

**THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY
PRACTICES AND FINANCIAL PERFORMANCE OF FIRMS IN THE
COMMERCIAL AND SERVICES SECTOR AT THE NAIROBI SECURITIES
EXCHANGE**

By

ONDIEKI DOUGLAS ONDARI

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DECLARATION

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

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

ONDIEKI DOUGLAS ONDARI

D61/67889/2011

This management research project has been submitted for examination with my approval as university supervisor

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

DR. ADUDA JOSIAH

SENIOR LECTURER,

DEPARTMENT OF FINANCE AND ACCOUNTING,

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

DEDICATION

I dedicate this research project to family for the support and patience during the entire period of my study. Thank you and God bless you abundantly.

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First and foremost, I thank the Almighty God for His guidance and care which enabled me to work on this project. I trust Him for a sober state of mind to the very end. I would like to express my sincere thanks to my supervisor Dr. Aduda Josiah for his guidance to make this study a reality.

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ABSTRACT

Corporate Social Responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large. There is increasing demand for transparency and growing expectations that corporations measure, report, and continuously improve their social, environmental, and economic performance.

The study sought to establish the relationship between corporate social responsibility and firm's financial performance in the commercial and services sector of the Nairobi Securities Exchange. This study used a correlation descriptive survey research design. The population of the study comprised of companies in the commercial sector of the Nairobi Security Exchange. There were nine companies listed in the commercial and services sector of the Nairobi Securities Exchange as at 31st December 2012. Primary and Secondary sources were used to collect data. Descriptive and regression analysis were used to test the relationship between CSR practice and financial performance.

The study found that CSR score, efficiency and capital intensity had a positive relationship with financial performance of commercial and services sector at the Nairobi Securities Exchange in Kenya. The study found an increase in CSR score would lead to increase in financial performance of commercial and services sector at the Nairobi Securities Exchange, the study also revealed that a unit increase in efficiency would lead to increase in financial performance of commercial and services sector at the Nairobi Securities Exchange and also that a unit increase in capital intensity would lead to increase in financial performance of commercial and services sector at the Nairobi Securities Exchange.

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ABBREVIATIONS

CSR	-	Corporate social responsibility
CEP	-	Council Economic Priorities
EPS	-	Earning Per Share
FP	-	Financial Performance
IPO	-	Initial public offer
NSE	-	Nairobi Securities Exchange
ROA	-	Return on Asset
ROE	-	Return on Equity
SID	-	Social Involvement Disclosure
SPSS	-	Statistical Package of Social Sciences

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Modern theory of CSR was born in the United States in 1920s and has developed nearly a century. Its content changes along with the changes of social environment. The CSR concept which is well-known today has a lot of differences from it was at the beginning Hay & Gray (1976) talks that the changes of corporate social responsibility attitudes can be divided into the following three stages according to time, the first stage until the 1930s, when managers pursued "maximize interests of shareholders", the only target of enterprise managers was to maximize shareholders' profits. The Operation philosophy "maximize interests of shareholders" was very popular in the era of rapid economic development.

The second stage, from the 1930s to the early 1960s, the change of this time came from the rise of union power, the pressures from the unions forced enterprises to start thinking their social responsibilities but not only earning interest. During that time, the company managers started to take the responsibilities for their customers, employees, suppliers, and creditors. The third stage started in the 1960s, corporation managers are more in favor of participate in solving social problems, and put their own resources to contribute to the society. Corporate Social Responsibility (CSR) is a 'hot' area in the developed world (i.e. Europe, America, Canada and recently Asia and South America). The next place topic a lot of interest in this will be Africa. Many entities engage in CSR and spend

huge amounts of money in their commitments to the community, workplace and the marketplace.

In recent years, there has been a growing interest, both in the academic as well as the business world, around the issue of Financial Performance (FP) - a multidimensional measure (Carroll, 1991) of corporate social responsibility (CSR) that captures firm actions aimed at engaging a broader set of stakeholders and ranging across a wide variety of inputs, internal routines or processes, and outputs (Waddock and Graves, 1997). In the literature to date, perhaps the most studied aspect of CSR has been its (potential) link to Financial Performance (FP). Much work has focused on understanding this link and a number of theoretical insights and empirical findings have been revealed in the process. However, the causal directionality of this link has by no means been established. Bowen (1953) defines social responsibility of businessmen as to the obligation of businessmen to pursue those policies; to make decision or to follow those lines of action which are desirable to society.

According to stakeholder theory, firms possess both explicit and implicit contracts with various constituents, and are responsible for honoring all contracts (Freeman, 1984). As a result of honoring these contracts, a company develops a reputation that helps determine the terms of trade it can negotiate with various stakeholders. While explicit contracts legally define the relationship between a firm and its stakeholders, implicit contracts have no legal standing and are referred to in the economic literature as self-enforcing relational contracts. Since implicit contracts can be breached at any time, Telser (1980) argues that

they become self-enforcing when the present value of a firm's gains from maintaining its reputation (and, therefore, future terms of trade) is greater than the loss if the firm reneges on its implied contracts.

1.1.1 Corporate Social Responsibility

Corporate Social Responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large. The field of corporate social responsibility has grown exponentially in the last decade. A larger number of companies than at any time previous are engaged in a serious effort to define and integrate CSR into all aspects of their businesses. An increasing number of shareholders, analysts, regulators, activists, labor unions, employees, community organizations, and news media are asking companies to be accountable for an ever-changing set of CSR issues. There is increasing demand for transparency and growing expectations that corporations measure, report, and continuously improve their social, environmental, and economic performance. The basic idea of CSR is that business and society are interwoven rather than distinct entities. Society thus has certain expectations for appropriate business behavior. However, there exists great uncertainty as to how CSR should be defined (Dahlsrud, 2006).

Corporate Social Responsibility (CSR) concept emphasizes community participation by business enterprises. It proposes that a private firm has responsibilities to society that extend beyond making a profit. It is the obligation of the firm's decision makers to make

decisions and act in ways that recognize the relationship between the business and society. It is therefore important for a business to continue in its commitment to behave ethically and contribute to economic development while improving the quality of life of the work force and the surrounding community at large. This can be achieved through the various CSR activities that the business chooses to engage in for the benefit of its stakeholders (such as employees, suppliers, shareholders, government, community/society and customers).

However, stakeholder theory has acquired opponents from various areas including classical economics, industrial relations and management. Sternberg (1997) for example, argues that the principles of stakeholder theory undermine the property rights of the owners of the company, compromise the mechanism of the free market, destabilize the operations of governments and thus subvert the very nature of capitalism. To some, CSR refers to the responsibilities of companies apart from their core profit activities and those required by the law (Chapple and Moon, 2005). In essence, CSR addresses the role and responsibilities of companies in contemporary society. But the concept has been shrouded in controversy. Skeptics deem CSR as antithetical to business practice, diverting attention and resources away from profit making. In contrast, proponents claim that CSR is essential for business success. Still, academics and business practitioners alike are acknowledging CSR as “not a passing, activist driven fad but a legitimate and permanent feature of the business landscape.

There is little doubt that CSR is now a prominent feature of the international business agenda more and more companies are adopting CSR principles and practices into their business operations. For some, the motivation for incorporating CSR into their business is encapsulated by the mantra of 'doing good by doing well', whereas for others, CSR is merely a way to avoid rules and regulations regarding the behavior of business in society. Lastly, CSR is seen as a way to build competitive advantage (Jonker and de Witte, 2006). Whatever the motivation, research shows that companies have adopted multiple processes to address social and environmental issues. However, the field of CSR is still evolving and fraught with challenges.

According to the social contracts theory, businesses must not just act in a responsible manner because it is in their commercial interest, but because it is how society expects the business to behave. Society is a series of social contracts between members of society and society itself (Gray et al, 1996). Managers are therefore expected to take decisions in an ethical manner. Donaldson and Dunfee (1999) developed an integrated social contracts theory as a way for managers to use their discretion to make decisions but to ensure their decisions do not have negative effects on others. Businesses are expected therefore, to provide some support to the community under given circumstances. Since the contract is not written, businesses only get to feel its consequences when they fail to do what is expected.

1.1.2 Financial Performance

Blair (1995) puts forward five major areas in which financial performance can be examined. These include Liquidity, Solvency, Profitability, Financial efficiency and Repayment capacity. Financial performance is a subjective how well a firm can use assets from its primary mode of business and generate revenues. The term is used as a general measure of the firms overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many ways to measure financial performance but all measures should be taken in aggregation. Line items such as revenues from operations, operation income or cash flows from operations can be used as well as total unit sales furthermore the analyst or investor may wish to look deeper into financial statements and seek out margin growth rate or any declining debt.

1.1.3 Corporate Social Responsibility and Financial Performance

The current globalized world has witnessed rising social inequalities, soaring disparities in income, the emergence of global environmental problems, and the outsourcing of increasingly skilled operations to developing countries. These problems have led to demands for protection against the anarchy of unregulated market forces (Levy and Kaplan, 2007). Such demands pose numerous challenges for Companies. Companies are under intense pressure to take responsibility for their impact on the societies in which they operate, and the environments in which they exist. Accordingly, companies are also expected to take an active role in the development of society. These calls for responsible

business practices and corporate contributions are normally framed in terms of CSR (Visser, 2006).

Researchers have reached no real consensus on the relationship between these variables.

In fact, seven earlier empirical studies and concluded that "economic performance is not directly linked, in either a positive or negative fashion, to social responsiveness" (Arlow & Gannon, 1982). Whether or not a relationship exists clearly is an important issue for corporate management. If certain actions (classified as socially responsible) tend to be negatively correlated with financial performance of firms, then managers might be advised to be cautious in this area. If, on the other hand, a positive relationship can be shown to exist, then management might be encouraged to pursue such activities with increased vigor or to investigate the underlying causes of this relationship.

1.1.4 Nairobi Securities Exchange

A stock exchange may be defined as an organized market where stock and shares are issued, bought and sold through services of stock brokers or dealers. It is therefore a part of the Capital Market. The stock market consists of those institutions dealing in long-term funds, and these include the stock exchange that deals with new issues and second hand shares. The second hand market is always larger than the new issue market. The shares are much more liquid hence more attractive to invest in.

The Nairobi Stock Exchange was constituted in 1954 as a voluntary association of stock brokers in the European communities, registered under Societies Act. In July 2011, The

Nairobi stock Exchange Limited changed its name to The Nairobi Securities Exchange Limited the change of name reflected the strategic plan of the NSE to evolve into a full service securities exchange which supports trading, clearing and settlement of equities, debt, derivatives and other associated instruments. The Nairobi Securities Exchange comprises of 60 listed companies with a daily trading volume of approximately 13 billion Kenya Shillings and a total market capitalization of approximately 1.213 billion. Aside from equities, government and corporate bonds are also traded in the NSE.

1.2 Statement of the Problem

Several studies have been carried out on the relationship between CSR and FP resulting in different conclusion Cheruiyot (2010) carried out a research to establish the relationship between corporate social responsibility and financial performance of firms listed at the Nairobi stock exchange. This was a cross sectional study of all the 47 listed companies in the NSE's main segment as at 31 December 2009. Using regression analysis he sought to establish the relationship between the CSR index and financial performance measured in terms of the Return on assets, return on equity and return on sales. His conclusion was that there was a statistically significant relationship between CSR and financial performance. Justification

Jerotich (2013) carried out a research to establish the relationship between corporate social responsibility and financial performance of Firms in the Manufacturing, Construction and Allied Sector of the Nairobi Securities. One major finding of the study was that there is a strong relationship between the independent variables (CSR practice,

efficiency and capital intensity) used in the model and the dependent variable (ROA). Obusubiri (2009) in a study on CSR and portfolio performance 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 behavior has a reputational benefit for the practicing firm.

The firms listed at the NSE are classified into different sectors based on the nature of their activities and operations including agricultural, commercial and services, Banking, Insurance, Investment and the manufacturing, Construction and allied sector among others. Whereas many studies have been done on CSR in general, none has been done in the commercial and services sector. This study therefore sought to answer the following questions: What are the CSR activities undertaken by firms in the commercial and services sector of the NSE? What is the effect of corporate social responsibility practice on performance of firms operating in the commercial and services sector? And how is the relationship between CSR and FP affected by efficiency and capital intensity of the firm.

1.3 Objectives of the Study

The general objective of this study was to establish the relationship between corporate social responsibility and firm's financial performance in the commercial and services sector of the Nairobi Securities Exchange.

1.4 Significance of the Study

Given the infancy of Corporate Social Responsibility, the study will avail the following benefits to the various stakeholders:

Shareholders

The investors will know how senior management takes into consideration the interests of consumers, regulators, employees and other important groups that are affected by the company's activities.

Company's management

The study will help management learn how to forge stronger relationships with key suppliers, customers and the community.

General public

The general public will be informed of the various approaches in which an entity can undertake social and environmental activities aimed at improving on the quality of life in the community, workplace, market place and generally giving back to society. This will lead to increased human benefit and satisfaction through quality services and goods.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The purpose of this literature review is to examine the issues, viewpoints and research associated with the effect of Corporate Social Responsibility on Business Operations and Performance. Chapter one describes the context for this study and the research gaps the study wishes to address. This literature delves substantially into the state of research related to the variables of this study and provides sufficient context of the significance of this research.

2.2 Review of Theories

2.2.1 Shareholders' Theory

The shareholders' theory stipulates that management has a fiduciary duty to the owners or stockholders of a corporation and thus this duty takes priority over other responsibilities and obligates it to focus on profit maximization alone. The belief of researchers in this group stems from the traditional neoclassical paradigm of the firm (Moir, 2001), a theory which reflects Adam Smith's notion of economic man, whose goal is to maximize the wealth of the firm, based on his contractual duties to the owners (Brenner and Cochran, 1991). This model of the firm was further popularized by Friedman (1970), who argued that in a free economy, there is only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to engage in open and free competition, without deception or fraud. Milton Friedman contends that

diverting corporations from the pursuit of profit makes the economic system less efficient. Business's only social responsibility is to make money within the rules of the game.

Private enterprises, therefore, should not be forced to undertake public responsibilities that properly belong to government (Friedman, 1970). The rules of the game that Friedman refers to are the elementary morality rules against deception, force, and fraud which are intended to promote open and free competition. Friedman believes that by allowing the market to operate with only the minimal restrictions necessary to prevent fraud and force, society maximizes its overall economic wellbeing. Pursuit of profits is what makes the free economy vibrant. Anything that dampens this kind of incentive or inhibits its operations weakens the ability of Adam Smith's invisible hand to deliver the economic goods (Shaw, 2008). The CSR theory that upholds this view has also been regarded as the 'stockholders model' (Bruno and Nichols, 1990). This model identified that, based on the contractual agreement signed with the owners, management's responsibility is a legal one, and it equates with ethical and social responsibility. However, this only-profit-oriented-business approach has been heavily criticized by many researchers and has given way to the Stakeholder view. Shareholder's critics claim that businesses have other obligations besides making a profit.

2.2.2 Stakeholders Theory

Johnson (1971) in his definition of CSR, conceives a socially responsible firm as being one that balances a multiplicity of interests, such that while striving for larger profits for

its stockholders, it also takes into account, employees, suppliers, dealers, local communities and the nation. This definition draws from stakeholder theory as developed by Freeman (1984). According to Freeman (1984), the firm can be described as a series of connections of stakeholders that the managers of the firm attempt to manage. Stakeholder, according to Bruno & Nichols (1990) is a term which denotes any identifiable group or individual who can affect or be affected by organizational performance in terms of its products, policies, and work processes. Davis (1975) argues that modern business is intimately integrated with the rest of society. It is not some self-enclosed world, like a small study group. Rather, business activities have profound ramifications throughout society, and their influence on peoples' lives is hard to escape. Therefore, corporations have responsibilities that go beyond making money because of their great social and economic power.

Stakeholders are typically analyzed into primary and secondary stakeholders. Clarkson (1995) defines a primary stakeholder group as "one without whose continuing participation the corporation cannot survive as a going concern" - with the primary group including "shareholders and investors, employees, customers and suppliers, together with what is defined as the public stakeholder group; the governments and communities that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and obligations may be due". The secondary groups are defined as "those who influence or affect, or are influenced or affected by the corporation, but they are not engaged in transactions with the corporation and are not essential for its survival".

Mitchell et al. (1997) developed a model of stakeholder identification and salience based on stakeholders possessing one or more of the attributes of power, legitimacy and urgency. Thus, it is anticipated that firms would pay most attention to those legitimate stakeholder groups who have power and urgency. In practice this might mean that firms with problems over employee retention would attend to employee issues and those in consumer markets would have regard to matters that affect reputation. Stakeholder groups may also become more or less urgent; so environmental groups and issues became more urgent to oil firms following the Exxon Valdez oil spill (Patten, 1992). The stakeholder theory surfaced the question central to this research, which is whether organization can be socially responsible and have good performance (profitable) while still satisfying investors and shareholders by providing acceptable levels of return on those investments

2.2.3 Social Contracts Theory

Gray et al. (1996) describe society as "a series of social contracts between members' of society and society itself". In the context of CSR, an alternative possibility is not that business might act in a responsible manner because it is in its commercial interest, but because it is part of how society implicitly expects business to operate. Donaldson and Dunfee (1999) developed integrated social contracts theory as a way for managers to take decisions in an ethical context. They differentiate between macro social contracts and micro social contracts. Thus a macro social contract in the context of communities, for example, would be an expectation that business provides some support to its local community and the specific form of involvement would be the micro social contract.

Hence companies who adopt a view of social contracts would describe their involvement as part of "societal expectation" - however, whilst this could explain the initial motivation, it might not explain the totality of their involvement.

2.3 Empirical Studies

Empirical studies of the relationship between CSR and financial performance comprises essentially two types. The first uses the event study methodology to assess the short-run financial impact (abnormal returns) when firms engage in either socially responsible or irresponsible acts. The results of these studies have been mixed. Wright and Ferris (1997) discovered a negative relationship; Posnikoff (1997) reported a positive relationship, while Welch and Wazzan (1999) found no relationship between CSR and financial performances. Other studies, discussed in McWilliams and Siegel (1997), are similarly inconsistent concerning the relationship between CSR and short run financial returns.

Studies using stock-market-based measures of return have reported mixed results regarding the relationship between social responsibility and performance. Moskowitz (1972) ranked 67 selected firms in terms of his evaluation of their level of social responsibility and reported higher than average stock returns for highly ranked firms. Vance (1975), however, found a subset of the firms rated by Moskowitz had lower stock-market performance than a comparison sample of firms listed in the New York Stock Exchange Composite Index, Dow Jones Industrials, and Standard and Poor's Industrials, however, both failed to adjust for risk. Other studies that have attempted to adjust stock-

return performance measures for risk have found little relationship between social responsibility and market performance.

Alexander and Bucholtz (1978), using the firms listed in Moskowitz's study, found little association between social responsibility and risk-adjusted return on securities. The second type of study examines the relationship between some measure of corporate social responsibility (CSR) and measures of long term financial performance, by using accounting or financial measures of profitability. The studies that explore the relationship between social responsibility and accounting-based performance measures have also produced mixed results. Cochran and Wood (1984) located a positive correlation between social responsibility and accounting performance after controlling for the age of assets.

Aupperle, Carroll, and Hatfield (1985) detected no significant relation between CSP and a firm's risk adjusted return on assets. In contrast, Waddock and Graves (1997) found significant positive relationships between an index of CSR and performance measures, such as ROA in the following year.

McGuire (1988) used two types of indicators to study the relationship between CSR and. In his research, he chose the market total return, risk-adjusted market return and other market revenue indicators while chose return on total assets, total assets, sales growth, asset growth, operating profit growth and other accounting indicators to measure financial performance. The results pointed out that corporate social responsibility are highly related to the accounting indicators in the same period, but don't have significant

relation with the market revenue indicators in the same period. The study also found that accounting indicators have a stronger ability to explain corporate social responsibility. Because the market returns are more influenced by the impact of the overall market trends, so have too many fluctuations, while corporate social responsibility has significant individual characteristics, so the accounting indicators can better reflect the specific characteristics of each company. In addition, accounting indicators are much stable. So, McGuire summed up that accounting indicators are better than the market revenue indicators in reflecting the relationship between corporate financial performance and corporate social responsibility.

Wood (1991) described the ideal objectives of CSR in a firm as: institutional (uphold the legitimacy in society of the business), organizational (improve the fit of the organizations with the environment), and moral/ethical (create a culture of ethical choice). Wood's model, when merged with Carroll's four areas of corporate responsibility, help to identify specific business outcomes associated with each objective, providing clearer guidance to leaders regarding CSR objectives and benefits. Typical examples of CSR practices include charitable contributions, community education, healthcare and environmental programs. Some of these are activities mandated by law, but most are simply expectations society has of business.

Managed social responsibility has a number of benefits and these are both economic and non-economic. Intangible benefits (non-economic) primarily relate to consumer expectations and firm reputation and are numerous for example; creation of reputational

capital, attractiveness as a potential employer, and more favorable impressions of the firm products. These benefits can be logically explained by comparing CSR expenditures to Research & Development and advertising expenditures, all serving to build brand equity and reputation, integrate companies into the fabric of their local communities as well as allow the firm to charge a premium price and ultimately lower the firm's cost of capital (Gardeberg & Fombrun, 2006). In detail, managed CSR brings about the following benefits.

Maignan and Ralston (2002) found that companies adopt range of processes that were narrower in scope than those described by Wood (1991). Also, they were linked to more specific issues and activities. These included philanthropic programmes, air quality management, and health and safety programmes. In some cases, these processes contribute to the common good irrespective of whether the company will reap financial rewards (Jamali, 2007). This type of CSR sees companies going beyond "preventing or rectifying harms they have done... to assuming liability for public welfare deficiencies that they have not caused" (Lantos, 2001,).

Baskin (2006) noted little difference in the importance firms place on social reporting regardless of the level of development of the country in which the firm operated. Porter and Kramer (2006) concluded that businesses are more willing now to social disclosure, but lack guidance on how to prioritize social issues and what to report. This issue remains germane as American companies tend to value reporting at the bottom line level while European companies tend to report at the relationship level (Hartman, Rubin & Dhanda,

2007), suggesting the need for a more common approach. Research and empirical examination has offered the following types of reporting suggestions for business: Results and risks associated with operational, social and environmental issues; CSR and outcomes and stakeholder relationships; Company performance in pollution, health and safety, child labor and the environment.

Bowman and Haire (1975) conducted a study that used a different approach in investigating the issue of the relationship between corporate social responsibility and profitability. The researchers, in identifying firms as low or high in social responsibility on the basis of the number of lines devoted to the topic of social responsibility in their annual reports, point out that: in searching for a readily available surrogate measure for actual activities in the area of corporate citizenship, we chose to measure the proportion of lines of prose in the annual report devoted to social responsibility. The annual report is a kind of projective test that allows a firm to express its goals and motives in much the same way that a Rorschach or TAT does for an individual. A critic could immediately scoff at this measure. It is at least a popular belief that "everybody that talks about heaven aren't going there," that talk is cheap, and that talk about socially desirable behavior is not necessarily a predictor of such behavior.

To validate this line-count method, the researchers cross-validated it by applying the method to Moskowitz's 14 firms having high levels of social responsibility and found them to have much more line space devoted to the topic of social responsibility than the 14 other randomly chosen firms (1975) Using this line-count procedure, the authors

classified 82 firms into high, medium, and low social-responsibility categories, and then evaluated each category on the basis of 5-year return on equity (ROE). The researchers found that the firms with medium ratings for degree of corporate social responsibility performed the best and the firms with low ratings performed the worst, indicating a U-shaped relationship between corporate social responsibility and firms' financial performance (1975). Bowman and Haire's (1975) study exhibits numerous methodological problems. First, what is or is not a sentence or comment on corporate social responsibility can be difficult to ascertain, as the researchers themselves implicitly demonstrate (1975).

Second, the issue of validity also arises when assessment of corporate social responsibility is based on simple line count and cross-validated by 14 other firms whose level of social responsibility is also in determinant, as we earlier observed. Third, the study included more (51) firms having low social responsibility than firms with moderate (18) or high (13) levels of social responsibility. Fourth, reliance on ROE as a measure of firm performance could be misleading since that return is a function not only of profitability, but also of a firm's financial leverage. Finally, the researchers performed no significance tests, nor did they adjust performance for risk.

A subsequent study by Abbott and Monsen (1979) employed a similar but more sophisticated methodology. The researchers used a content analysis of Fortune 500 annual reports performed annually by the accounting firm of Ernst and Ernst. This content analysis involves 28 items monitored in the annual reports; the content analysis is then used to construct a Social Involvement Disclosure (SID) scale that Ahhott and

Monsen used as a surrogate for corporate social responsibility. They divided 450 firms from the Fortune 500 into high and low groups on the basis of this scale and then examined each group for profitability. They discovered little difference in investment yield between firms in the two groups, even when controlling for size. They concluded that: "Being socially involved does not appear to increase investor's total rate of return. Nor does it appear that being socially involved is dysfunctional for the investor" (1979).

Some methodological problems exist with this study, as well. The annual report method used to assess corporate social responsibility may be superior to that used by Bowman and Haire, but it is still subject to validity problems. In addition, there was no adjustment for risk, and the performance criterion of investor's yield is not necessarily an adequate surrogate for profitability: yield is a function of both capital gains and dividends, neither of which need be tied directly to profitability.

Parke and Eilbert (1975) conducted a study that took still another approach. In a previous study of corporate social responsibility the researchers had been able to get 96 firms from the Forbes 1971 Annual Directory to respond; they concluded that, since these firms had responded, they were clearly more oriented toward social responsibility than were non respondents. Parke and Eilbert point out that the fact that all ninety-six of the replying firms identified themselves as engaged in endeavors associated with social responsibility suggests that firms not actively undertaking such work are more heavily represented

among our non respondents (1975) They then compared 80 alleged socially responsible firms to the Fortune 500 firms (minus these 80 firms) on the performance criteria of dollar net income, profit margin, ROE, and earnings per share (EPS).

The researchers conclude: "By all four measures, the 80 respondents who were considered to be the most socially active show up as more profitable" (1975). However, no significance test was performed, and it appears that the differences in both ROE and EPS are insignificant between the firms identified as socially responsible and other firms. Other methodological limitation exists. One problem was the assumption that the 80 firms in the sample had demonstrated a socially responsible orientation because they responded to a previous survey. Also, the data analysis methods were incomplete; there was no risk adjustment, and the profitability measures employed are not definitive and cover only one year.

Sturdivant and Ginter used this sample to derive yet a smaller 28 firm sample that they subdivided into four industrial groupings. They compared firms showing high, moderate, and low social responsibility in each grouping on the basis of 10-year EPS growth, and then normalized each firm by dividing growth by the industry average. They found that firms from the high and moderate groups outperformed those from the low group (1977). However, Sturdivant and Ginter did not really mention the fact that firms in the moderate group were the best performers, a result similar to what Bowman and Haire had discovered earlier.

A number of methodological problems exist in this study, the first of which was sample selection: Sturdivant and Ginter derived their sample from a single source whose judgment was used in classifying the various firms in terms of orientation to corporate social responsibility. No criteria were offered for this classification. Moreover, the four industrial groupings reflect inconsistencies: for instance, Weyerhaeuser was grouped with U.S.Steel, Giant Food with S. S. Kresge Company, and Ralston Purina with Gamphell Soup. In addition, the final sample, having been reduced to 28 firms, was small; there was no adjustment for risk; and the performance measure of growth in earnings per share is not definitive.

These studies reflect both varying methodologies and different degrees of rigor. Although reputational surveys and content analysis of annual reports do provide useful beginning points, other exploratory methods also exist. Also, it is surprising that so much research has been based on the value orientations of a single business critic, and that none of the studies used a financial performance measure, like return on assets that is less susceptible to corporate manipulation. Only one study realized the critical importance of adjusting performance on the basis of risk. The two studies employing the most rigors (Abbott & Mosen, 1979; Alexander & Buchholz, 1978) found no relationship between corporate social responsibility and financial performance. However, two studies employing different methodologies (Bowman& Haire, 1975; Sturdivant & Ginter, 1977) found a curvilinear relationship between corporate social responsibility and financial performance, with moderately socially responsible firms being the best performers.

Kiviutu and Fox (2005) provide some insights into CSR in Kenya. Although the term is relatively new, the notion that business has responsibilities to society is well established in Kenyan society. Kiviutu and Fox (2005) assert that there already exist many initiatives that may be described as CSR. The notion of CSR is most commonly associated with philanthropy at present. Companies make donations to help alleviate social problems, justified by the belief that companies should ‘give something back’ to the societies in which they operate. Unfortunately there is a “tradition of companies using philanthropy as a respectable means of buying off stakeholders to accept their operating practices” (Hopkins, 2007.). Corruption is a major obstacle to achieving CSR in Kenya. However, the trajectory of CSR has been influenced by civil society organizations campaigning against poor labour practices and environmentally damaging production processes in the export sectors, such as cut flowers, horticulture and textiles (Dolan et al, 2005; Kiviutu and Fox, 2005). Though, government regulations to ensure socially responsible behaviour remain limited.

2.4 Measurement of Corporate Social Responsibility

There are two generally accepted methods of measuring CSR. The first method is the reputation index. In this method knowledgeable observers rate firms on the basis of one or more dimensions of social performance, this method has some advantages. First, it tends to be internally consistent because one evaluator is applying the same criteria to each firm. Second, it makes no pretence of applying a rigorous objective measure to a dimension that may be innately subjective. Third, it may summarize the perceptions of a key constituency of various firms. This alone may be an important factor in determining

the relationship between CSR and financial performance. There are, however, disadvantages as well. The most important is that such rankings are highly subjective and thus may vary significantly from one observer to another. This raises the spectre of unreliability.

A second problem is one of sample size. Most reputation indexes generated to date cover only a relatively small number of firms. Thus one must be cautious about generalizing from the results of these studies. The first reputation index was a fairly narrow one, generated by the Council of Economic Priorities (CEP) in the late 1960s and early 1970s. In this study the CEP ranked the pollution control performance of 24 firms in the pulp and paper industry (Council of Economic Priorities, 1971). A second reputation index was generated by Milton Moskowitz, who over a period of several years rated a number of firms as "outstanding," "honorable mention," or "worst" (Moskowitz, 1972, 1975). The 1972 version of this index was used by Moskowitz and a composite of his 1972-1975 indexes was used by Sturdivant and Ginter (1977) in their studies of the relationship between CSR and financial performance. Another popular reputation index also can be traced back to Moskowitz.

A survey was conducted by the National Association of Concerned Business Students ("How business school students rate corporations," 1972) in which 300 graduate students of business administration were questioned about their views on the social responsibility of some of the Fortune 500 firms. Indexes generated by this study were used subsequently by Vance (1975), Heinze (1976), and Alexander and Buchholz (1978). The second

method of measuring CSR is content analysis. Normally, in content analysis the extent of the reporting of CSR activities in various firm publications and especially in the annual report is measured. This can consist of simply noting whether or not a particular item (such as pollution control) is discussed either qualitatively or numerically, or it can mean actually counting a number of items.

A commonly used source for content analysis is a series of studies conducted by Beresford (1973, 1975, and 1976). Content analysis has two significant advantages. First, once the particular variables have been chosen (a subjective process), the procedure is reasonably objective. Therefore the results are independent of the particular research. Second, because this technique is more mechanical, larger sample sizes are possible.

However, content analysis also has some drawbacks. The choice of variables to measure is subjective. Further, content analysis is only an indication of what firms say they are doing, and this may be very different from what they actually are doing. At best, one certainly could postulate that firms that are aware of these issues are those that will discuss them as well as act on them. On the other hand, one could imagine that firms that are doing poorly on this front would feel an extra incentive to make them look good by touting their achievements in their annual reports.

The first study to use content analysis was Bowman and Haire (1975). In this study the authors examined only the food processing industry and developed their own index based on the number of lines of the annual report devoted to CSR. Subsequently, several other

studies (Abbott & Monsen, 1979. Anderson & Frankle, 1980; Ingram, 1978; Preston, 1978) used content analysis indexes based on Beresford's work. Neither content analysis nor reputation indexes can be considered wholly adequate measures of CSR. The problem of measuring social responsibility or responsiveness of firms needs considerably more attention in this literature. Yet, at the moment there obviously are not better measures available.

2.5 Measurement of Financial Performance

Although one might have expected a certain diversity of measures of CSR, there is no real consensus on the proper measure of financial performance either. In fact, there is a wide range of such measures. However, most measures of financial performance fall into two broad categories:

Investor returns and accounting returns. Both have enjoyed periods of popularity, and both have evolved considerably over the course of the past decade.

Investor Returns. The basic idea underlying investor returns is that returns should be measured from the perspective of the shareholders. The first studies to employ investor returns as a measure of financial performance were those of Moskowitz (1972) and Vance (1975). In both of these studies changes in price per share was used as the investor returns index. As most subsequent studies have noted, this measure is clearly flawed. The change in price per share is only one element of investor returns. Dividend income is the other and it must be included in any measure of investor returns.

Abbott and Monsen (1979) used the change in share price plus dividends as their measure of investor returns. However, this, too, is insufficient. Simple returns (change in price per share plus dividends) fail to capture another dimension of vital importance to investors—namely, risk.

In accepted finance theory, the risk of holding assets is measured by the covariance of the expected return on the asset with that of the overall market. This measure, which is commonly referred to as "beta," typically is obtained for a stock by regressing its realized returns on those of a broad based market index. The regression slope coefficient provides the beta estimate. An average beta is 1. A stock with a beta above 1 is considered an aggressive stock because it will tend to move faster, either up or down, than the market. Correspondingly, a stock with a beta below 1 is considered a defensive stock (Curley Bear, 1979).

It was precisely this failure to adjust for risk that led to the (apparently) contradictory results of Moskowitz (1972) and of Vance (1975). Moskowitz's study indicated that firms with high CSR ratings outperformed the market. Vance, two years later, concluded just the opposite. An examination of Moskowitz's high CSR firms over the 1970-1979 periods indicates that the portfolio of these firms had a beta of 1.56. The period that Moskowitz examined, the first half of 1972, was a bull market (i.e., rising), and the period that Vance looked at, 1972 through 1974, was a bear market (i.e., falling). Therefore, the apparent contradiction between their results can be explained by the riskiness of the returns of the

firms that they had classified as socially responsible and not by the variable they believed they were examining.

Two studies did use risk adjusted measures of investor returns. These were Alexander and Buchholz (1978) and Anderson and Frankle (1980). However, there is a problem with the use of even a "clean" measure of investor returns for this type of study. This problem is summarized by one of the tenets of modern finance theory, the efficient markets hypothesis. Simply stated, this tenet posits that as information that might affect future cash flows of a firm becomes available, it immediately will be reflected in its current share price. The implication of this is that even if CSR does lead to improved financial performance, as soon as the market becomes aware of any change in a firm's CSR rating it will immediately alter price per share to reflect that information.

As Alexander and Buchholz (1978) noted, after this reaction only new information regarding a firm's social responsibility will have any effect on the firm's financial performance. Thus, if the perception of a firm's social responsibility changed in 1975 and a naïve researcher examined only the period 1977-1979, then he or she probably would conclude that CSR and financial performance are unrelated. In order to employ investor returns measures of financial performance properly, the researcher must conduct an "event study." Failure to do so could lead the researcher incorrectly to the conclusion that there is no relationship between CSR and financial performance, even if one actually exists.

One particularly innovative methodology that avoids many of the earlier problems with investor returns is employed by Ingram (1978). Ingram tests for a correlation between social responsibility disclosures (used by others as a proxy for CSR) and financial performance while controlling for both risk and industry effects. The procedure may be viewed as a reverse cluster analysis, in which the sample is iteratively split into subgroups, with the grouping criterion being maximization of the difference of a functional relationship between each of the two subgroups at each interaction. The functional relationship that Ingram uses is excess market return for each firm as the dependent variable; he uses fiscal year, excess accounting earnings, and industry as explanatory variables.

Ingram's procedure divides his sample of 116 firms into 10 subgroups wherein each subgroup has two sets of firms—one having higher excess market returns than the other. In seven of these sub groupings, firms in the higher excess market return category have better CSR ratings than do those in the lower excess market return category. The reverse is true for the remaining three subgroups. Although this technique avoids many of the problems encountered by earlier studies, one must be cautious in interpreting Ingram's results as support for a correlation between CSR and financial performance. If, in fact, Ingram's null hypothesis, that is, that there is no relationship between social responsibility disclosures and financial performance, were true, then 7 or more of the 10 groups would have disclosure ratings in the higher financial performance categories with a frequency of 11.32 percent. This clearly is not a strong rejection of the null hypothesis.

Accounting Returns. Accounting returns are the other primary method of measuring financial performance. The basic idea behind using accounting returns as a measure of financial performance is to focus on how firm earnings respond to different managerial policies. The most common measures of accounting returns used in studies of this question are simply earnings per share (EPS) or price/earnings (P/E) ratios. There are several problems, however, associated with using EPS or P/E ratios as such a measure. Both are strongly influenced by the rate of growth and accounting practices of firms (Beaver & Morse, 1978). In addition, these financial performance measures cannot be accurately compared across firms without considering financial leverage influences and risk differences. This does not mean that one cannot use accounting returns, quite the opposite accounting returns may be the best proxy for financial performance.

2.6. Conclusion for Literature Review

Arguments exist that support the view that firms which have solid financial performance have more resources available to invest in social performance domains, such as employee relations, environmental concerns, or community relations. Financially strong companies can afford to invest in ways that have a more long-term strategic impact, such as providing services for the community and their employees. Those allocations may be strategically linked to a better public image and improved relationships with the community in addition to an improved ability to attract more skilled employees. On the other hand, companies with financial problems usually allocate their resources in projects with a shorter horizon. This theory is known as slack resources theory (Waddock and Graves, 1997).

Other arguments propose that financial performance also depends on good or socially responsible performance, meeting stakeholder expectations before they become problematic indicates a proactive attention to issues that otherwise might cause problems or litigation in the future. Furthermore, socially responsible companies have an enhanced brand image and a positive reputation among consumers; they also have the ability to attract more accomplished employees and business partners. Socially responsible companies also have less risk of negative rare events. Companies that adopt the CSR principles are more transparent and have less risk of bribery and corruption.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed the methodology that the research was used to carry out the study and collect data. It discussed the research design, the target population, sample and sampling procedures, data collection instrument and data collection procedure and analysis.

3.2 Research Design

This study used a correlational descriptive survey research design. Descriptive designs explain phenomena as they exist and are often used to obtain information on the characteristics of a particular problem or issue while correlational studies establish relationships between various variables. The study population was made up of all listed public companies classified under the commercial and services sector of the Nairobi Securities Exchange. The NSE was selected as it provides an accessible, comprehensive listing of companies in Kenya and a means to set a boundary around the population drawn.

3.3 Population

The target population may be defined as the collection of elements or objects that possess the information sought by the researcher and about which references are to be made. The population of this study comprised of companies listed in the commercial and services sector of the Nairobi Securities exchange.

3.4 Sample

The study population was made up of all listed public companies classified under the commercial and services sector of the Nairobi Securities Exchange. There were 9 companies listed under the commercial and services sector of the NSE as at 31 December 2012. A census survey was carried out due to the small size of the population. According Cooper & Schindler (2003) a census is feasible when the population is small and necessary when the elements are quite different from each other.

3.5 Data Collection

Primary and Secondary sources was used to collect data. The primary data was collected using questionnaires. Secondary data was obtained from audited financial reports and other publications by the companies including information from the company websites for five years from 2008 to 2012. In any study of CSR it must be recognized that communication is a central aspect of social interaction (Weber, 1990). The ability of companies to convey their intentions and actions to the societies in which they are located is recognized as being integral to the relationship between business and society. The use of websites to disseminate company information serves this purpose. Websites are a form of secondary data and have some distinct advantages over other data sources for research purposes (Gilbert, 2008).

3.6 Data Analysis

Data collected was edited, coded and classified into different components to facilitate a better and efficient analysis. CSR practice has different components and for the purpose

of this study, components for environmental concerns, community involvement, employee concerns, product/customer concerns and others were used to analyze CSR practice. Others constitute all those other activities of CSR which cannot be attributed to any of the identified categories. Content analysis was used to determine the score for CSR based on the number of sentences dedicated to each component of CSR in the company's annual report. The total CSR score was obtained by adding the scores for the five components of CSR. Regression analysis was used to test the relationship between CSR practice and FP. CSR was the independent variable while FP was the dependent variable. Other independent variables considered in the model include efficiency (Cost of sales/Total sales) and capital intensity (Total assets/Total sales) which were used as control variables. The relationship will be explained by the following.

Regression model; $F = \alpha_0 + \alpha_1 x_1 + \alpha_2 x_2 + \alpha_3 x_3 + e$ where:

F – Financial performance (as measured by Return on Asset (ROA))

α_0 – Constant

x_1 – CSR score

x_2 - Efficiency

x_3 - Capital intensity

α_i – a constant (coefficient) of various elements

e - the error term

The Statistical Package for Social Sciences (SPSS) was used to analyze the data collected. The coefficient of determination, R squared, measure was used to test the significance of the regression model in explaining the relationship between CSR practices

and FP. R squared is a measure of goodness of fit and shows the percentage variance in the dependent variable that is explained by the independent variable(s). The higher the R squared the better the model. The P-Value and the t-test were used to test the individual significance of the predictor variables used in the study.

3.7 Data Validity and Reliability

According to Campbellian tradition (Campbell and Stanley, 1963), Validity has two distinct fields of application. The first includes test validity, the degree to which a test measures what it was designed to measure. The second includes research design. Refers to the degree of which a study supports the intended conclusion drawn from the results. For the experiments, Campbell and Stanley defined internal validity as the basic requirement for an experiment to be interpretable.

Internal validity is an inductive estimate of the degree to which conclusions about causes of relations are likely to be true, from the perspective of the measures used, the research setting, and the research design. Good experimental techniques which studied under highly controlled conditions, usually researches higher degrees of internal validity than single-case designs.

In statistics, reliability is the consistency of a set of measurements or measuring instruments, often used to describe a test. For experimental science, reliability is the extent to which the measurements remain consistent under the same conditions. An experiment is reliable if it has consistent results of the same measure. It is unreliable if

measurements give different results. It can also be understood as lack of random error in measurement.

In order to measure the validity and reliability of regression results in this study, the coefficient of determination and Significant Level which calculated by the SPSS are used as the measure values.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field. The chapter presents the background information of the respondents, findings of the analysis based on the objectives of the study. Descriptive and inferential statistics were used in the study. The study targeted a sample size of 9 respondents from which 9 filled in and returned the questionnaires making a response rate of 100%. This response rate was satisfactory to make conclusions for the study.

4.2 Analysis and Interpretation

4.2.1 General Information

Table 4.1: Gender of the Respondent

Gender	Frequency	Percentage
Male	6	66.7
Female	3	33.3
Total	9	100

The study sought to determine the gender of the respondent and therefore requested the respondent to indicate their gender. The study found that majority of the respondent as shown by 66.7% were males whereas 33.3% of the respondent were females, this is an

indication that both genders were involved in this study and thus the finding of the study did not suffer from gender bias.

Table 4.2: Age Distribution

Age bracket	Frequency	Percentage
30 to 39 years	4	44.4
40 to 49 years	3	33.3
50 to 59 years	2	22.2
Total	9	100

The study requested the respondent to indicate their age category, from the findings, 44.4 % of the respondents were aged between 30 to 39 years, 33.3% of the of the respondent indicated they were aged between 40 to 49 years, , whereas 22.2 % of the respondents indicated that they were aged 50 to 59 years. This is an indication that respondents were well distributed in terms of their age. The study sought to determine the respondent department, from the findings the study found that respondent were from various department, finance, production, quality control, sales and marketing,, marketing , administration, and ICT department . This is an indication that all departments in the company were represented.

Table 4.3: Period of Service

Years of service	Frequency	Percentage
Less than 5 years	3	33.3
above 5 years	6	66.7
Total	9	100

The study requested respondent to indicate the number of years they had served for. From the findings the study established that 31.4 % of the respondents had served for a period of above five whereas 20.0% of the respondent indicated that they had served for a period of less than 1 year. This is implies that majority of the respondents had served for more than 5 years, this further implies that most of the respondents had vast knowledge which could be relied upon by this study.

4.2.2 Corporate Social Responsibility Policy

Table 4.4: Presence of Corporate Social Responsibility policy

	Frequency	Percentage
Yes	8	88.9
No	1	11.1
Total	9	100

The study sought to establish whether the Company have a Corporate Social Responsibility policy, from the findings majority of the respondents (88.9%) indicated whether the Company had a Corporate Social Responsibility policy. Whereas 11.1% of

the respondents were of contrary opinion, this is an indication that most of the Companies listed in NSE had a Corporate Social Responsibility policy.

Table 4.5: Nature of the CRS Policy

	Frequency	Percentage
Yes	7	77.8
No	2	22.2
Total	9	100

The study sought to determine whether Corporate Social Responsibility policy was written down, from the findings, majority of the respondent indicated that the policy was clear in writing as shown by 77.8% whereas 22.2% of the respondents indicated that the policy wasn't in writing, this implies that most of the companies had their CRS policy written down.

4.2.3 Factors that Influence the Practice of CSR

Table 4.6: Caring for the Customers and Community

Statement	Strongly disagree	disagree	Neutral	agree	Strongly agree	Mean	Standard deviation
Addressing community needs influences firm's CSR practice	0	0	0	5	4	4.44	0.28
Community acceptance influences firm's CSR practice	0	0	0	6	3	4.33	0.30
Better contribution to community influences the firm's CSR practice	0	0	0	7	2	4.22	0.34
Environmental conservation influences firm's CSR practice	0	0	0	6	3	4.33	0.30

The study sought to determine the level at which respondents agreed with the above statements as they related to CSR practice in the organization, from the findings, the study established that majority of the respondents agreed that, addressing community needs influences firm's CSR practice as shown by a mean of 4.44, Community acceptance influences firm's CSR practice, Environmental conservation influences firm's

CSR practice, as shown by a mean of 4.33 in each case, and finally that Better contribution to community influences the firm’s CSR practice as shown by a mean of

4.2.4 Profit through Caring

Table 4.7: Profit through Caring

Statement	Strongly disagree	disagree	Neutral	agree	Strongly agree	Mean	Standard deviation
Enhanced staff morale influences firm’s CSR practice	0	0	0	6	3	4.33	0.30
Improved staff welfare influences firm’s CSR practice	0	0	0	8	1	4.11	0.39

The study sought to establish the level at which respondents agreed or disagreed with the above statements, from the findings majority of the respondents agreed that. Enhanced staff morale influences firm’s CSR practice as shown by a mean of 4.33, Improved staff welfare influences firm’s CSR practice as shown by a mean of 4.11.

Table 4.8: Business of Business is Business

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Standard Deviation
Profit maximization influences firm's CSR practice	0	0	0	6	3	4.33	0.30
Long-term survival influences firm's CSR practice	0	0	0	7	2	4.22	0.34
Customer approval influences firm's CSR practice	0	0	0	6	3	4.33	0.30
Customer loyalty maintenance influences the firm's CSR practice	0	0	0	6	3	4.33	0.30
Enhancement of corporate image influences the firm's CSR practice	0	0	0	5	4	4.44	0.28

The study sought to establish the level at which respondents agreed or disagreed with the above statements, from the findings majority of the respondents agreed that, Enhancement of corporate image influences the firm's CSR practice as shown by a mean 4.44, Profit maximization influences firm's CSR practice Customer loyalty maintenance influences the firm's CSR practice, Customer approval influences firm's CSR practice as shown by a mean of 4.33 in each case, and finally that Long-term survival influences firm's CSR practice as shown by a mean of 4.22.

Table 4.9: Level of Agreement on Other Factors

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Standard Deviation
Firm's interests in CSR influences its CSR practice	0	0	0	7	2	4.22	0.34
Competitor practices influences firm's CSR practice	0	0	0	6	3	4.33	0.32
Industry standards influences firm's CSR practice	0	0	0	5	4	4.44	0.28
Reducing business risk influences firm's CSR practice	0	0	0	5	4	4.44	0.28
Increasing rivals' costs influences firm's CSR practice	0	0	0	6	3	4.33	0.30

The study sought to establish the extent which the above factors influences CSR, from the findings the study established that majority of the respondents agreed that ,Industry standards influences firm's CSR practice, Reducing business risk influences firm's CSR practice as shown by a mean of 4.44 in each case, Increasing rivals' costs influences firm's CSR practice, Competitor practices influences firm's CSR practice, as shown by a mean of 4.33 in each case , and finally that Firm's interests in CSR influences its CSR practice as shown by a mean of 4.22.

4.2.5 Approaches to CSR

Table 4.10: Degree on Provision

Practices	Frequency ratio	Yes	No
Provided preventative health, safety and good working conditions to All employees	4:5	44.4%	55.6%
Provided funding to community's well-being in	3:6	33.3%	66.7%
Enhanced product quality, customer care and instituted ethical Advertising	3:6	33.3%	66.7%
Integrated environmental management into business processes	1:8	11.1%	88.9%
Sent only 5% of manufacturing waste to landfills	3:6	33.3%	66.7%
Instituted sound systems to guide investor decisions	2:7	22.2%	77.8%

The study sought to determine the extent to which the company had adhered to the above factors, from the findings the study established that most of the companies had not Integrated environmental management into business processes as indicated by 88.9% had not Instituted sound systems to guide investor decisions as indicated by 77.8%, had sent more that 5% of manufacturing waste to landfills, had not Enhanced product quality, customer care and instituted ethical Advertising, had not Provided funding to

community's well-being in as shown by 66.6% on each case, and finally the study revealed that most of the companies had not provided preventative health, safety and good working conditions to All employees as shown by a mean 55.6%.

Table 4.11: Corporate Social Responsibility Practices and Financial Performance

Statement	Strongly disagree	disagree	Neutral	agree	Strongly agree	Mean	Standard deviation
The firm attempts to identify and measure costs of social responsibility activities.	0	0	5	2	2	3.67	0.23
The firm has Social Responsibility compliance and regulatory measures in place	0	0	0	6	3	4.33	0.30
The sets particular objectives for its accounting and conversion processes	0	0	0	7	2	4.22	0.34
Use of recycling has doubled over the last 5 years	0	0	0	5	4	4.44	0.28
Product/service attributes have improved in the last 5 years	0	0	0	5	4	4.44	0.28
Customer relationships have improved over the years	0	0	0	6	3	4.33	0.30
Image and reputation of the firm has improved over the years	0	0	0	5	4	4.44	0.28
New products and services have been developed in the last 5 years	0	0	0	7	2	4.22	0.34

The study sought to establish the level at which respondents agreed or disagreed with the above statements, from the findings majority of the respondents agreed that from the findings the study established that majority of the respondents agreed that, Image and reputation of the firm has improved over the years, Product/service attributes have improved in the last 5 years, Use of recycling has doubled over the last 5 years as shown by a mean of 4.44 in each case, Customer relationships have improved over the years, The firm has Social Responsibility compliance and regulatory measures in place as shown by a mean of 4.33, New products and services have been developed in the last 5 years, The sets particular objectives for its accounting and conversion processes as shown by a mean of 4.22 in each case. Finally that the firm attempts to identify and measure costs of social responsibility activities as shown as 3.67.

4.2.6 CSR and Financial Performance

Table 4.12: Statements Relating to CRS and Financial, Performance

Statement	Strongly disagree	disagree	Neutral	agree	Strongly agree	Mean	Standard deviation
CSR has an effect on Customer satisfaction	0	0	0	6	3	4.33	0.30
CSR has an effect on internal business processes of the firm	0	0	0	7	2	4.22	0.34
CSR has an effect on the firm's competitiveness	0	0	0	6	3	4.33	0.30
CSR has an effect on the firm's profitability	0	0	0	5	4	4.44	0.28
CSR has an effect on attainment of Company objectives/goals	0	0	0	5	4	4.44	0.28

The study sought to establish the level at which respondents agreed or disagreed with the above statements, from the findings majority of the respondents agreed that, CSR has an effect on the firm’s profitability, CSR has an effect on attainment of Company objectives/goals as shown by a mean of 4.44 in each case, CSR has an effect on the firm’s competitiveness, CSR has an effect on Customer satisfaction as shown by a mean of 4.33, and finally that CSR has an effect on internal business processes of the firm as shown by a mean of 4.22.

Table 4.13: Corporate Social Responsibility with Financial Priorities

	Frequency	Percentage
Yes	4	44.4
No	6	66.7
Total	9	100

The sought to determine whether the firm align Corporate Social Responsibility with Financial priorities, the study established that majority of the respondents disagreed that their firm align Corporate Social Responsibility with Financial priorities as show by 66.7% whereas 44.4 % agreed to the statement, this implies that most of the communities did not consider CRS significance as a issue of business priority.

Table 4.14: Company in cooperates CSR in Annual Budget

	Frequency	Percentage
Yes	6	66.7
No	3	33.3
Total	9	100

The study request the respondents to indicate whether CSR was part of the Company's annual budget, from the findings majority of the respondents indicated that CRS was part of their annual budget as shown by 66.7 % whereas 33.3 % of the respondents indicated that CRS was not included in their annual budget. This implies that most of the companies included CRS in their annual budgets.

4.2.7 Regression Analysis

Table 4.15: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.987(a)	.974	.958	.1456

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of adjusted R squared was 0.958 an indication that there was variation of 95.8% on financial performance of commercial and services sector at the Nairobi Securities Exchange due to changes in CSR score, efficiency and capital intensity at 95% confidence interval . This shows that 95.8% changes in financial performance of

commercial and services sector at the Nairobi Securities Exchange could be account for by CSR score, efficiency and capital intensity. R is the correlation coefficient which shows the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.987.

Table 4.16: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.112	6	.352	4.181	.037(a)
	Residual	3.220	3	.140		
	Total	5.332	9			

From the ANOVA statistics in table above, the processed data, which is the population parameters, had a significance level of 0.037 which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. The calculated was greater than the critical value ($1.699 < 4.181$) an indication that CSR score, efficiency and capital intensity were significantly influencing the financial performance of commercial and services sector at the Nairobi Securities Exchange. The significance value was less than 0.05 an indication that the model was statistically significant

Table 4.17: Coefficients

Model		Unstandardized		Standardized	T	Sig.
		Coefficients		Coefficients		
1		B	Std. Error	Beta		
	Constant	.287	.544		.256	.803
	CSR score	.270	.415	.194	.601	.561
	Efficiency	.115	.986	.049	.152	.882
	Capital intensity	.389	.871	.712	2.030	.070

From the data in the above table the established regression equation was

$$Y = 0.287 + 0.270 X_1 + 0.115 X_2 + 0.389X_3$$

From the above regression equation it was revealed that holding CSR score, efficiency and capital intensity to a constant zero financial performance of commercial and services sector at the Nairobi Securities Exchange in Kenya would be 0.287 , a unit increase in CSR score would lead to increase in financial performance of commercial and services sector at the Nairobi Securities Exchange by a factors of 0.270, unit increase in efficiency would lead to increase in financial performance of commercial and services sector at the Nairobi Securities Exchange by factors of 0.115 and a unit increase in capital intensity would lead to increase in financial performance of commercial and services sector at the Nairobi Securities Exchange by a factor of 0.389.

4.3 Summary of Major Findings and Interpretation

From the findings on the Adjusted R squared the study found that there was a greater variation on financial performance of commercial and services sector at the Nairobi Securities Exchange due to changes in CSR score, efficiency and capital intensity at 95% confidence interval . This shows that changes in financial performance of commercial and services sector at the Nairobi Securities Exchange could be account for by CSR score, efficiency and capital intensity. The study further revealed that there was a strong positive relationship between the study variables . The study revealed that CSR score, efficiency and capital intensity were significantly influencing the financial performance of commercial and services sector at the Nairobi Securities Exchange.

The study found that CSR score, efficiency and capital intensity had a positive relationship with financial performance of commercial and services sector at the Nairobi Securities Exchange in Kenya. the study found an increase in CSR score would lead to increase in financial performance of commercial and services sector at the Nairobi Securities Exchange , the study also revealed that a unit increase in efficiency would lead to increase in financial performance of commercial and services sector at the Nairobi Securities Exchange and also that a unit increase in capital intensity would lead to increase in financial performance of commercial and services sector at the Nairobi Securities Exchange.

Wright and Ferris (1997) discovered a negative relationship; Posnikoff (1997) reported a positive relationship, while Welch and Wazzan (1999) found no relationship between

CSR and financial performances. Other studies, discussed in McWilliams and Siegel (1997), are similarly inconsistent concerning the relationship between CSR and short run financial returns. Moskowitz (1972) ranked 67 selected firms in terms of his evaluation of their level of social responsibility and reported higher than average stock returns for highly ranked firms. Vance (1975), however, found a subset of the firms rated by Moskowitz had lower stock-market performance than a comparison sample of firms listed in the New York Stock Exchange Composite Index, Dow Jones Industrials, and Standard and Poor's Industrials, however, both failed to adjust for risk.

Moskowitz's study, found little association between social responsibility and risk-adjusted return on securities. Aupperle, Carroll, and Hatfield (1985) detected no significant relation between CSP and a firm's risk adjusted return on assets. Waddock and Graves (1997) found significant positive relationships between an index of CSR and performance measures, such as ROA in the following year. McGuire (1988) found that accounting indicators have a stronger ability to explain corporate social responsibility. Because the market returns are more influenced by the impact of the overall market trends, so have too many fluctuations, while corporate social responsibility has significant individual characteristics, so the accounting indicators can better reflect the specific characteristics of each company. Maignan and Ralston (2002) found that companies adopt range of processes that were narrower in scope than those described by Wood (1991). Also, they were linked to more specific issues and activities. These included philanthropic programmes, air quality management, and health and safety

programmes. In some cases, these processes contribute to the common good irrespective of whether the company will reap financial rewards (Jamali, 2007).

Baskin (2006) noted little difference in the importance firms place on social reporting regardless of the level of development of the country in which the firm operated. Porter and Kramer (2006) concluded that businesses are more willing now to social disclosure, but lack guidance on how to prioritize social issues and what to report. Bowman and Haire (1975) the study found that reliance on ROE as a measure of firm performance could be misleading since that return is a function not only of profitability, but also of a firm's financial leverage. Finally, the researchers performed no significance tests, nor did they adjust performance for risk.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

From the analysis the study established that most of the Companies listed in NSE had a Corporate Social Responsibility policies putted down clearly in form of writing. The study also established that, addressing community needs, Community acceptance, Environmental conservation, and Better contribution to community all had an influence on the firm's CSR practice. The study further revealed that enhanced staff morale, improved staff welfare, Enhancement of corporate image, Profit maximization, Customer loyalty maintenance practice, Customer approval, and Long-term survival influences firm's CSR practice.

The study also revealed that ,Industry standards, Reducing business risk, Increasing rivals' costs, Competitor practices, and Firm's interests in CSR all influences its CSR practice. The study established that most of the companies had not Integrated environmental management into business processes, instituted sound systems to guide investor decisions, had sent more that 5% of manufacturing waste to landfills, had not enhanced product quality, customer care and instituted ethical Advertising, provided funding to community's well-being in, and that most of the companies had not provided preventative health, safety and good working conditions to the employees.

The study further established that, image and reputation of the firm has improved over the years, product/service attributes have improved in the last 5 years, use of recycling

has doubled over the last 5 years. Customer relationships have improved over the years, the firm has Social Responsibility compliance and regulatory measures in place, new products and services have been developed in the last 5 years, the sets particular objectives for its accounting and conversion processes finally that the firm attempts to identify and measure costs of social responsibility activities. The study established that, CSR has an effect on the firm's profitability; attainment of Company objectives/goals, firm's competitiveness, t on Customer satisfaction and on internal business processes of the firm. Finally it was established that CRS was part of annual constituted in budgets but it wasn't prioritized when it came to allocation of funds.

5.2 Conclusions

The study found that CSR score, efficiency and capital intensity had a positive relationship with financial performance of commercial and services sector at the Nairobi Securities Exchange in Kenya. the study found an increase in CSR score would lead to increase in financial performance of commercial and services sector at the Nairobi Securities Exchange , the study also revealed that a unit increase in efficiency would lead to increase in financial performance of commercial and services sector at the Nairobi Securities Exchange and also that a unit increase in capital intensity would lead to increase in financial performance of commercial and services sector at the Nairobi Securities Exchange.

From the findings the study concludes that most of the Companies listed in NSE had a Corporate Social Responsibility policies putted down clearly in form of writing. The

study also concludes that, addressing community needs, Community acceptance, Environmental conservation, and Better contribution to community all had an influence on the firm's CSR practice.

The study concludes that, enhanced staff morale, improved staff welfare, enhancement of corporate image, profit maximization, customer loyalty maintenance practice, customer approval, and long-term survival influences firm's CSR practice, the study also concludes ,industry standards, reducing business risk, increasing rivals' costs, competitor practices, and firm's interests in CSR all influences its CSR practice.

The study concludes that most of the companies had not Integrated environmental management into business processes ,had not Instituted sound systems to guide investor decisions ,had sent more than 5% of manufacturing waste to landfills, had not Enhanced product quality, customer care and instituted ethical Advertising, had not Provided funding to community's well-being in, and that most of the companies had not Provided preventative health, safety and good working conditions to All employees.

The study concludes that, CSR has an effect on the firm's profitability; attainment of Company objectives/goals, firm's competitiveness on customer satisfaction and on internal business processes of the firm, finally it was established that CRS was part of annual constituted in budgets but it wasn't prioritized when it came to allocation of funds.

5.3 Policy Recommendations

The study recommends that organization should all have their CSR policies published, it is very important that, organizations shown full commitments to the implementation of CSR policies in so as to build and maintain the organizations image. The study recommends that, it is vital that firms need to train employees directly involved in CSR activities. And these sessions should remain ongoing commitment, since training needs will change as the CSR issues evolve. A comprehensive approach to training should be taken to ensure employees have information on the firm's CSR commitments, programs and implementation.

The different approaches employed by the corporations were found to be staff motivation through welfare enhancements and trainings as a responsibility to employees, product quality improvements and care for customers as a responsibility to customers, environmental conservation and planting of trees as a responsibility to the environment, disclosure of performance by publishing financials in the newspapers and the entity websites as well as improved performance as a requirement to investors.

5.4 Limitations of the Study

In attaining its objective the study was limited to 9 firm listed in the NSE under the commercial and services sector from which only one respondent was picked from each. The study was also limited to the degree of precision of the data obtained from the respective respondents.

The study was also limited to establish the relationship between corporate social responsibility and firm's financial performance in the commercial and services sector of the Nairobi Securities Exchange.

The method used is descriptive research design whereby the variables cannot be controlled by the researcher. The study intended to use questionnaire as the instrument for collecting data. This is because time for the data collection will be limited to three weeks. The study was carried out in only one sector due to financial constraints of the researcher.

5.5 Suggestions for Further Studies

The study recommends an in-depth study to be carried out on the challenges faced by organization as they implement Corporate Social Responsibility in the country.

There is need to investigate the relationship between corporate social responsibility and corporate financial performance.

There is need for a study on factors influencing adoption of CSR among companies in Kenya.

The study recommends that there is need for a study to done on the effects of CSR adoption on organization competitiveness.

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APPENDICES

Appendix 1: List of Companies Listed Under Commercial and Services

Sector in Nairobi Securities Exchange as at 31/12/2012

1. Express Kenya Ltd
2. Hutching Biemer Ltd
3. Kenya Airways Ltd
4. Longhorn Kenya Ltd
5. Nation Media Group
6. Scan Group Ltd
7. Standard Group Ltd
8. TPS Eastern Africa
9. Uchumi Supermarket

Appendix II: Questionnaire

General Information (please tick as appropriate)

1. Please tell us your gender: M F

Male Female

2. Please tell us which range best describes your age:

18-29 30-39 40-49 50-59 60 or over

3. Please tell us your organization.

.....
.....
.....

4. What function of your company are you involved with?

Finance

Production

Quality Control

Sales and Marketing

Management

Others (please specify)

5. For how many years have you been with the company?

Less than 5

5 or more

Section 1

5. Does the Company have a Corporate Social Responsibility policy?

Yes No

6. If YES in 5, is this policy written down?

Yes No

7. Factors that influence the practice of CSR

Please indicate your level of agreement in respect to the following statements as they relate to CSR practice of your organization (**please tick or circle**: 1 = strongly disagree, 5 = strongly agree)

Caring for the customers and community

- | | | | | | |
|--|---|---|---|---|---|
| a. Addressing community needs influences firm's CSR practice | 1 | 2 | 3 | 4 | 5 |
| b. Community acceptance influences firm's CSR practice | 1 | 2 | 3 | 4 | 5 |
| c. Better contribution to community influences the firm's CSR practice | 1 | 2 | 3 | 4 | 5 |
| d. Environmental conservation influences firm's CSR practice | 1 | 2 | 3 | 4 | 5 |

Profit through caring

- | | | | | | |
|--|---|---|---|---|---|
| a. Enhanced staff morale influences firm's CSR practice | 1 | 2 | 3 | 4 | 5 |
| b. Improved staff welfare influences firm's CSR practice | 1 | 2 | 3 | 4 | 5 |

Business of business is business

- | | | | | | |
|---|---|---|---|---|---|
| a. Profit maximization influences firm's CSR practice | 1 | 2 | 3 | 4 | 5 |
| b. Long-term survival influences firm's CSR practice | 1 | 2 | 3 | 4 | 5 |

- c. Customer approval influences firm's CSR practice 1 2 3 4 5
- d. Customer loyalty maintenance influences the firm's CSR practice 1 2 3 4 5
- e. Enhancement of corporate image influences the firm's CSR practice 1 2 3 4 5

Other factors

- a. Firm's interests in CSR influences its CSR practice 1 2 3 4 5
- b. Competitor practices influences firm's CSR practice 1 2 3 4 5
- c. Industry standards influences firm's CSR practice 1 2 3 4 5
- d. Reducing business risk influences firm's CSR practice 1 2 3 4 5
- e. Increasing rivals' costs influences firm's CSR practice 1 2 3 4 5

Section 2

8. Approaches to CSR

To your knowledge, has your company done any of these practices?

- | | Yes | No |
|--|-----|-----|
| a. Provided preventative health, safety and good working conditions to all employees | [] | [] |
| b. Provided funding to community's well-being in | [] | [] |
| c. Enhanced product quality, customer care and instituted ethical advertising | [] | [] |
| d. Integrated environmental management into business processes | [] | [] |
| e. Sent only 5% of manufacturing waste to landfills | [] | [] |
| f. Instituted sound systems to guide investor decisions | [] | [] |

Section 3 (please tick or circle as appropriate)

9. Corporate social responsibility practices and Financial Performance

Please indicate your level of agreement in respect to the following statements (**please tick or circle**: 1 = strongly disagree, 5 = strongly agree).

- | | | | | | | |
|----|--|---|---|---|---|---|
| a. | The firm attempts to identify and measure costs of social responsibility activities. | 1 | 2 | 3 | 4 | 5 |
| b. | The firm has Social Responsibility compliance and regulatory measures in place | 1 | 2 | 3 | 4 | 5 |
| c. | The sets particular objectives for its accounting and conversion processes | 1 | 2 | 3 | 4 | 5 |
| d. | Use of recycling has doubled over the last 5 years | 1 | 2 | 3 | 4 | 5 |
| e. | Product/service attributes have improved in the last 5 years | 1 | 2 | 3 | 4 | 5 |
| f. | Customer relationships have improved over the years | 1 | 2 | 3 | 4 | 5 |
| g. | Image and reputation of the firm has improved over the years | 1 | 2 | 3 | 4 | 5 |
| h. | New products and services have been developed in the last 5 years | 1 | 2 | 3 | 4 | 5 |
| i. | There has been growth in the entity's business value | 1 | 2 | 3 | 4 | 5 |

Section 4

10. CSR and Financial Performance

Please indicate your level of agreement in respect to the following statements (**please tick or circle as appropriate**: 1 = strongly disagree, 5 = strongly agree)

- | | | | | | | |
|----|--|---|---|---|---|---|
| a. | CSR has an effect on Customer satisfaction | 1 | 2 | 3 | 4 | 5 |
| b. | CSR has an effect on internal business processes of the firm | 1 | 2 | 3 | 4 | 5 |

c. CSR has an effect on the firm's competitiveness 1 2 3 4 5

d. CSR has an effect on the firm's profitability 1 2 3 4 5

e. CSR has an effect on attainment of Company objectives/goals 1 2 3 4 5

11. In your opinion, does the firm align Corporate Social Responsibility with Financial priorities?

Yes []

No []

12. Is CSR part of the Company's annual budget?

Yes []

No []

13. What percentage of the budget is allocated to CSR?

.....
.....
.....

End of Questionnaire

Appendix III: Data

Data Year 2008

Company	CSR Score	Capital Intensity	ROA	Efficiency
Express Kenya Ltd	3.342246	0.872119	0.027113	0.900353
Hutching Biemer Ltd	5.386959	0.637035	0.113886	0.958714
Kenya Airways Ltd	1.773464	1.056914	0.143826	0.670409
Longhorn Kenya Ltd	2.139984	0.346494	0.018489	0.940378
Nation Media Group	9.670245	0.904092	0.12605	0.945457
Scan Group Ltd	21.61965	0.962648	0.094291	0.973962
Standard Group Ltd	7.309792	0.760697	0.077309	0.970137
TPS Eastern Africa	9.349846	1.028494	0.033694	0.942705
Uchumi Supermarket	6.31669	1.302953	0.271522	0.939562

Data Year 2009

Company	CSR score	Capital intensity	ROA	Efficiency
Express Kenya Ltd	1.517879	0.540872	0.091045	0.621852
Hutching Biemer Ltd	2.337446	0.861712	0.137777	0.823006
Kenya Airways Ltd	2.775758	1.067133	0.262693	0.912403
Longhorn Kenya Ltd	4.544364	1.701233	0.221103	0.892121
Nation Media Group	4.959553	0.809439	0.215006	0.94612
Scan Group Ltd	6.136452	1.369667	0.091941	0.922253
Standard Group Ltd	15.17711	1.078649	0.18615	0.968455
TPS Eastern Africa	2.307154	0.716304	0.124475	0.877162
Uchumi Supermarket	5.172941	1.203919	0.341918	0.936799

Data Year 2010

Company	CSR Score	Capital Intensity	ROA	Efficiency
Express Kenya Ltd	2.270086	0.869632	0.123564	0.922151
Hutching Biemer Ltd	1.59363	0.942316	0.071546	0.968927
Kenya Airways Ltd	2.54636	0.762028	0.10087	0.966551
Longhorn Kenya Ltd	1.43979	1.203341	0.049319	0.93364
Nation Media Group	2.035905	1.197884	0.21746	0.932634
Scan Group Ltd	1.9541	0.746972	0.235803	0.713293
Standard Group Ltd	1.078856	0.531724	0.081225	0.58709
TPS Eastern Africa	4.076334	0.612325	0.09117	0.833939
Uchumi Supermarket	2.631956	0.903311	0.202	0.904474

Year 2011

Company	CSR Score	Capital Intensity	ROA	Efficiency
Express Kenya Ltd	1.59363	0.942316	0.071546	0.968927
Hutching Biemer Ltd	2.54636	0.762028	0.10087	0.966551
Kenya Airways Ltd	1.43979	1.203341	0.049319	0.93364
Longhorn Kenya Ltd	2.035905	1.197884	0.21746	0.932634
Nation Media Group	1.9541	0.746972	0.235803	0.713293
Scan Group Ltd	1.078856	0.531724	0.081225	0.58709
Standard Group Ltd	4.076334	0.612325	0.09117	0.833939
TPS Eastern Africa	4.274013	0.25866	0.27471	0.952716
Uchumi Supermarket	3.086563	0.84811	0.059326	0.849821

Data Year 2012

Company	CSR Score	Capital Intensity	ROA	Efficiency
Express Kenya Ltd	4.57652	0.787333	0.015038	0.908792
Hutching Biemer Ltd	2.78161	0.60944	0.082649	0.957315
Kenya Airways Ltd	1.07761	1.107336	0.147517	0.63955
Longhorn Kenya Ltd	2.20943	0.331281	0.09124	0.950386
Nation Media Group	2.27008	0.869632	0.123564	0.922151
Scan Group Ltd	1.59363	0.942316	0.071546	0.968927
Standard Group Ltd	2.54636	0.762028	0.10087	0.966551
TPS Eastern Africa	1.43979	1.203341	0.049319	0.93364
Uchumi Supermarket	2.035905	1.197884	0.21746	0.932634