive associations between firm’s intangibles and both measures of performance CSP and CFP.

Castro (2010), in this paper, it dealt with the specific issue of the strategic decisions through studying the relationship between CSR and CFP. They used a panel based on the 658 firms included in KLD database and covered 15 years (1991-2005), and used standard OLS regression analysis. The result suggest that KLD doesn’t impact performance, the positive impact found is due mainly to the fact that firms that adopted high standards of KLD self selected themselves, that positive effect dilutes when Endogeneity is properly taken into account.
Choi, (2008) studied the empirical relation between CSP and CFP in Korea, they used a sample of 1222 firm during the years 2002-2008, and they measure CSP by both equal weighted CSR index and stakeholders weighted CSR. the CFP was measured by (ROA), (ROE) and (Topin’Q). They used cross-sectional regression model using four factors model by analyzing whether investors can obtain abnormal returns by employing socially responsible screens. They founded a positive and significant relationship between CFP and stakeholders weighted (CSR) index but not the Equal weighted (CSR) index.

Soana, (2011), this article studied the relationship between the (CSP) which is measured by an ethical rating and CFP which is measured by market and accounting ratios, to overcome the limitations of previous studies, she took a sample of banks working in Italy, she carried out a quantitative analysis of 21 international banks rated by ethical on 31-12-2005 and 16 Italian bank rated by AXIA on 31-12-2005, and used a correlation methodology and the result was that there is no statistically significant link between (CSP) and CFP.

2.4 NGO and Corporate Partnership

The recent research has shown that the corporate philanthropic relationships with NGOs create greater benefit for both partners and the society at large (Ashman, 2001; Peloza & Falkenberg, 2009; Teegen, 2006; Sagawa and Segal, 2000). In general, Corporate are more attracted to direct-impact partnerships, such as education, environmental sustainability, or job development, rather than to those with indirect impacts, such as social mobilization, advocacy, or good governance (Ashman, 2001; Hutchinson, 2000).

To ultimately respond to the partnership request from the NGO, Corporate face pressure to either respond or not to this demand. Corporate must think through their options and decide how they will embed their available resources into CSR activities and whether it is
mainstreamed into the daily business or not (Berger, Cunningham & Drumwright, 2007). For NGOs, partnerships may involve organisational development, the provision of additional and much needed resources, and not least increased recognition and status whereby the organizations political influence can be strengthened (Jones, 2002). Turning to the business side, several potential benefits of cross-sector partnerships and CSR may lead to business benefits like improved reputation and brand value, license to operate, development of local markets, improved risk management, and greater ability to attract, motivate and retain employees (Rochlin and Christoffer, 2000: 11; Nelson, 2004: 14; Emerson, 2003: 30).

2.5 Types of Partnerships

Partnerships between corporations and NGOs may vary a lot and as in other organizational forms, they are dynamic and may evolve over time (Austin, 2007). There are many different ways in which NGOs and businesses can collaborate, each of which holds different characteristics. Neergaard, Jensen and Pedersen (2009b) it is important to note that a partnership could have elements from one or more of these typologies at the same time, and are only meant to be illustrative of the different forms and contents of NGO-business partnerships.

2.5.1 Philanthropy Partnership

Philanthropy is the most basic and traditional form of collaboration between businesses and NGOs, and is also the most common type of partnership. This type of partnership involves some kind of one-way transfer of resources from a business to the NGO. They are limited in collaborative efforts, and do not involve pooling of resources. Philanthropic partnerships are often simple in initiation and organization with low levels of engagement and only a peripheral connection to business activities (Jamali & Keshishian, 2009).
2.5.2 Partnership with Reciprocal Exchange

Reciprocal exchange involves partnerships where the relationship between a business and an NGO is based on an exchange of resources for a specific activity, such as a cause-related marketing campaign. In these kinds of partnerships, a company agrees to give a set sum of money according to the sales of a certain product with the logo of the partner NGO (Googins & Rochlin, 2000). An example is the partnership between IKEA and UNICEF, where IKEA would donate €1 for each teddy bear sold to UNICEF's work towards children's well-being. While UNICEF gets money, IKEA gets visibility and the PR benefit of connecting to a good cause (UNICEF, 2010).

2.5.3 Independent Value Creation Partnership

Independent value creation implies that both partners have individual goals, but work together in order to generate desired value. This requires a lot more effort from partners than the previous two types of partnerships (Googins & Rochlin, 2000; Neergaard et al., 2009), and is coined by Neergaard et al. as semi-strategic collaborations (2009). An example is a partnership in which a company donates their employees' working hours and technical expertise to an NGO, when the NGO works with relief work in an international catastrophe. In this case, the partnership would benefit the company by motivating their employees and improving their image and the NGO by improving the quality of their relief work (Neergaard et al., 2009b).

2.5.4 Strategic Partnerships

In these kinds of partnerships, partners work together strategically on a common problem which they would both like to see resolved (Neergaard et al., 2009a: 4). Such ventures create a much more dependent relationship between the partners, and value will only be
created through a mutually dependent exchange of ideas, resources and efforts (Googins & Rochlin, 2000). In these partnerships the partners see intractable problems that affect both of their missions, and are not in a position to solve things by themselves. They are thus required to collaborate in order to succeed. These are the strategic partnerships we investigate in this thesis. Strategic partnerships have, according to partnership theory, the most potential for added value, since joining forces allow actors to reach outcomes that neither partner could have achieved on their own (Googins & Rochlin, 2000; Neergaard et al., 2009).

2.6 Opportunities in NGO-Partnership

Heap discusses the opportunities for both the Corporate and for NGOs to engage in partnerships. It is often thought that NGOs would benefit more from such partnerships, but there are positive incentives that could or should concern the private sector as well, especially when focusing on the long-term benefits partnerships may afford (Heap, 2000).

2.6.1 Corporate perspective

Employee Benefit

Corporate partnering with NGO have often benefited from reduced employee turnover rates. According to Heap, Corporate community involvement activities directly influence employee’s feelings about their jobs. Workers are often more loyal to employers (Heap, 2000).

Community benefit

When communities member are able to interact with the corporate policymakers, they often perceive the corporate presence in the community as less antagonistic and more partnership.
If brought into the decision making process of the company, they are less likely to target the company in the future (Heap, 2000).

**Image and credibility**

In the public eye, NGOs are more trustworthy than corporations in terms of benefiting society. A company that partners with an NGO can hope to be seen as trustworthy and be more credible (Heap, 2000).

2.6.2 NGO Perspective

**Financial sustainability and funding diversification for projects**

NGO-Corporate partnership present an opportunity for NGO’S to make their voices heard and to publicize their activities through the marketing of a partnership corporate. Since the corporate invests heavily in publicizing their involvement in social causes, NGO’s in essence get free advertising through what Heap calls social marketing on the part of corporate that simultaneously enhance their brand image (Heap, 2000).

**Influence on corporate behaviour**

Heap notes that there are advocates in the NGO community believe that the interests of corporate are fundamentally incompatible with the interests of the poor. They argue that NGO’s should be focused on pushing for a more regulated private sector rather than working in conjunction with it.

**Information and knowledge transfer**

From the perspective of NGOs, potential gains from partnerships with business go far beyond financial advantages. It can be argued that private sector, although it lacks
sensitivity to the needs of the poor has much to offer the non-profit sector in the areas of financial management and long-term planning. Individuals who work in the private sector have insight into different management styles and business skills; innovative, risk taking perspective, the injection of leadership capacity and the ability to focus on making things happen and getting results. For NGOs that are venturing into selling ethical or green products, these assets are very important. The non-profit sector needs to be more pragmatic about its mission: there is a sense that NGOs have a tendency to focus on the process of implementing development projects, but have not yet learned to expect results, much less account for lack of results. On the other hand, corporate bring to the partnership a sense of accountability and hard-nosed, result oriented attitude that is often lacking in their NGO counterparts.

2.7 Summary of the literature review

From the literature review, it could be said that the majority of relevant research offers evidence in favour of a positive or at least a non negative CSP-CFP relationship, an observation that is made by Margolis and Walsh (2003).

The financial performance measures that have been used, this study would support the claim of Orlitzky (2003) as well as Margolis et al. (2009) that accounting CFP measures usually produce more significant positive results for a CSP-CFP relationship than market measures. This could be because specific accounting measures can be matched with specific stakeholder groups and this tailoring produces better results than does the use of market measures, which only depict the investors assessments of a corporation’s fundamentals. An alternative explanation would be that corporations that are more profitable and generally have a better financial status are more likely to do some window dressing of their accounting data as well as attempt to create a socially responsible image, while the worst
financial performers will usually not do either and in this way there will appear to be a positive relationship between accounting measures and CSP. On the other hand, the markets cannot be especially under strong assumptions concerning their degree of efficiency manipulated by the window dressing of accounting data or by any CSR ingratiating attempts. Combining these two lines of reasoning would explain why the CSP-CFP relationship is less pronounced when market CFP measures are used.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This study aimed at establishing if the financial performance improves after engaging in CSR activities in NGO-Corporate partnership. The research methodology entailed the following sub-headings: the research design, target population, sample and sampling design, data collection methods and data analysis procedures. It was designed to ensure that the data collected meets the research objectives.

3.2 Research Design

The research adopted a descriptive research design in order to determine the effect of CSR on corporate financial performance in NGO and Corporate partnership in Kenya from 2008 to 2012. The descriptive analysis helps the study to describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable.

3.3 Population

The population under study consisted of all the NGO and Corporate partnerships in Kenya.

3.4 Sampling Design

Due to heterogeneity among the organizations in the NGO and Corporate partnership, the study considered some special factors when choosing the partnerships. First the Corporate were in partnership with the NGO within the period of the study. Secondly, 31st December was the end of company’s financial year and it remained unchanged in the study period. Stratified random sampling was then used to select a sample of 6 Corporate engaged in partnership with NGO from a Corporate Perspective.
3.5 Data Collection

The descriptive study was based on secondary data to be obtained from the available financial statements of Corporate involved in partnership with the NGO in Kenya. These statements were accessed through a data collection card (Annex III) from the respective company as at 31st December of every year from 2008 to 2012.

3.6 Data Analysis

In this study, models were estimated and hypotheses tested by regression and correlation analyses. Multiple linear regression method was applied. The goal of the multiple linear regression is to point out the relation between a dependent variable and the great deal of independent variable. With the help of the multiple linear regression it was possible to determine to what extent a part of the total variation of the dependent variable was influenced by the variation of the independent variable.

Finally, regression assumptions was tested and controlled. Inference about the test was based on a significant level which was obtained from the test. Thus, whenever the amount of the significant level is less than 5 percent was not be accepted.

The regression equation \( Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon \)

\( Y = \) Corporate Financial Performance (as measured by ROA)

Where:

\( \beta_0 = \) Constant

\( X_1 = \) Total Cost of CSR activities (Total Cost of CSR/ Operating Expense)

\( X_2 = \) Corporate Size (measured by the log of total assets)

\( X_3 = \) Leverage (D/E)

\( X_4 = \) Cash Conversion Cycle

\( \varepsilon = \) Error Term
4.0 DATA PRESENTATION OF FINDING

4.1 Introduction

This chapter describes the analysis of the data followed by a discussion of the research findings. Data were analysed to establish the impact of CSR on Corporate financial performance in NGO-Corporate. The study provided two types of data analysis; namely descriptive analysis and inferential analysis. For the inferential analysis, the study used the Pearson correlation, the panel data regression analysis and the t-test statistics. While the Pearson correlation measures the degree of association between variables under consideration. The regression estimates the relationship between the impacts of the CSR and the CFP in the Corporate and NGO partnership in Kenya. Furthermore, in examining if the financial performance is significantly different from that of Corporate Social Responsibility, the Chi-Square Test statistics was used. The level of significance was set at 0.05.

4.2 Data Presentation

4.2.1 Descriptive Statistics

This study sought to establish the impacts of the Corporate Social Responsibility on the Corporate financial performance in the Corporate and NGO partnership in Kenya. A five-year period from 2008 to 2012 was chosen for this study and the study concentrated on the Corporate and NGO partnership in Kenya as at 31st December of every year.

Table 4.1: Descriptive Statistics of Overall Corporate Social Responsibility

<table>
<thead>
<tr>
<th>Years</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Average</th>
<th>Variance</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>0</td>
<td>11</td>
<td>5.682417</td>
<td>12.18328</td>
<td>-0.2773</td>
<td>0.594855</td>
<td>3.489298906</td>
</tr>
<tr>
<td>2009</td>
<td>1</td>
<td>16</td>
<td>7.68217</td>
<td>33.69209</td>
<td>-0.62129</td>
<td>0.624905</td>
<td>4.875900365</td>
</tr>
<tr>
<td>2010</td>
<td>0</td>
<td>20</td>
<td>10.48257</td>
<td>51.25871</td>
<td>0.109322</td>
<td>-1.51429</td>
<td>5.896659645</td>
</tr>
<tr>
<td>2011</td>
<td>0</td>
<td>21</td>
<td>11.24857</td>
<td>53.69105</td>
<td>-0.17339</td>
<td>-0.68526</td>
<td>7.325202825</td>
</tr>
<tr>
<td>2012</td>
<td>1</td>
<td>23</td>
<td>11.95629</td>
<td>61.23815</td>
<td>0.167058</td>
<td>-1.17795</td>
<td>7.825477317</td>
</tr>
</tbody>
</table>
Table 4.1 above presents results of the descriptive statistics of the overview of CSR by Corporate and NGO partnership in Kenya during the period under review. The results reveal that on the average the Corporate that engaged in CSRs in partnership with the NGO during the period under review ranges from a low of 5.68 in the year 2008 to a high of 11.95 during the year 2012. This is depicted in the minimum and maximum level of 0 and 22 (76%) respectively.

**Table 4.2: Descriptive Statistics for Relationship between CSR and CFP (Financial Performance)**

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cost of CSR activities</td>
<td>6</td>
<td>.01</td>
<td>.31</td>
<td>.0721</td>
<td>.06894</td>
</tr>
<tr>
<td>Corporate Size (Log of assets)</td>
<td>6</td>
<td>6.00</td>
<td>19.00</td>
<td>13.2381</td>
<td>2.48034</td>
</tr>
<tr>
<td>Leverage</td>
<td>6</td>
<td>.45</td>
<td>.83</td>
<td>.6300</td>
<td>.08968</td>
</tr>
<tr>
<td>Cash Conversion Cycle</td>
<td>6</td>
<td>.41</td>
<td>.79</td>
<td>.6220</td>
<td>.07892</td>
</tr>
<tr>
<td>ROA</td>
<td>6</td>
<td>.48</td>
<td>.89</td>
<td>.6760</td>
<td>.09643</td>
</tr>
</tbody>
</table>

*Source: computed by researcher using data extracted from annual reports of Corporate*

Generally, from the 30 observations as seen in Table 4.2, relationship between CSR and financial performance has a minimum figure of 48%. This implies that company with the least ROA has an index of 48% while the maximum of 89% was also disclosed in one of the 5 years reviewed. The mean ROA is about 67.6% with standard deviation of approximately 9.6%. This means that the ROA can deviate from mean to both sides by 9.6%.

**4.2.2 Inferential Analysis**

For the inferential analysis, the study used the Pearson correlation, the panel data regression analysis and the t-test statistics. Correlation analysis was used to measure the degree of association between different variables under consideration. While the regression analysis was used to establish the impact between the corporate social responsibility variables on financial performance, the t-test statistics was used to ascertain whether there is a significant
difference in the corporate social responsibility and financial performance. The Chi-square statistics was also used to find out if a significant difference occurred in the financial performance of companies with high and those with low Cash Conversion Cycle.

4.2.3: Pearson’s Correlation Coefficient Analysis for CSR and CFP

This section, the study measured the degree of association between corporate social responsibility and financial performance i.e. (Total Cost of CSR activities, Corporate Size (log of assets), Leverage and CCC) will increase Corporate financial performance. Table 4.3 presents the correlation coefficients for all the variables considered in this study.

Table 4.3: Pearson’s Correlation Coefficients Matrix for CFP

<table>
<thead>
<tr>
<th></th>
<th>Total Cost of CSR activities</th>
<th>Corporate Size (Log of assets)</th>
<th>Leverage</th>
<th>CCC</th>
<th>Relationship between CSR and CFP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cost of CSR</td>
<td>Pearson Correlation</td>
<td>1</td>
<td>.619(**)</td>
<td>-.438(**)</td>
<td>.518(**)</td>
</tr>
<tr>
<td>activities</td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Corporate Size</td>
<td>Pearson Correlation</td>
<td>.619(**)</td>
<td>1</td>
<td>.407(**)</td>
<td>-.467(**)</td>
</tr>
<tr>
<td>(Log of assets)</td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.001</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Leverage</td>
<td>Pearson Correlation</td>
<td>-.438(**)</td>
<td>.407(**)</td>
<td>1</td>
<td>-.268</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.001</td>
<td>.076</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Cash Conversion Cycle</td>
<td>Pearson Correlation</td>
<td>.518(**)</td>
<td>-.467(**)</td>
<td>-.268</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.076</td>
<td>.005</td>
</tr>
<tr>
<td>N</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Relationship</td>
<td>Pearson Correlation</td>
<td>.661(**)</td>
<td>-.647(**)</td>
<td>-.423(**)</td>
<td>.343(**)</td>
</tr>
<tr>
<td>between CSR and</td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.005</td>
</tr>
<tr>
<td>CFP</td>
<td>N</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.05 level (2-tailed)

Source: computed by researcher using data extracted from annual reports of Corporate

From the correlation result for the study model in Table 4.3 above, total cost of CSR activities has a strong positive correlation of .619 with Corporate Size (log of assets) which
is significant at 5%. This also implies that an increase in the Corporate size (log of assets) will lead to an increase in CSR Activities (positive effect). Leverage is another financial variable that recorded a negative correlation coefficient (r) of -.438 for the model with a p-value of .000 which is significant at 5%. This invariably means that the more the number of Leverage, the lower the firm’s financial performance in terms of CSR Activities.

However, the Corporate Social Responsibility is positively correlated at 0.518 for the model. This is also seen to be significant at 5%. This further indicate that firms that discloses more on Corporate Social Responsibility issues are likely to perform better financially than those that disclose less.

4.2.4 Regression Analysis

In this section, the study used the panel data regression analysis to establish the impact of CSR on CFP in the partnership by Return on Assets. The regression model was used.

Table 4.4: Regression Result for Panel Data for Corporate Social Responsibility and Corporate Financial Performance

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Firms financial performance (ROA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cost of CSR activities</td>
<td>-0.0032</td>
</tr>
<tr>
<td></td>
<td>[-1.655]*</td>
</tr>
<tr>
<td></td>
<td>{0.023}</td>
</tr>
<tr>
<td>Corporate Size (Log of assets)</td>
<td>-0.054</td>
</tr>
<tr>
<td></td>
<td>[-1.549]*</td>
</tr>
<tr>
<td></td>
<td>{0.036}</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.127</td>
</tr>
<tr>
<td></td>
<td>[2.473] *</td>
</tr>
<tr>
<td></td>
<td>{0.006}</td>
</tr>
<tr>
<td>Cash Conversion Cycle</td>
<td>0.225</td>
</tr>
<tr>
<td></td>
<td>[3.97]</td>
</tr>
<tr>
<td></td>
<td>{0.000}*</td>
</tr>
<tr>
<td>R Squared</td>
<td>0.648</td>
</tr>
<tr>
<td>Adjusted R Squared</td>
<td>0.629</td>
</tr>
<tr>
<td>F- Statistics</td>
<td>28.009*</td>
</tr>
<tr>
<td>Number of Observations</td>
<td>6</td>
</tr>
</tbody>
</table>

Note: t-statistics are shown in the form [ ], while p-values are in the form { }. *Significant at 5% level

Source: Computed from Annual Reports of firms
The equation used Corporate financial performance (Return of Assets) as its dependent variable while Total Cost of CSR Activities, Corporate Size (Log of assets), Leverage, Cash Conversion Cycle as the independent variables. For the model, the F-values which are significant at 5% level indicate that the model do not suffer from specification bias. However, from the model, the coefficient of determination ($R^2$) indicates that about 64.8% of change in Corporate financial performance is accounted for by the explanatory variables while the adjusted R-squared of 62.9% further justifies this effect. Additionally, it was observed that the more Corporate Social Responsibility activities a Corporate disclosed the higher the Corporate financial performance.

**Table 4.5: Chi-Square Test: Two-Sample assuming equal variances**

<table>
<thead>
<tr>
<th></th>
<th>(More disclosed Corporate)</th>
<th>(Less disclosed Corporate)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mean</strong></td>
<td>0.062771346</td>
<td>0.023937</td>
</tr>
<tr>
<td><strong>Variance</strong></td>
<td>0.0025565</td>
<td>1.3787085E-05</td>
</tr>
<tr>
<td><strong>Observations</strong></td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td><strong>Hypothesized Mean Difference</strong></td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Df</strong></td>
<td>13</td>
<td></td>
</tr>
<tr>
<td><strong>t Stat</strong></td>
<td>2.955840189</td>
<td></td>
</tr>
<tr>
<td><strong>P(T&lt;=t) one-tail</strong></td>
<td>0.00544519</td>
<td></td>
</tr>
<tr>
<td><strong>t Critical one-tail</strong></td>
<td>1.773903383</td>
<td></td>
</tr>
<tr>
<td><strong>P(T&lt;=t) two-tail</strong></td>
<td>0.0118388</td>
<td></td>
</tr>
<tr>
<td><strong>t Critical two-tail</strong></td>
<td>2.162456863</td>
<td></td>
</tr>
<tr>
<td><strong>Mean</strong></td>
<td>0.062177346</td>
<td>0.023937</td>
</tr>
</tbody>
</table>

*Source: Computed by the researcher from annual reports of firms*

The result of the t-test indicated that the more Disclosed Corporate recorded a mean of 0.0622 while the less disclosed Corporate recorded a mean of 0.0239. Conversely, the variance for the more disclosed Corporate and the less disclosed Corporate are 0.0026 and 1.379 respectively. Furthermore, at two-tailed, the t-calculated of 2.9558 is seen to be greater than the t-tabulated of 2.1625. Therefore the study can conclude that there is significant difference between the more disclosed Corporate and less disclosed Corporate.
4.3 Summary and Interpretation of the Findings
The study attempted to examine the impact of CSR on CFP in NGO-Corporate Partnership, a model was developed to guide the study. The dependent Variable being CFP (ROA) and independent variables being Total cost of CSR activities and Corporate Size (log of assets). Additionally, the controlling variables were Leverage and CCC were considered and reported in Appendix I. Under all these categories, a total of 6 Corporate have been considered. With the help of the variables, the CSR of the Corporate were examined. A dichotomous procedure was followed to score each of the items. Each company was awarded a score of ‘1’ if it appears to have disclosed CSR and ‘0’otherwise. The descriptive analysis helped the study to describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable. For the inferential analysis, the study used the Pearson correlation, the panel data regression analysis and the t-test statistics.

The study results of the descriptive statistics of the overview of CSR revealed that on the average the Corporate that engaged in CSR in partnership with NGO during the period under review (2008 to 2012) ranges from a low of 5.68 in the year 2008 to a high of 11.95 during the year 2012. This is depicted in the minimum and maximum level of 0 and 22 (76%) respectively. Generally, from the 30 observations, relationship between CSR and financial performance has a minimum figure of 48%. This implies that company with the least ROA has an index of 48% while the maximum of 89% was also disclosed in one of the 5 years reviewed. The mean ROA is about 67.6% with standard deviation of approximately 9.6%. This means that the ROA can deviate from mean to both sides by 9.6%.

From the correlation result for the study model in Table 4.3, total cost of CSR activities has a strong positive correlation of .619 with Corporate Size (log of assets) which is significant.
at 5%. This implies that how large the size of a Corporate leads to a positive effect on the Total cost of CSR activities. This also implies that an increase in the Corporate size will lead to an increase in CSR Activities. Leverage is another financial variable that recorded a negative correlation coefficient (r) of -0.438 for the model with a p-value of .000 which is significant at 5%. This invariably means that the more the number of Leverage, the lower the Corporate financial performance in terms of Corporate Social Responsibility Activities. However, the Corporate Social Responsibility is positively correlated at 0.518 for the model. This is also seen to be significant at 5%. This further indicate that firms that discloses more on Corporate Social Responsibility issues are likely to perform better financially than those that disclose less.

From the regression analysis, the F-values which are significant at 5% level indicate that the model do not suffer from specification bias. However, from the model, the coefficient of determination (R²) indicates that about 64.8% of change in Corporate financial performance is accounted for by the explanatory variables while the adjusted R-squared of 62.9% further justifies this effect. Additionally, it was observed that the more corporate social responsibility activities a Corporate disclosed the higher the financial performance.

From the t-test result, the more disclosed companies recorded a mean of 0.0622 while the less disclosed Corporate recorded a mean of 0.0239. However, the variance for the more disclosed Corporate and the less disclosed Corporate are 0.0026 and 1.379 respectively. Furthermore, at two-tailed, the t-calculated of 2.9585 is seen to be greater than the t-tabulated of 2.1625. Therefore the study can conclude that there is a positive relation between CSR and CFP. Additionally it can be said that the Corporate that disclosed more of their CSR activities experienced an increased CFP than less disclosed Corporate.
The study findings were in line with studies by Cheruiyot, 2010, Obusubiri, 2006 and Moses L. Pava, Joshua Krausz, 1996 between relationship of CSR and Financial Performance.

Cheruiyot, (2010) aimed to explain the relationship between CSR and FP of firms listed at the Nairobi stock exchange. 5 year study with CSR index based on different level of implementation and dimensions was carried out in order to address multidimensional CSR indicators. The study was a cross sectional study of all the 47 listed companies in the NSE’s main segment as at 31st December 2009. Using regression analysis he sought to establish the relationship between CSR index and financial performance measured in terms of return on assets, return on equity and return on sales. He found that there was a statistically significant relationship between CSR and financial performance.

Obusubiri, (2006), aimed at explain the relationship between CSR and portfolio performance in Kenya. He also found a positive relationship between CSR and portfolio performance. He attributed this relationship to the good corporate image that comes with CSR making investors prefer such companies implying that good CSR behaviour has a reputational benefit for the practicing firm.

Pava and Krausz, (1996) aimed to explain the relationship between CSR and traditional financial performance, through examining long-term financial performance. They used the literature review in the first section to show that the paradox of social cost could be explained by five explanations and used The CEP ratings, based on an assessment of 12 specific CSR components as a measurement of (CSR), and then put the criteria for measurement of the financial performance depend on market base, accounting base, measure of Risk, other firm specific characteristic They found a little evidence to suggest a positive association between CSR and traditional financial performance.
CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This study focused on the potentially endogenous relationship among CSR and CFP for Corporate engaged in partnership with NGO for a period of 5 years (i.e., 2008-2012). The inter-relations were analysed using SPSS. First, the impact of CSR on CFP was examined. Second, the direction of the relationship was investigated. Third, the model accounts for corporate size, which was allowed to endogenously affect both CSR and CFP. Finally, the impact of leverage on CFP, CSR and Corporate Size (Log of assets) was taken into account. The proposed model, suggested an easy and flexible way to investigate the above variables. It provided the framework for investigation of the sign, the direction and the inter-relation of key variables related to CSR.

From a Corporate perspective, 6 Corporate were considered. Secondary Data was collected from the corporate annual reports for the period. The study employed descriptive design which helped to describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable. Multiple regression model was used to find out whether there is a relationship between the variables to be measured and to find out if the relationship is significant or not.

Pearson Correlation and regression analysis were used to find whether there is a relationship between the Variables. However, the t-test statistics was used to establish if there is any significant difference between CSR and CFP. The results of the finding were there exist a significant positive relationship between CSR and CFP. Therefore the study can conclude that there is a positive relation between CSR and CFP.
5.2 Conclusion
With regard to the impact of CSR on CFP for the period starting 2008 to 2012, there was a significant positive impact on the Return of Asset conforming to Marc Orlitzky, (2001) as well as the results of this study. Namely, the Corporate Size (Log of Assets) has an influence on the Total Cost of CSR activities. When a Corporate contributes to or feed back into the community with higher CSR, it will promote financial performance.

Corporate Social responsibility refers to information about companies interactions with society. It is an important instrument in the dialogue between business and society. This study set out to describe CSR information published in the annual reports of companies. The study intended as well to examine the relationship between the characteristics of these firms, their level of ROA and CSR activities (Marc Orlitzky, 2001).

In Kenya, as per literature review, it was found that social category received more emphasis. Results suggest that shareholder theory is an explanation of CSR by Kenyan firms. With respect to the variable Corporate Size is found to have a positive significance as expected. But in Kenya, unlike in developed, Western countries, Corporate Size shows a noteworthy importance. This difference may arise, in one hand, from cultural characteristics because companies, with its obligation to carry out charitable works, implies that the wealthier the firm, the greater its social responsibility; and in the other hand, new firms have set out to attract investors and use Corporate Size as a tool to lure them. This result coincides with previous conclusions (Abu-Baker, 2000).

5.3 Policy Recommendations
Various recommendations can be made from this study. Firstly, Kenyan companies are more willing to disclose their CSR information if the government imposes stronger rules and
regulations. Over 95% of firms which were requested to report CSR information complied with the regulations. In contrast, only one-third of firms not requested to report CSR information decided to do so in the sample years. This implies that the government should use regulations to push firms to disclose their CSR information.

Secondly, smaller firms and firms with a more diversified ownership structure are more reluctant to disclose CRS information than larger firms or firms with a higher concentration of ownership or institutional ownership. This means that more efforts should be made to encourage smaller firms to be more socially responsible.

5.4 Limitations of the Study

The researcher encountered various limitations that may have affected the findings of this study. For instance, the study relied on secondary data sources. Secondary data can, however, be unreliable as they were intended for other purposes. This could include convincing external stakeholders that perform well.

Determining how social and financial performances are connected is complicated by the lack of consensus of measurement methodology as it relates to CSR. Subjective indicators are used. Significantly, it is unclear exactly what these indicators measure. Thus information about CSR is open to questions about impression management and bias. Sometimes an organisation can over report or others under report.

The sample for this study might have been small. Small samples have the drop-back of not being representative of the population reality. However, the researcher carried the study on only six Corporate and NGO partnerships.
Further, the corporate financial performance of these firms is influenced by other factors other than contributions to the social activities’. Thus, establishing the relationship between the two variables could be erroneous. The study tested the significance of the relationship established to mitigate this.

5.5 Suggestions for Further Studies

Further research can be carried out to examine the relationship between corporate social responsibility and economic performance. Economic performance included: financial (return on capital employed, return on equity and gross profit to sales ratios); and capital market performance (systematic risk and excess market valuation). This could portray the past, concurrent and subsequent economic performance related both to CSR performance and disclosure.

Further Studies could be carried out on the same topic which may include studies on the factors affecting the corporate financial performance and NGO partnership organisations but from an NGO perspective.

Further studies could be carried out to determine the econometric studies of the relationship between CSR and financial performance. The study could estimate the effect of CSR by regressing firm performance on CSR and several variables.

Further studies could be done on impact of Corporate Social Responsibility on firm’s profitability. This study could determine the relationship between the total amount invested by the firm and the annual profit used on corporate social responsibility.
REFERENCES


Dodd M.E. (1932), For whom are Corporate Managers Trustees? Harvard Law Rev. 45:1145-63


## Appendix I: Company Level of Financial Performance 2004-2011

<table>
<thead>
<tr>
<th>Company Code</th>
<th>Year</th>
<th>TCSR</th>
<th>Total Cost of CSR activities</th>
<th>Corporate Size (Log of Assets)</th>
<th>Leverage (D/E)</th>
<th>Cash Conversion Cycle</th>
<th>ROA</th>
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APPENDIX II: List of NGO-Corporate Partnership Sampled

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<th>Corporate Name</th>
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<td>Lafarge (Bamburi Cement LTD)</td>
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<td>Health</td>
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<td>WWF</td>
<td>CO₂ Emissions –Air Quality</td>
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<tr>
<td>Equity Bank LTD</td>
<td>USAID and UKAid</td>
<td>Education</td>
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<tr>
<td>Citi and Barclays Bank</td>
<td>PATH Finder International</td>
<td>Orphans/Needy Children</td>
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<tr>
<td>Barclays Bank</td>
<td>CARE Kenya</td>
<td>Banking on Change (BOC)</td>
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<td>Coca Cola</td>
<td>Ever Prasinus NGO</td>
<td>Plastic recycling project in Kenya</td>
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<tr>
<td>EABL</td>
<td>And Beyond Foundation</td>
<td>Water Project</td>
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APPENDIX III: Data Collection Card

Research Project on the Impact of CSR on CFP in NGO-Corporate Partnerships

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