# THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA

**BY:**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE IN FINANCE, UNIVERSITY OF NAIROBI**

**NOVEMBER, 2013**

# DECLARATION

I declare that this research project proposal is my original work and has not been presented for the any other award of degree in any other university.

**Sign: ……………………………** **Date ………………………………**

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**D63/73164/2012**

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

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## ACKNOWLEDGEMENT

Am greatly indebted to a number of people to whom this project work would not have been accomplished. The study would not have been realized were it not for my supervisor Mr. Herick Ondigo for his insightful guidance and helpful comments assisted in a long way in nurturing small idea to evolve to this end.

I also wish to thank my colleagues for their comments and criticism which were also useful in one way or the other in the course of this project. The contribution and encouragements made by my family members especially for their caring support. And finally to God Almighty, for the divine life and compassion in seeing me through all the achievements I have encountered.

# DEDICATION

The research paper is dedicated to the Holy trinity: God the Father, The son and the Holy Spirit.

# ABSTRACT

Numerous studies have been conducted to find the relationship between corporate social responsibility (CSR) activities and their financial performance within the international level for large firms but very little analysis has been undertaken to determine any relationship between these two variables in the Kenyan SME sector. For the little work that has been undertaken at international level on the relationship, the research suffered from poor research design, inappropriate statistical method and inadequate data and thus less weight can be placed on their findings.

In this study the attempt is to overcome the weaknesses in previous studies and to provide better insights into these issues by examining the relationship between this variable from Kenyan SMEs perspective by identifying drivers of CSR in the Kenyan sector in explaining the voluntary adoption of CSR activities by SMEs. The research survey consisted of active top 100 SMEs in the year 2012 in Kenya and questionnaire used to collect data regarding corporate social responsibility while companies' financial statements used to collect data for the financial performance variable. Return on assets ratio was used in measuring firm's financial performance with regression analysis will been applied for data analysis of financial variables.

The study further revealed that there was a positive and significant correlation between ROA, other variables under study and net income. This also implies that there is a positive relationship between net income, CSR, financial performance and growth in the total assets. Results also indicate that the correlation between ROA and growth in CSR and net income was significant. The correlation between ROA, growth in income, growth in CSR and net income was positive and significant (r=0.556 and p value =0.000).

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# LIST OF ABBREVIATIONS

AIDS- Acquired Immune Deficiency Syndrome

BAT- British American Tobacco

CSR-Corporate Social Responsibility

DFID- Department for International Development

EABL- East Africa Breweries Ltd

FP- Financial Performance

GDP- Gross Domestic Product

HIV- Human Immune Virus

ILO- International Labor Organization

KeNIC- Kenya Network Information Centre

KLD-Kinder Lydenberg Domini Index

NGO- Non Governmental Organization

NSE-Nairobi Stock Exchange

R&D- Research and Development

RBV- Resource Based View of the Firm

ROA-Return on Asset

ROE-Return on Equity

ROS-Return on Sales

SMEs- Small and Medium Enterprises

SPSS- Statistical Package for Social Sciences

VCT- Voluntary Counseling Test

WBCSD- World Business Council for Sustainable Development

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the study

The field of CSR has grown exponentially in the last decade with majority of companies issuing CSR reports. Interest in extent to which company directors and managers consider social and environmental factors in making decisions rather than focusing on profit maximizing goal has been the subject of many discussions with increasing interest in assessing the validity of concerns regarding the trade-off between a company's CSR activities and its future financial performance. While different schools of thoughts endlessly argue what CSR is, one of the hot topics is whether a firm will improve its financial performance or if not, if it will incorporate it. A number of theorists have developed an array of substantial literature arguing that socially responsible practices are part of a constellation of management behaviors that contribute to better financial performance ( Ullmann 1985; Waddock & Graves 1997) and with more than 127 empirical studies been conducted on the subject (Margolis & Walsh 2003).

Academicians and practitioners point to Howard Bowen's Social Responsibilities of the Businessman (Bowen, 1953) as the initial attempt to thoroughly examine and analyze the relationship between corporations and society in the year 1970s, with most scholars and practitioners focusing on the application process of CSR in the business and social environment. The globalized world has witnessed rising social inequalities, increasing disparities in income, 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 disorder of unregulated market forces which pose numerous challenges for the private sector (Levy & Kaplan, 2007) and has as well led to the private sector be seen sometimes as an enemy of the poor according to Department For International Development (DFID) (2003).

### 1.1.1 Corporate Social Responsibility

The idea of corporate social responsibility (CSR) is an enormously complex field and evolving subject. It emerged to reconcile the apparent tension between the primary objective of business industry which is profit maximization and the essential goal of the economic system of which corporations is a component, which includes sustainable economic growth and development, interpreted as the enhancement of the wellbeing of members of society. The concept of corporate social responsibility was first introduced in an influential book by Howard Bowen (1953) called "Social Responsibility of the Businessman". In this book, Bowen stated that the social responsibility of a businessperson is commitment to the policies, decisions, and actions which are in line with social goals and values.

World Business Council For Sustainable Development (WBCSD) report (2000), notes that a universally accepted definition of CSR has yet to emerge and define CSR as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. According to Tsoutsoura (2004), in a globally competitive market, companies pursue growth through active involvement in

CSR programs in order to achieve competitive advantages to the company pursuing such goals by using their social contributions. Companies operating internationally are also mostly often required to play a significant role in social issues of the respective nations they operate in, despite the heavy government regulations, environmental restrictions, labor exploitation issues which can cost this companies millions of dollars. Under such considerations, companies engage in CSR for both long term profitability and sustainability of the company as well as enhance the reputation of the organization. While some view CSR as a costly hindrance, others have managed to use CSR as a strategic tactic to obtain public support for their presence in the global markets.

Implementation of CSR differs across each company, and this difference depend on factors such as specific company size, particular industry the company is involved in, firm’s business culture, stakeholder demands and how historically the firm has been involved in CSR activities. For successful implementation, it is important that CSR principles be part of the firm’s values, corporate objective and core competencies, strategic planning so that both management and employees are committed to them. The challenges of poverty, hunger, HIV/AIDS and sanitation are just some of the factors jeopardizing social and economic progress in developing countries such as Kenya and there is certainly a role CSR can play in addressing these challenges, and more research is required to determine what action businesses are currently taking. (visser et al, 2006; Matten & Moon, 2008).

Kivuitu & Fox (2005) provided insights into CSR in Kenya and noted that it was a relatively a new notion and that exists many initiatives that may be described as CSR. In Kenya, companies engage in long term CSR projects such as rehabilitation and capacity building programme, scholarship fund to enable bright children from underprivileged families to acquire education, donate money to charity toward proper diagnosis, long term treatment care, and donation to the Kenya Red Cross toward the emergency relief fund regarding recent civil unrest and involvement in environmental conservation program. Corruption is seen as a major obstacle to achieving CSR in Kenya with civil society organizations campaigning against poor labor practices and environmentally damaging production processes in the export sectors, such as cut flowers, horticulture and textiles (Dolan et al, 2005; Kiviutu & Fox, 2005).

To measure CSR in quantitative terms is challenging because it lacks concreteness and is a concept with many dimensions which do not behave similarly in all industries and therefore have their own characteristics. CSR disclosure includes analysis of annual reports, letter to shareholders and other corporate social disclosure. Despite these disclosures, there is no way to determine empirically whether the social performance data revealed by firms are under-reported or over reported.

### 1.1.2 Financial Performance

Measuring financial performance is considered to be a simpler task despite its specific complications with many researchers preferring to use market measures and others opting for accounting measures (Waddock & Graves 1997; Cochran & Wood 1984). Accounting measures capture historical aspects of firm performance and are subject to bias from managerial manipulation and thus produces incomparable results between firms because of the different accounting procedures applied. The characteristics of different sectors and the risks associated with them should be taken into consideration when using accounting based measures (McGuire, Schneeweis & Hill, 1988).

While market measures on the other hand are forward looking and focus on market performance and they are less susceptible to different accounting procedures and represent the investor's evaluation of the ability of a firm to generate future economic earnings. This type of measure is also successful at attaining the companies' future economic earnings rather than past performance. However, the shortcoming of this method is that the investors' perception of the company may not be enough to gauge firm financial performance (McGuire et al., 1988; Ullmann, 1985).

The use of the measure for financial performance is based on the thought that the measure can indicate an entity's performance that is not affected by the difference of company size. The ROA measures not only profit aspect but also that related to assets employed to generate the profit. If the ROA is broken down, there will be important two measures: profitability ratio (profit margin) and asset turnover ratio. It determines whether the company is able to generate an adequate return on its assets rather than simply showing robust return on sales. For ROE (return on equity), it doesn't say much about how well a company uses its financing from borrowing and bonds and such a company may deliver impressive ROE without actually being effective at using shareholders equity to grow the company. The researcher will use ROA and ROE to measure FP and the data will be obtained from the financial statements of the company.

### 1.1.3 The Relationship between CSR and Financial Performance

There have been many theoretical and empirical debates about the relationship between CSR and firm's financial performance with one hundred twenty-seven published studies between 1972 and 2002 with different measurement methods (Margolis & Walsh, 2003). Ullmann (1985) argues that the relationship could be indirect, and that the number of factors influencing profitability is so large that there is not even a reason to expect a direct causal relationship. This also suggests that a relationship might be more easily proven or disproven through the analysis of micro-factors such as branding and recruiting. The inaccuracies in the measurement of FP might be another factor preventing the tracing of a direct relationship. Although the linkage between CSR and FP is inclusive in literature review, most discussions suggests positive correlation (Moskowitz 1972; Waddock & Graves 1997).

The argument for a negative relationship follows the thinking of those such as Friedman (1970) and other neoclassical economists. According to their view, socially responsible firms have a competitive disadvantage (Aupperle et al., 1985), because they incur costs that fall directly upon the bottom line and reduce profits, while these costs could be avoided or borne by individuals or the government. Waddock and Graves (1997) studied the empirical linkage between financial and social performance and found out that CSR was positively associated with prior financial performance. The results were in line with slack resources resulting from better financial performance made companies invest in areas that are related to social domains. The result also supported good management practice resulting from engagement in social domains enhancing the relationship with stakeholders causing better financial performance (Freeman, 1984).

Another study by McWilliams and Siegel (2000) posited the argument that studies analysing the link between CSR and financial performance are mis-specified unless they controlled for the research and development (R&D) intensity of the firm since it was a crucial determinant of firm performance and concluded that CSR had a neutral effect on firm performance as measured by profitability when the variable of the research and development intensity was included in the model. They argued that this occurred as a result of the high correlation between CSR and R&D and thus, when R&D Intensity is introduced as a variable, good management theory will not be supported. Another study was conducted by Orlitzky et al. (2003) who found a strong correlation between financial performance and corporate social/environmental performance. This relationship is more strongly pronounced for the accounting based measures of performance than the market-based measures of performance.

### 1.1.4 Small and Medium Enterprises in Kenya

SMEs are defined differently between countries and within sectors and mostly differ in break points they employ as well as the underlying basis used for classification. Some of these definitions are based on quantitative measures such as staffing levels and turnover of assets, and others employ qualitative approach according to Meredith (1994). In many emerging markets the SME sector is one of the principal driving forces for economic development and job creation. According to Economic Survey of 2006, SME contributed to over 50 percent of jobs created in 2005 and play a pivotal role in creating dynamic market oriented economic growth, employing the growing workforce in developing countries, alleviating poverty and promoting democratization.

After 1971, the informal sector gained universal recognition and this was after the international Labor Organization (ILO) carried out a study in Kenya on employment, income and equality. In its report ILO adopted their own definition of the informal sector by taking the expression of SMEs as a business employing 3 or 4 family members to modern enterprise with up to 50 employees. It also includes domestic industries, cooperatives, individual enterprises, micro-enterprises and self employed workers in the informal sector. The Kenyan SME sector is a mixture of dynamic enterprises involved in an array of activities that are concentrated in urban areas but are also evident in rural Kenya. Ndua & Ngethe (1984) portrays SME sector as the key to provision of employment and incomes for both the entrepreneur and the government as the sector offers both direct and indirect employment to over 2.2 million people in the country as it absorbs mainly the unemployed thus alleviating the government of job creation.

The 1999 baseline survey (Central Bureau of Statistics, 1999) indicated that there were 1.3 million micro and small enterprises employing 2.3 million people and generating as much as 18% of the country's GDP and the contribution of SMEs is more than double that of the large manufacturing sector, which stands at 7% of the GDP (Republic of

Kenya, 2003a). King (1991) states that SMEs have become the focus point of policy makers in Kenya who are challenged to improve the enabling environment by creating broad policies conducive to a firms growth and especially targeting specific policies conducive to removing or reducing business risk. Overtime, sector specific development plans and policy documents have been developed as a national initiative towards the promotion of the sector. A good example is the "Sessional Paper No. 2 of 1996 of industrial transformation to the 2020' which reaffirms government commitment to support SMEs. Previous studies on small enterprise development in Kenya (Mullei & Bokea, 2000; Coughlin & Ikiara, 1998; King, 1996) have largely focused on social, economic and administrative constraints that hinder development of the SMEs. However, the proposed investigation focuses on CSR activities and financial performance of SMEs.

The long-term growth and competitiveness of SMEs are compromised by the constraints on their access to alternative forms of finance, among other systematic and institutional problems in developing countries. Limited access of SMEs to credit and financial services has been identified as one of the most important supply constraints confronting the sector in Kenya (Soderbom, 2001). As a result, SMEs' share of financing resources is disproportionately less than their relative importance in domestic employment and to the value added. The Important role of SMEs in development of economy in Kenya has been recognized and documented in other studies. A detailed review of development of SMEs in Kenya is found in King (1996a) who identifies and discusses the critical turning points in the history of the sector. One of the challenges in studying SMEs in Kenya is how to establish objective and uniform criteria for which to define the SMEs.

## 1.2 Research Problem

CSR is problematic as it is often perceived that there is opposition between CSR activity and financial performance with one being deleterious to the other and corporations having an imperative to pursue shareholder value. Moreover there is no agreed upon definition of exactly what constitutes CSR according to Ortiz et al. (2005) and therefore no agreed upon basis for measuring that activity and relating it to the various dimensions of corporate performance.

CSR has mainly been discussed in the context of larger businesses and there is compelling evidence that it can also be used as a strategic tool to enhance the competitiveness of SMEs by helping SMEs in a great deal in improving their survival rate as well as offering great opportunities for business competitiveness, locally and globally. CSR is clearly affecting SMEs in developing countries through direct supply chain relationships, as well as the development of legislation, and international standardization and certification as it represents not only change to the commercial environment in which individual SMEs operate but also needs to be considered in terms of its net effect on society.

Although the relationship between CSR and financial performance has been a hot topic among the western community after several decades of arguments, there is still little empirical literature about this relationship in the Kenyan SMEs. Mutuku (2004) and Mwangi (2011) did a study on relationship between CSR and financial performance of companies quoted at NSE and the results of the regression analysis showed no relationship between CSR and financial performance, while Mwangi (2011) results of the analysis showed that there was an upward trend in performance of listed firms on the NSE as well as upward trend in the amount of money investment in CSR programs.

A knowledge gap exists in identifying financial performance of SMEs and CSR. This study therefore intends to address the following research question on the relationship between CSR and financial performance of SMEs in Kenya.

## 1.3 Objective of the study

To determine the relationship between corporate social responsibility and financial performance of SMEs in Kenya.

## 1.4 Value of the study

The study on SMEs is very important to the government and policy makers in Kenya due to the contribution of SME to the Kenyan economy in both terms of employment and GDP. Policy makers will be enlightened to make policies relating to CSR and ascertain the appropriate guidelines to be put in place for governing SMEs.

The research will also add value to the business community especially SME entrepreneurs who have or are in the process of setting up their business. This will allow them to practice corporate social responsibilities as it improves its financial performance.

The study will also add value to the academic community. This is because the study will shed more light in the CSR activities on the Kenyan SMEs sector and its impact on the financial performance as well as for those who want to undertake further research on CSR.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1 Introduction

This chapter contains theories and literature review on studies that have been done on past on CSR and FP. The chapter begins with theoretical framework which consists of theories related to CSR and its relation to FP.

## 2.2 Theoretical Review

In the finance literature, a lot of studies have attempted to explore the nature of relationship between firm's profitability and its social performance. Different researchers conducted different studies with different methodologies with some adapting theoretical studies in order to prove that CSR has an impact on financial performance of a firm and others empirical studies .In spite of all these studies, there is still lack of consensus among the results of different researchers on the nature of relationship between corporate social and corporate financial performance.

### 2.2.1 Agency Theory

The relationship of agency is one of the oldest and commonest codified modes of social interrraction. According to Ross (1973) agency theory proposes that during a transaction, the principal designates another person, the agent to act on his or her behalf. This requires the principal to trust the agent under imperfect information and uncertain outcomes Ross. Friedman (1970) draws on agency theory in his criticism of CSR, explaining that "there is one and only one social responsibility of business, which is 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 say, engages in open and free competition without deception or fraud."

He prefers that the state address social problems, arguing that an executive, by taking money and resources that would otherwise go to owners, employees, and costumers, and allocating them according to the will of the minority, fails to serve the interests of her or his principal. In this way, the executive imposes a tax and spends the proceeds for "social" purposes, which is intolerable, since she or he has neither the skills nor the jurisdiction to do so. However, Carroll (1979) points out that the economic and societal interests of the firm are often intertwined; for example, product safety is of concern both at the economic and societal levels. Therefore, practicing CSR may be in the best economic interests of the firm.

### 2.2.2 Stakeholder Theory

One of the cornerstones of CSR is the concept of stakeholder management, Davidson (2006). It has evolved as academicians and practitioners have looked beyond the notion that a for- profit, listed company, there primarily goal is to serve its shareholders. On one side of the argument are those who believe in providing for society's discretionary expectations and in addition to making profits and obeying the laws, a company should attempt to alleviate or solve social problems. Donaldson and Preston (1995) justify the stakeholder theory of the firm from descriptive, instrumental, and normative viewpoints by stating that society at large and subgroup of society (employees, customers) are considered to be stakeholders of the firm and thus justifies CSR.

Jensen (2001) argues that what he calls “enlightened value maximization” and “enlightened stakeholder theory” may be thought of as identical. Enlightened value maximization uses stakeholder theory to consider that a company cannot maximize value if any important stakeholder is ignored or mistreated. However, it maintains as the criterion for making the requisite tradeoffs among its stakeholders long-term value maximization. Enlightened stakeholder theory considers long-term value maximization or value as the objective function of the company, thereby solving the problems that arise from considering multiple objectives, as in traditional stakeholder theory.

### 2.2.3 The Slack Resource Theory

It is based on the view that a company should have better financial performance to result in the availability of ‘slack resources’ which provide the opportunity to invest into CSR activities. This theory assumes CSR to be dependent variable. Conducting the social performance needs some fund resulting from the success of financial performance and according to this theory, financial performance comes first. The function of the resource is to enable the company to successfully adopt to internal pressure for adjustments to the external pressures for change and the resources required by the companies are slack In nature which is defined as any available or free resource (financial or any other resource) used to attain the company certain objectives (Bucholtz et al., 1999).

According to Waddock and Graves (1997), when a company financial performance improves, slack resource will be available to enable the company to conduct CSR activities such as employee relation, environmental performance and society or community relation. McWilliams and Siegel ( 2001) state that for profit-maximizing firms, CSR can be utilized for purposes of creating strategic advantages while a study by McWilliams, Siegel, and Wright (2006) expand on this further stating CSR efforts are valuable, rare, inimitable, and non-substitutable' just like any other scare resource under Resource Based View of the Firm (RBV).

### 2.2.4 Good Management Theory

Good management theory holds that social performance come first and based on this theory, a company perceived by its stakeholders as having a good reputation will make the company easier (through market mechanism) to get a good financial position. Unlike the financial performance, the social performance is hard to measure and that's why some previous studies on the relationship between corporate social performance and corporate economic/financial performance used different approaches to corporate social performance. Some approaches used include: eight attributes of reputation (often called Fortune measure), Five aspect on focusing on key stakeholders and three pressure variables (often called KLD measure), quantitative measure of environmental aspect (often called TRI measure), quantitative aspect of company philanthropy (often called Corporate philanthropy measure), and six social measure on customer, employee, community, environment, minority, and non US stakeholder (often called best corporate citizen).

According to this theory, there is a high correlation between good management practice and FP with FP as the independent variable such as improving stakeholder relationship results in better overall performance. For example, good employee relations might be expected to enhance morale, productivity, and employee satisfaction. Positive customer perceptions may lead to increased sales or reduced stakeholder management cost. FP is both a predictor and consequence of firm financial performance, forming a simultaneous relationship or a kind of ‘virtuous circle’.

### 2.2.5 The Signaling Theory

Signaling theory suggests that individuals use various clues, dropped by the firm, to draw conclusions about the firm’s intentions or actions (Srivastava & Lurie, 2001). In the organizational choice process, prospective employees use any available information to improve their efforts to make a rational decision and information about certain FP dimensions may provide the data a job seeker needs to assess the appropriateness of the employer.” Thus firms have an incentive to disclose all positive distinguishing attributes in order to maximize their own self interest. Signaling theory according to Wanous (1992) pointed out that job seekers require complete and accurate organizational information to match their needs properly with organizational offerings. However, job seekers usually have limited information about organizations and must use bits and pieces of data to construct a view of what it would be like to work for an organization (Barber, 1998).

### 2.3 CSR Activities

In post-independence Kenya, Harambee which is a slogan for pulling together was a call to cooperate in the name of national development. In a study by Chepkwony (2008), good CRS initiatives were provided as proposed by KeNIC CSR framework which is built on a base of compliance with legislation and regulations. The CSR activities identified were:

#### 2.3.1 Corporate Governance, Ethics and Philanthropy

KeNIC emphasizes commitment to upholding high standards of corporate governance where the Board and management are accountable and responsible for maintaining standards partly or fully defined and articulated in Articles and memorandum of association, operating Policies, scheme of Service, Board Charter, mission and vision.

To ensure good relations with its community at large, corporate philanthropy is emphasized to form an integral part of its annual activities. A corporate philanthropy proposal detailing proposed activities, budgets, timelines and obligations should be the responsibility of the Board, Management and employees. It proposes a CSR budget to be allocated to Corporate Philanthropy activities for each year.

#### 2.3.2 Human Resource Management

KeNIC emphasize human capital has become a key intangible value driver that contributes substantially to organizations success and sustainability and it endeavors to promote fair labor practices, competitive wages, benefits, training and family-friendly work environment to its staff. According to Opondo (2006), the Kenya Cut Flower

Industry is considered one of globalization success which has made significant development with respect to CSR activities touching on human resources management. The industry has made several changes on employment practices. Most of the farms have instituted a number of positive employment practices since 2002.

### 2.3.3 Health and HIV/AIDS

According to KeNIC Framework which states that in the Health sector, many Kenyan firms have been supporting government effort of providing health care. A good example is the annual donation of assortments of Surgery Equipment by the East African Breweries Ltd (EABL), a beer maker to rural dispensaries. The company has also helped in establishments of specialized treatment centers such as optical centers and heart units in remote areas of the country. The corporation is also involved in the fight against the HIV/AIDS pandemic in Kenya and has adopted a new policy on HIV/AIDS, the objective of which is to minimize, monitor and manage the impact, spread and consequences of the disease among the company's employees as well as other members of the public. It provides a variety of workplace programmes which cover non-discrimination, awareness and prevention, Voluntary Counseling and Testing (VCT), and employee support according to Chepkwony (2008).

### 2.3.4 Community Involvement and Development

One of the key emphases of the KeNIC Framework is community involvement In addition to corporate philanthropy which advocates for corporate participation in community related activities in its region in order to build strong links with the community. A good example of this community involvement is a recent initiative of lighting of streets in Nairobi by Adopt-a-Light as stated by Chepkwony (2008).

### 2.3.5 Education, Training and Capacity Building

The KeNIC Framework for CSR advocates for corporations to support education, training and capacity building of communities in which they operate. This area has been given a lot of emphasis by many businesses sue its potential. Various Kenyan corporate organizations are also very active in the education sector. EABL offers each year ten full university scholarships to students interested in pursuing business studies, engineering, and food science programmes to bright students from poor backgrounds according to study by Chepkwony (2008).

### 2.3.6 Water and Sanitation

Statistics from the Institute of Economic Affairs show that Kenya is one of the countries in the world that have poor access to clean water and sanitation. Those living and working in informal settlements and rural arid areas are especially affected by the water and sanitation problem. Access to clean water and sanitation are emphasized in the KeNIC model. The EABL Foundation spent Kshs 5 Million ($9000) for the construction of an ablution block at the Muthurwa Market and Bus Terminus. The block will serve over 100,000 people working and passing through the market and bus terminus every day according to study by Chepkwony (2008).

### 2.3.7 Environment Management and Conservation

The organizations staff should be encouraged to consider and promote good environmental practices through the review of purchasing processes, reduction in the consumption of resources such as energy, water and the recycling or other waste management initiatives. In addition, on a regular basis there is need to review environmental initiatives in tandem with global trends. Further, staff and board members should be encouraged to participate in local environmental initiatives to foster strong relations with the community and environmentalist.

The EABL has also been very active in its contribution to environmental conservation with the EABL Green team members comprising employees have planted over 40,000 trees in water catchments areas in Kenya and Uganda sometimes in collaboration with the UNEP, stakeholders and communities. In addition, the company has expanded its waste and solid waste management operations to include communities living around its plants according to study by Chepkwony (2008).

### 2.3.8 Sustainable Agriculture

As part of community involvement proposed by the KeNIC Framework, some corporations are involved in the promotion of sustainable agriculture achieved through sponsorship as well as technology transfer. In this area, agribusiness firms have been active in establishing demonstration farms and helping farmers produce high quality products using efficient and effective methods.

The British American Tobacco (BAT) Kenya for example, has worked for several years in the community, donating over £250,000. These funds have been utilized to start-up sustainable agriculture projects in a rural semi-arid district of Kenya. The name given to the project is Kerio Tradewinds. The purpose of the project is to co-ordinate local agricultural income generating activities. Further company funding helped to expand the project's activities to planting fruit trees, tea production, dairy farming, tourism and mining according to study by Chepkwony (2008).

### 2.3.9 Customer/Supplier Relations

Customers including suppliers are key service providers to corporations and it is important to build a strong working relationship in their relation as a customer and a supplier to ensure that they facilitate and support CSR related activities with the primary consideration of ensuring that Customers/Suppliers uphold ethical business standards. Firms should therefore strive to promote and do business with customers who share a similar vision with relation to good citizenship and 'net citizen' and should endeavor to uphold the terms of their accreditation agreement. Towards this end, customers should be trained or informed of their expectations and the firm should likewise meet its end of the bargain in a CSR conscious manner according to study by Chepkwony (2008).

## 2.4 Determinants of Financial Performance

Each company differs in how it implements CSR, if it implements it at all and the differences depend on such factors as the specific company's size, the particular industry involved, the firm business culture, stakeholder demands and how historically progressive the company is in engaging in CSR. Some companies focus on a single area that is regarded as the most important for them, or where they have the highest impact or vulnerability for example human rights or the environment, while others aim to integrate CSR into all aspects of their operations. For successful implementation, it is crucial that the CSR principles are part of the corporation's values and strategic planning, and that both management and employees are committed to them. Furthermore, it is important that the CSR strategy is aligned with the company's specific corporate objectives and core competencies.

Therefore, firm size and type of industry should be controlled in investigating the relationship between CSR and its financial outcome and analysts forecast can be considered as a bridge between CSR and firm valuation according to Margolis et al. (2007). More moderating variables are needed such as consumer's attributions of corporate outcomes in response to CSR can influence the financial performance of CSR. Many empirical studies have tried to reveal the relationship between customer satisfaction and real profit, with previous studies also indicating that customer satisfaction is expected to mediate the relationship between CSR and market value. This result can be attributed to customer satisfaction, which makes it possible to convert CSR into financial value. Even though customer satisfaction is a cumulative concept during the relatively long term rather than the short term, CSR can create a positive response in customer satisfaction. Accordingly, consumers can perceive high level of ethics, facilitating favorable evaluation and satisfaction.

According to McWilliams and Siegel (2000), brand equity can moderate the relationship between CSR and its financial output as well as R & D costs could be included as a moderation variable that can interact with CSR, affecting its financial outcome. In this case, McWilliams and Siegel argue that the omission of a variable for company 'R&D intensity' renders the model invalid and go on to demonstrate that including 'R&D intensity' results in a neutral relationship, whereas Waddock & Graves previously found a positive relationship.

**2.5 Empirical Review**

Frooman (1997) analyzed 27 event studies that have measured the stock market's reaction to incidences of socially irresponsible and illicit behavior and found out that for firms engaging in socially irresponsible and illicit behavior, the effect on shareholder wealth is negative (wealth decreases), statistically significant ($p < .001$), and so substantial in size ($D = -.932$) and that the distribution of abnormal returns is shifted nearly a full standard deviation to the left (i.e., negatively) from their expected standard normal distribution. This result gives rationally self-interested firms a self-interested reason to act in a socially responsible and law-abiding manner and also provides support for a moral position called enlightened self-interest, which prescribes that firms should act in a socially responsible manner to promote the shareholders' interests.

Griffin and Mahon (1997) studied the relationship between CSP and CFP for the period of 1970s, twenty seven studies for 1980s, and eight studies for 1990s with total of fifty one articles. In the 1970s, there were sixteen studies reviewed with twelve of which was positive trend of the relationship. For the 1980s, the positive relationship had been accounted for fourteen of twenty seven studies. For the 1990s, the positive relationship has been found for seven out of eight studies. The negative results were favored by only one study in the 1970s, and found seventeen studies in the decade of 1980, and there were only three studies in the 1990s decade. The results remained unconvincing for four studies in the decade of 1970, five studies in the decade of 1980, and nothing found in the 1990s.

Research conducted by Tsoutsoura (2004) on the relationship between CSR and FP in the USA, using extensive data over a period of five years, the survey covered the firms included in the S&P 500 index for the years 1996 - 2000. The study measured CSR and employed two measures. The first measure was the KLD rating data for the companies in the S& P 500 and a second measure, the Domini 400 Social Index as a proxy was used. In the study, firm financial performance was measured by accounting variables and the financial data used were return on assets (ROA), return on equity (ROE), and return on sales (ROS). The source of our data was the COMPUSTAT database. Cross-sectional time series regression analysis was used to test the hypotheses using financial performance as the dependent variable and controlling for size, debt level, and industry. The results indicated that the sign of the relationship was positive and statistically significant, supporting the view that socially responsible corporate performance can be associated with a series of bottom-line benefits the existence of a positive relationship between corporate social responsibility and firm financial performance had been confirmed.

Margolis and Walsh (2001) empirically examined the relationship between corporate social responsibility and financial performance of one hundred twenty-two published studies between 1971 and 2001. The relationship between CSR and financial performance comprised mainly of 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. Margolis et al. conduct a meta-analysis of 192 effects revealed in 167 studies. They noted whether control variables were incorporated into the estimate of the CSP-CSF effect size. They coded for the most common control variables industry, firm size and risk. Firm size is a worthwhile control variable because larger firms may have greater resources for social investments, attract greater pressure to engage in CSP or, just the opposite, succumb to a diffusion of responsibility. Firm risk is also an important factor to control because stable firms with lower risk generally appear more likely to engage in CSP (Alexander & Buchholz, 1978).

The overall effect is positive but small and looking deeper, they analyze these effects across nine categories of CSP (charitable contributions, corporate policies, environmental performance, revealed misdeeds, transparency, self-reported social performance, observers' perceptions, third-party audits and screened mutual funds). They find that the association is strongest for the analysis of the specific dimensions of charitable contributions, revealed misdeeds, and environmental performance and when CSP is assessed more broadly through observer perceptions and self-reported social performance. The association is weakest for the specific dimensions of corporate policies and transparency and when CSP is assessed more broadly through third-party audits and mutual fund screens. Summarizing, this research shows the importance of the control variables industry, firm size and risk. Therefore, Margolis, et al. conclude that if future research on the link between CSP and CSF persists, it should meet a number of minimum standards.

The second type of study examines the relationship between some measure of corporate social performance (FP) 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) reported positive correlation between social responsibility and accounting performance after controlling for the age of assets. He reexamined using a new methodology, improved technique and industry-specific control groups. Average age of corporate assets was found to be highly correlated with social responsibility ranking after controlling for this factor and there was still is some correlation between corporate social responsibility and financial performance. Wright and Ferris (1997) provided the negative direction of the relationship. Moreover, in the decade of 2000, a few number of researchers provided additional elements to the discussion regarding the corporate social performance and corporate financial performance link with different settings of methodology.

Aupperle et al. (1985) were critical of the research that had been carried out previously, especially in regards to what they had considered to be weak methodology applied on the relationship of CSR and financial performance. To avoid using weak methodology, they carried out a survey using a specially designed survey instrument that they created to minimise the effects of bias in their respondents' answers. To measure financial performance, the researchers used both long-term and short-term return on assets and no relationship was found between the variables, CSR and financial performance, suggesting the effect CSR has on profitability is neutral and by reporting CSR profits are neither increased nor decreased. A point is raised however, that there may be some intangible benefits which arise from the reporting of CSR, and the question is raised whether this debate may ever be resolved.

Roshima (2002) did a study on the relationship between CSR disclosure and corporate governance characteristics in Malaysian public listed companies. The purpose of his study was to examine corporate governance characteristics, namely the board size, board independence, duality, audit committee, ten largest shareholders, managerial ownership, foreign ownership and government ownership and the extent of CSR. Content analysis was used to extract the CSR disclosure items from annual report and companies' web sites and CSR disclosure index was constructed after combining CSR disclosure items disclosed both in annual reports and in companies' web sites. Hierarchical regression analysis was used to examine the relationship between the corporate social disclosures index and the independent variables, namely the board size, board independence, duality, audit committee, ten largest shareholders, managerial ownership, foreign ownership and government ownership after statistically controlling the effects of a firm's size and the profitability of the companies. Results based on the full regression models indicated that only two variables were associated with the extent of disclosures, namely government ownership and audit committee. Government ownership and audit committee are positively and significantly correlated with the level of corporate social responsibility disclosure and the most significant variable that influences the level of CSR disclosure is government ownership.

A research carried out in Australia by Brine et al., (2007), an examination of the relationship between financial performance and corporate social responsibility across the top 300 ASX listed companies for the 2005 financial year was conducted with a total of 277 companies remaining in the sample after companies with missing data were eliminated. CSR measurement was based on whether companies made separate sustainability disclosures beyond what is required of them by the regulatory framework and data was gathered from publicly available information, as well as a confidential list provided to us by the Department of Environment and Water Resources and the Centre for Australian Ethical Research.

Accounting measures, as opposed to market measures, were used to evaluate the financial performance of each company and the measures used were return on assets, return on equity and return on sales. Cross sectional regression analysis, utilising the ordinary least squares method, was used to test the hypoProject that corporate social responsibility would improve the financial performance of an organisation. Independent variable was

CSR with financial performance used as the dependent variable, controlling for size (total sales and total assets) and risk (ratio of long-term debt to total assets). Initially the entire data set was regressed as a whole in order to determine whether we would find an overarching relationship for the 277 companies and regression analysis on the majority of the ASX 300 companies did not reveal any statistically significant relationship between the adoption of corporate social responsibility and financial performance.

Locally, various have been done on the relationship between CSR and FP. Mutuku (2004) did a study on relationship between CSR and financial performance of companies quoted at NSE and the effect of industry size, sector of the business activity and the ownership structure. The results of the regression analysis showed no relationship between CSR and financial performance of all companies listed at the NSE

Okeyo (2004) carried out a survey on the rationale and determinants on levels of CSR among Kenyan firms and it was a general study, while Kweyu (1993) studied managerial attitudes towards CSR among banks and found profitability to be the most determinant objective in implementing CSR in banks

Auka (2006) did a study on factors influencing the practice of CSR of financial institutions in Kenya with the objective of finding out the factors that influence the practice of CSR of financial institutions in Kenya and the benefits that arise as a result of financial institution engaging in social activities. He noted that the factors that have great influence on extent of practice of CSR in financial institutions is corporate image, moral obligations and solving societal problems and the most important benefits of CSR in financial institution is to improve corporate image.

Nafula (2011) conducted a study on factors influencing the practice of corporate social responsibility by commercial banks in Kenya. The results of the analysis indicated that the major forces driving commercial theoretical and empirical banks toward CSR activities are shifting paradigm and criticality of stakeholder relationship, shrinking role of government, increased customer interest and changes in their preference and the growing investor pressure

Virginiah (2011) did a study on the relationship between CSR and FP for firms quoted at the NSE. The results of the analysis showed that there was an upward trend in performance of listed firms on the NSE as well as upward trend in the amount of money investment in CSR programs

**2.6 Summary of the Literature Review**

This chapter covered literature on CSR relationship to financial performance and first started by reviewing the relevant theories on which the study will be built on, including good management which holds that social performance come first and based on this theory, a company perceived by its stakeholders as having a good reputation will make the company easier (through market mechanism) to get a good financial position. The study also looked at slack which is based on the view that a company should have better financial performance to result in the availability of ‘slack resources’ which provide the opportunity to invest into CSR activities and assumes CSR to be dependent variable. The study proceeded in identification of CSR activities especially in Kenya with reference to KeNIC CSR framework as well as factors affecting financial performance.

The study proceeded to empirical studies such as research conducted by Tsoutsoura (2004) on the relationship between CSR and FP in the USA with firm’s financial performance measured by accounting variables such as (ROA), (ROE), and (ROS). The results indicated that the sign of the relationship was positive and statistically significant, supporting the view that socially responsible corporate performance can be associated with a series of bottom-line benefits the existence of a positive relationship between corporate social responsibility and firm financial performance had been confirmed. Other empirical studies have shown no relationship such as Mutuku (2004) did a study on relationship between CSR and financial performance of companies quoted at NSE and the effect of industry size, sector of the business activity and the ownership structure. The results of the regression analysis showed no relationship between CSR and financial performance of all companies listed at the NSE

The review of literature clearly found a research gap in Kenya as most of the studies done in the area are conducted in the USA, Europe and to some extent Asia, while in Kenya empirical studies also indicated that the researchers in majorly focused on firms listed at the NSE. The current study therefore seeks to contribute towards this research gap by establishing the relationship between CSR and financial performance of SMEs in Kenya.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter contains the research methodology facets and procedures followed in the execution of the research work which entails: the research design, target population, sampling design, data collection and data analysis procedures. The study seeks to examine the relationship between CSR and FP of SMEs in Kenya.

## 3.2 Research Design

Research design outlines the method for data collection measurement and analysis (Cooper & Schindler, 2001). According to Saunders, Lewis and Thornhill (2007), a research design can be named in terms of time horizons, choice of methods or strategies used to collect data. The study adopted regression analysis using SPSS to estimate ROA, and ROE for selected SMEs in Kenya.

## 3.3 Target Population

Population refers to an entire group of individuals, events or objects having common observable characteristics in which the results will be generalized in the target population (Mugenda & Mugenda, 2003).The survey will study population consisting of top 100 SMEs of 2012 and covers financial analysis period of 2008 to 2012 in Kenya. According to Kenya’s Top 100 Survey, an initiative of KPMG Kenya and Business Daily owned by the Nation Media Group, the Survey seeks to identify Kenya's fastest growing medium sized companies in order to showcase business excellence and highlight some of the country's most successful entrepreneurship stories.

Top 100 companies rank ahead of their peers in terms of revenue growth, profit growth, returns to shareholders and cash generation/liquidity and continuously has succeeded in growing its market position in the industries in which it operates and over time, this growth has translated into both returns for its shareholders and a fairly sound financial position.

### 3.4 Data Collection

The research instrument in this study was a questionnaire. Both open and closed ended questions were applied to collect primary data. Questionnaires will be developed to get insights on the CSR practices adopted by the firm, while secondary data will be obtained from the financial statements from the SMEs to collect data for the FP variable for the period of 2008 to 2012.

### 3.5 Reliability and validity

Mugenda and Mugenda (2003) asserted that, the accuracy of data to be collected largely depended on data collection instruments in terms of validity and reliability. Validity as noted by Robinson (2002) is the degree to which results obtained from the analysis of the data actually represents the phenomenon under study. Validity was ensured by having objective questions included in the questionnaire. Reliability on the other hand refers to a measure of the degree to which instruments yield consistent results (Mugenda &

Mugenda, 2003). In this study, reliability was ensured by pre-testing the questionnaire with a selected sample of three SMEs.

### 3.6 Data Analysis

Size and industry have been suggested in previous articles such as Ullman 1985 and Mc Williams and Siegel 2000 to be a factor that affects firm performance and thus will be used as a control variable in the study. Industry type is measured by using code for each industry and treats the variable as dummy variable in analytical model as used by Waddock and Graves (1997).

The study employs regression analysis as the main statistical method to analyse the data. Where FP is the dependent variable and CSR as the independent variable as shown in equation (1):

$$Y_t = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu$$

Where;

Y=FP as measured by ROA

$\alpha$= Constant amount (what the company earns with zero amount spent on CSR activities. The amount can vary depending on the company size, sector, management and other factors)

$X_1$=CSR as measured by total Index of CSR Disclosure

$X_2$=SIZE as measured by the logged total of Sales

$X_3$=INDUSTRY type as measured by codes

$\mu$= Error term

Analysis would be carried out with the aid of SPSS and the coefficient of determination $R^2$, Pearson correlation coefficient (r), P-value (p) and the number of firms (n) will be shown. The coefficient of determination $R^2$ states the amount in variation of dependent variables as explained by the variation of the independent variables. It represents the percentage of the data that is closest to the line of best fit.

The interpretation of the correlation coefficient r is when r is equal to 0 there is no correlation, when r is closer to +1, the better the positive correlation and when r is closer to -1, the better the negative correlation. For the purpose of this study, a positive correlation means that the higher CSR the better the FP and vice-versa. The P-value gives an indication of how significant the correlation is and it measures the probability of identifying a correlation coefficient.

A P-value of 0.05 means that there is a 5% probability that the correlation is significant, while P-value of .010 indicates a 10% significant. The sample size (n) is the number of observations i.e the number of firms interviewed.

# CHAPTER FOUR: DATA ANALYSIS PRESENTATION AND INTERPRETATION

## 4.1 Introduction

This chapter presents and discusses the analysis of data collected from the respondents by the researcher. The response from the respondents who were given the questionnaires was analyzed and the data interpreted according to the research and objective.

## 4.2 Presentation of Findings

### 4.2.1 Response Rate

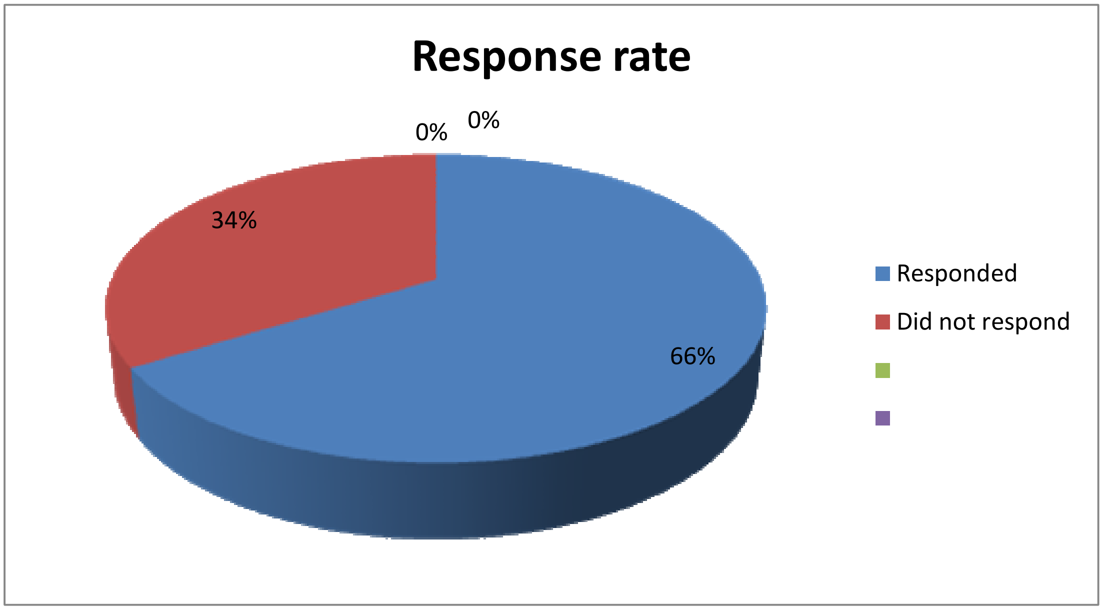
The researcher administered 80 questionnaires to randomly selected respondents. The response was as follows:

**Table 4.1: Response Data**

| Population Category | Frequency | Percentage |
|---|---|---|
| Responded | 53 | 66 |
| Did not Respond | 27 | 34 |
| **TOTAL** | **80** | **100** |

**Source: Author (2013)**

**Figure 4.1: Response Rate**




**Source: Author (2013)**

As seen in both table 4.2.1 and figure 4.2.1 above, the researcher targeted a total of 80 respondents of the top 100 SME companies in Kenya. However, it was not possible to get back all the responses. Out of the total 80 respondents, 53 responded by filling the questionnaires and returning them. This represents a percentage of 66%. The non-respondents were 27 represented by 34%. The response rate was deemed adequate and sufficient by the researcher for purpose of data analysis.

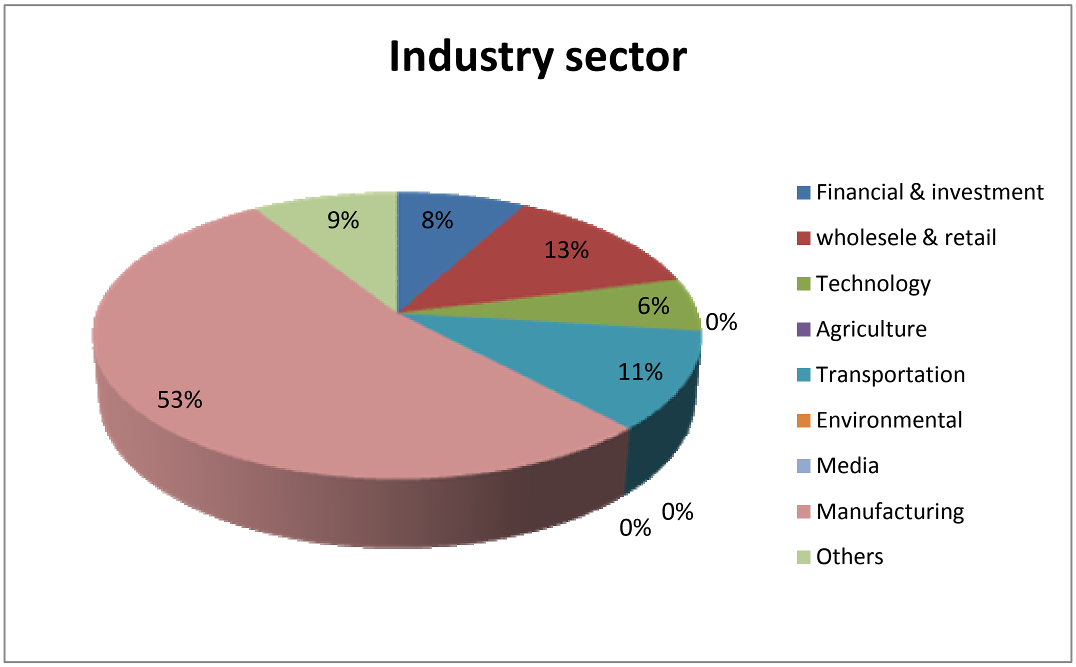
### 4.2.2 Industry Sector

**Table 4.2: Industry Sector**

| **Industry Sector** | **Response** | **Percentage** |
|---|---|---|
| Financial & Investment | 4 | 8 |
| Wholesale & Retail | 7 | 13 |
| Technology | 3 | 6 |
| Agriculture | 0 | 0 |
| Transportation | 6 | 11 |
| Environmental | 0 | 0 |
| Media | 0 | 0 |
| Manufacturing | 28 | 53 |
| Others | 5 | 9 |
| **Total** | **53** | **100** |

**Source: Author (2013)**

**Figure 4.2: Industry Sector**




**Source: Author (2013)**

Both table 4.2.2 and figure 4.2.2 above shows that most of the SMEs are concentrated in the Manufacturing at 53% followed by wholesale and retail at 13%, Transportation at 11% then others at 9% and technology had the least at 6%. This indicates that the majority of the SMEs are in the manufacturing sector.

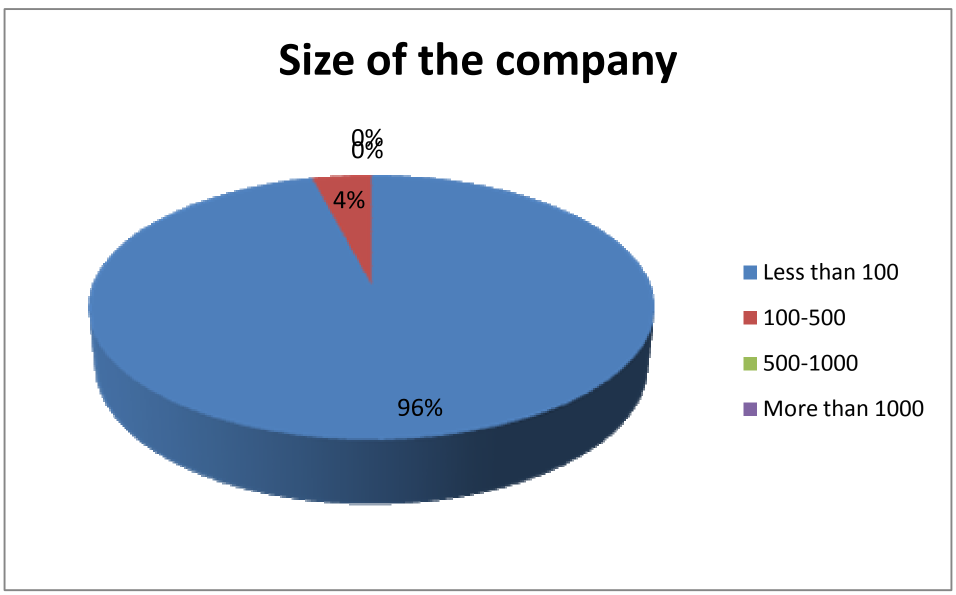
### 4.2.3 Size of Company (No. of employees)

**Table 4.3: Size of Company (No. of employees)**

| Number of employees | Frequency | Percentage |
|---|---|---|
| Less than 100 | 51 | 96 |
| 100-500 | 2 | 4 |
| 500-1000 | 0 | 0 |
| More than 1000 | 0 | 0 |
| **Total** | **53** | **100** |

**Source: Author (2013)**

**Figure 4.3: Size of Company (No. of employees)**




**Source: Author (2013)**

From the above table and figure 4.2.3, majority of the respondents i.e. 96% had total number employees of less than 100, while 4% of the respondents had between 100-500 employees and none had employees more than 500 and above.

### 4.2.4 SMEs and CSR

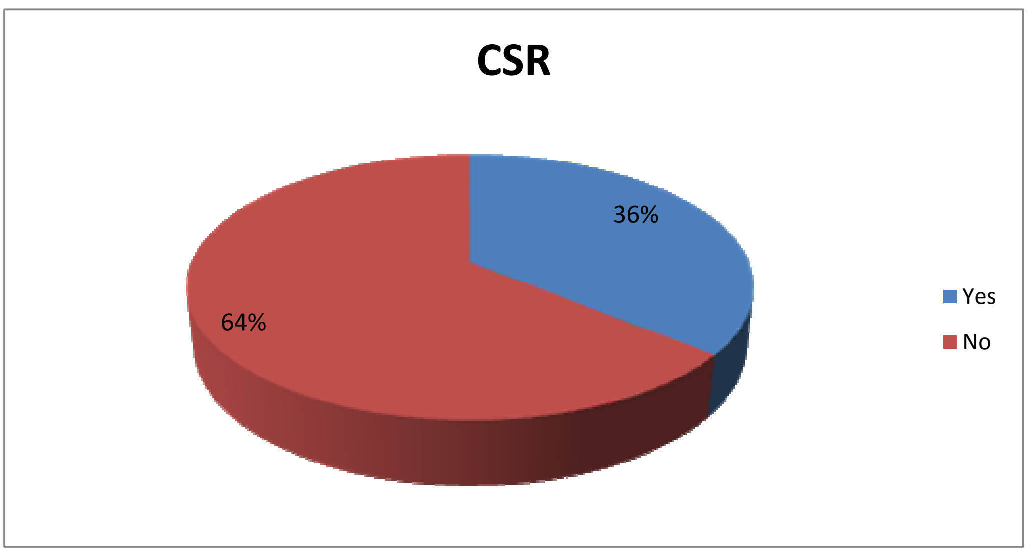
The general objective of the study is to find out if SMEs undertake CSR activities and what activities constitute the CSR policy.

**Table 4.4: Does your company undertake CSR?**

| **CSR** | **Frequency** | **Percentage (%)** |
|---|---|---|
| Yes | 19 | 36 |
| No | 34 | 64 |
| **Total** | **53** | **100** |

**Source author (2013)**

**Figure 4.4: Does your company undertake CSR?**




**Source: Author (2013)**

From the above table 4.2.4 and figure 4.2.4, 36% of the SMES that responded undertook CSR activities while 64% did not and this indicated that majority of the SMEs do not undertake CSR activities.

### 4.2.5 If CSR policy exists?

**Table 4.5: If CSR policy exists?**

| CSR policy | Frequency | Percentage (%) |
|---|---|---|
| Yes | 19 | 36 |
| No | 34 | 64 |
| Total | 53 | 100 |

**Source: Author (2013)**

**Figure 4.5: If a CSR policy exists?**

**Source: Author (2013)**

From the above 4.4 table and figure 4.4, 36% of the SMES that responded have a CSR policy while 64% did not have. This indicated that majority of the SMEs do not undertake in CSR activities.

### 4.2.6 Stakeholder's importance to company's CSR activities

Essential stakeholders involved in CSR activities were as follows.

**Table 4.6: Stakeholder's importance to company's CSR activities**

| Stakeholder | Frequency |
|---|---|
| Customers | 7 |
| Government | 1 |
| Suppliers | 5 |
| Employees | 6 |
| NGOs | 0 |
| Investors | 23 |
| Media | 4 |
| Communities | 3 |
| Business Coalitions | 4 |

**Source: Author (2013)**

The table 4.2.6 indicated that the key stakeholders in the SMEs CSR activities are the Employees, Investors, suppliers and customers. This was followed by business coalitions and media and the least been NGOs.

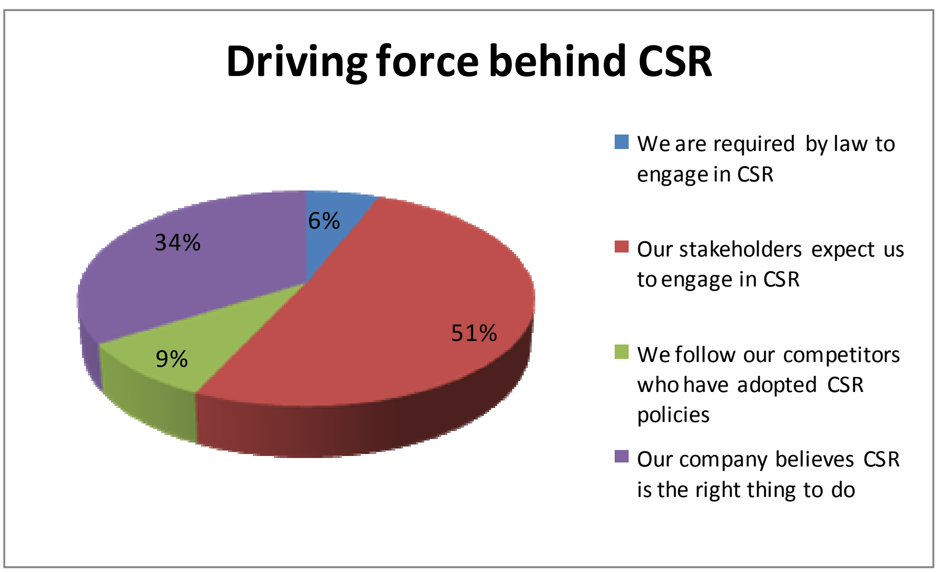
### 4.2.7 Driving force behind CSR

**Table 4.7: Driving force behind CSR**

| Driving force | Frequency |
|---|---|
| We are required by law to engage in CSR | 3 |
| Our stakeholders expect us to engage in CSR | 27 |
| We follow our competitors who have adopted CSR policies | 5 |
| Our company believes CSR is the right thing to do | 18 |

**Source Author (2013)**

**Figure 4.6: Driving force behind CSR**




**Source Author (2013)**

The above finding in table 4.2.7 and figure 4.2.7 shows the greatest driving force for SME companies to engage in CSR activities is the company's belief in CSR and Stakeholders expectations. Others factors come in handy but to a lesser extent.

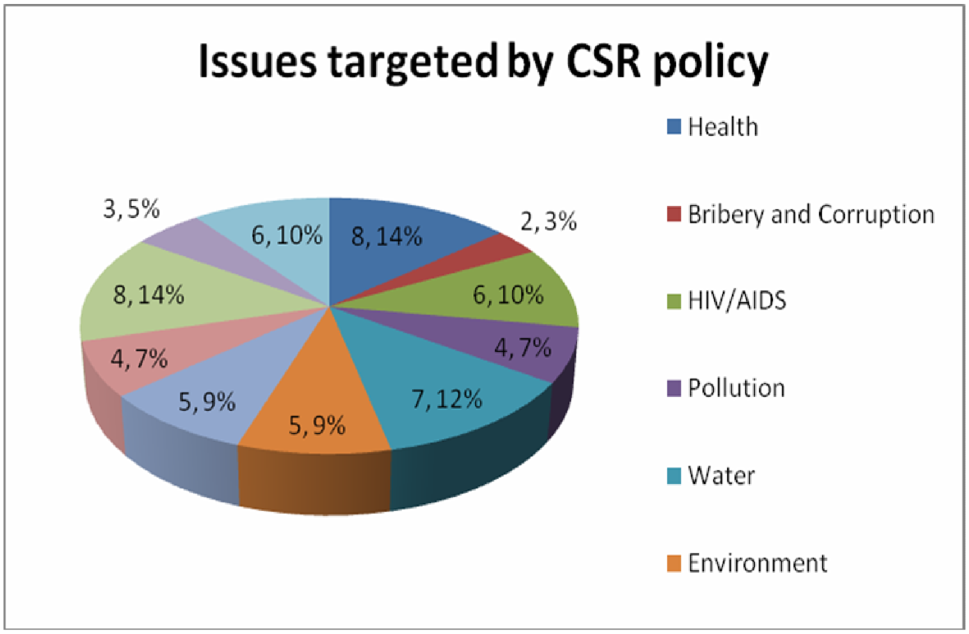
### 4.2.8 Issues targeted by CSR policy?

**Table 4.8: Issues targeted by CSR policy?**

| **Issue** | **Frequency** | **Percentage (%)** |
|---|---|---|
| Health | 8 | 14 |
| Bribery and Corruption | 2 | 3 |
| HIV/AIDS | 6 | 10 |
| Pollution | 4 | 7 |
| Water | 7 | 12 |
| Environment | 5 | 9 |
| Human Rights | 5 | 9 |
| Climate change | 4 | 7 |
| Transport and infrastructure | 8 | 14 |
| Waste recycling | 3 | 5 |
| Education | 6 | 10 |

**Source author (2013)**

**Figure 4.7: Issues targeted by CSR policy?**




**Source: Author (2013)**

From table 4.2.8 and figure 4.2.8 above, 14% of the respondents indicated that health and transport is the most paramount factor for CSR, followed by water at 12%, HIV/AIDS and education at 10%.

### 4.2.9 Financial Data

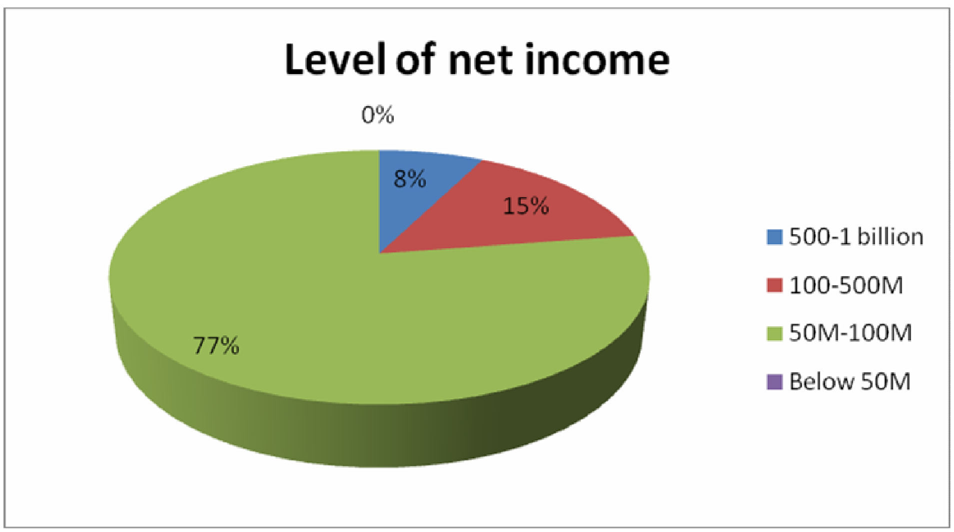
The following is the financial data for the SMEs studied under Net income, Total assets, Total equity, Total sales and total amount spent on CSR.

**Table 4.9: Level of Net operating income**

| Level of Net income | Number | Percentage (%) |
|---|---|---|
| 500-1 billion | 4 | 8 |
| 100-500M | 8 | 15 |
| 50M-100M | 41 | 77 |
| Below 50M | 0 | 0 |
| **Total** | **53** | **100** |

**Source: Author (2013)**

**Figure 4.8: Level of Net income**




**Source: Author (2013)**

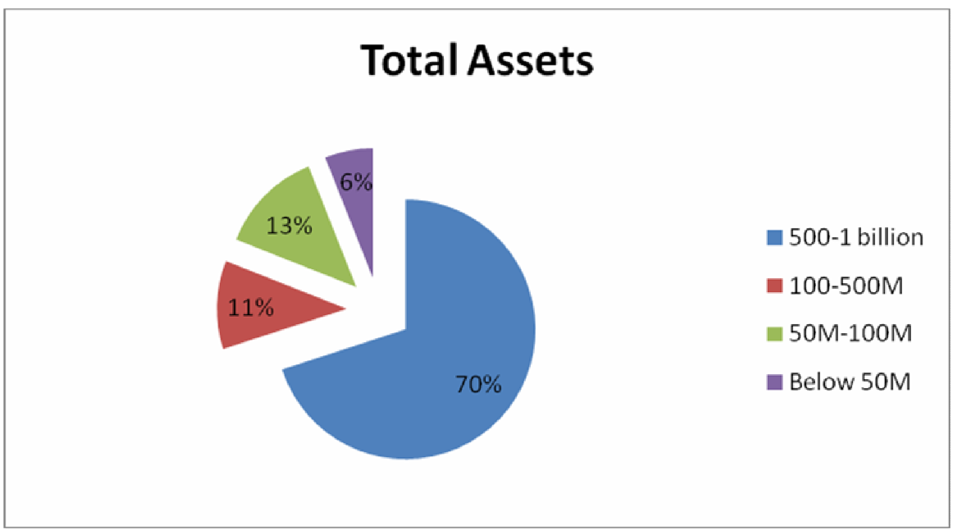
The table 4.2.9.1 and figure 4.2.9.1 indicates that 8% of the SMEs have net operating income of 500 to 1 billion, 0% below Kshs 50M, 100M to 500M at 15% while 19% and 77% at 50M to 100M. This shows that majority of the SMEs i.e. 77% have level of net income of between Kshs 50M-100M.

**Table 4.10: Total Assets**

| **Total Assets** | **Number** | **Percentage (%)** |
|---|---|---|
| 500-1 billion | 37 | 70 |
| 100-500M | 6 | 11 |
| 50M-100M | 7 | 23 |
| Below 50M | 3 | 8 |
| **Total** | **53** | **100** |

**Source: Author (2013)**

**Figure 4.9 Total Assets**




**Source: Author (2013)**

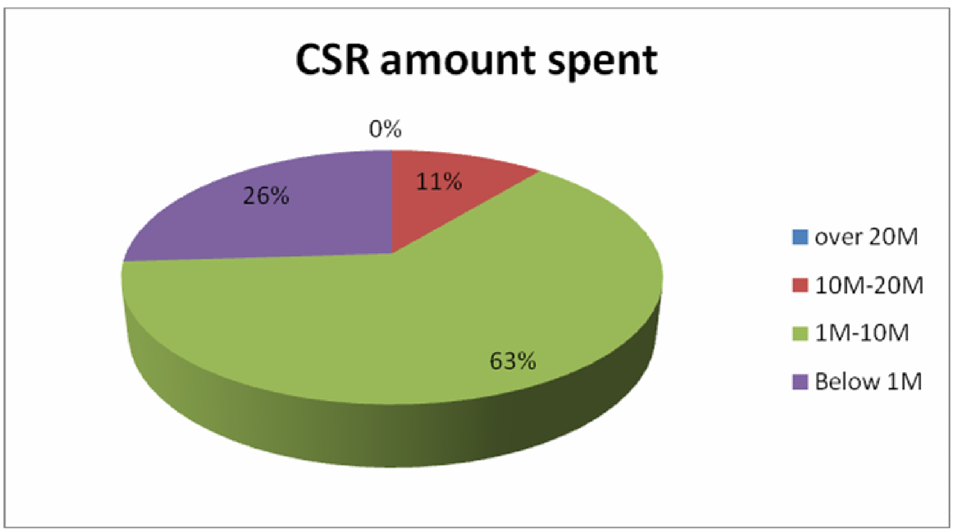
The table 4.2.9.2 and figure4.2.9.2 indicates that 37 of the SMEs have total assets of between 500M-1billion at 70%, 11% of between 100M to 500M, 13% of between 50M to 100M and 6% below 50M. This shows that majority of the SMEs total assets lie between 500M-1 billion.

**Table 4.11: CSR amount spent**

| CSR amount spent | Number | Percentage (%) |
|---|---|---|
| Over 20M | 0 | 0 |
| 10M-20M | 2 | 11 |
| 1M-10M | 12 | 63 |
| Below 1M | 5 | 26 |
| **Total** | **19** | **100** |

**Source: Author (2013)**

**Figure 4.10 CSR amount spent**




**Source: Author (2013)**

The table 4.2.9.3 and figure 4.2.9.3 indicates that none of the SMEs spend on CSR amount over 20M. In addition, 63% of the SMEs spend approximately between Kshs 1M to 10M and below 1M is26% while on on average between 10M -20M stand at 11%.

### 4.2.10 Persons responsible for the following

**Table 4.12: Persons responsible for the following**

| **Activity** | **Person responsible** | **Frequency** |
|---|---|---|
| Identifying CSR issues | Human Resources | 4 |
| Developing CSR policy | Board members | 3 |
| Implementing CSR policy | Human Resources and all employees | 4 |
| CSR monitoring and evaluation | Human Resources | 4 |
| CSR reporting and communication | Human Resources | 4 |

**Source: Author (2013)**

Table 4.2.10 above show that the persons responsible for identifying CSR issues are Human Resources, Board members are responsible for developing CSR policies, all employees and HR are responsible for CSR implementation and Human resources have the sole responsibility for CSR reporting and communication.

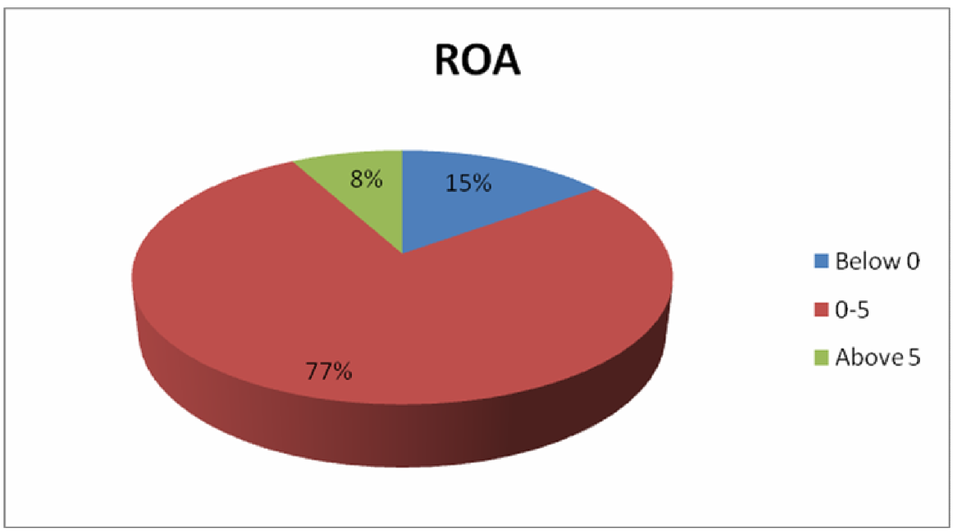
### 4.2.11 Return on Assets

**Table 4.13: Return on Assets**

| **Return on assets (%)** | **Number** | **Percentage (%)** |
|---|---|---|
| Below 0 | 8 | 15 |
| 0-5 | 41 | 77 |
| Above 5 | 4 | 8 |
| **Total** | **53** | **100** |

**Source Author (2013)**

**Figure 4.11: Return on Assets**




**Source: Author (2013)**

The above finding in table 4.2.11 and figure 4.2.11 shows the position of ROA among the 53 SMEs that responded, 15% ROA is below 0%, and 77% ROA lies between 0-5% while 8% has ROA above 5%. This shows that majority of the SMEs ROA lies between 0-5%.

## 4.3 Analytical Model

### 4.3.1 Correlation results

Correlation results in table 4.3 revealed that there was a positive and significant correlation between ROA and CSR activities averaged at (r= 0.422 and p value =0.000). Results also indicate that the correlation between ROA and growth in CSR activities is insignificant. The correlation between ROA and net income is positive and significant (r=0.448 and p value =0.000). The correlation between the variables under study and dummy was positive and significant (r=0.260 and p value=0.03)

**Table 4.14 1a and b: Correlation results**

| | | Variables | ROA CSR/income) | Growth CSR | Net income | Dummy |
|---|---|---|---|---|---|---|
| Variables | Pearson Correlation | 1 | .422** | .011 | .448** | .260* |
| | Sig. (2-tailed) | | .000 | .927 | .000 | .030 |
| | N | 43 | 43 | 43 | 43 | 43 |
| ROA to CSR/ income) | Pearson Correlation | .422** | 1 | .275* | .480** | -.313** |
| | Sig. (2-tailed) | .000 | | .021 | .000 | .008 |
| | N | 43 | 43 | 43 | 43 | 43 |
| Growth in CSR | Pearson Correlation | .011 | .275* | 1 | .215 | -.224 |
| | Sig. (2-tailed) | .927 | .021 | | .074 | .062 |
| | N | 43 | 43 | 43 | 43 | 43 |
| Net income | Pearson Correlation | .448** | .480** | .215 | 1 | .000 |
| | Sig. (2-tailed) | .000 | .000 | .074 | | .996 |
| | N | 43 | 43 | 43 | 43 | 43 |
| Dummy | Pearson Correlation | .260* | -.313** | -.224 | .000 | 1 |
| | Sig. (2-tailed) | .030 | .008 | .062 | .996 | |
| | N | 43 | 43 | 43 | 43 | 43 |

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

| | | Variables | ROA CSR/income) | Growth CSR | Net income | Dummy |
|---|---|---|---|---|---|---|
| Variables | Pearson Correlation | 1 | .422** | .011 | .448** | .260* |
| | Sig. (2-tailed) | | .000 | .927 | .000 | .030 |
| | N | 43 | 43 | 43 | 43 | 43 |
| ROA to CSR/ income) | Pearson Correlation | .422** | 1 | .275* | .480** | -.313** |
| | Sig. (2-tailed) | .000 | | .021 | .000 | .008 |
| | N | 43 | 43 | 43 | 43 | 43 |
| Growth in CSR | Pearson Correlation | .011 | .275* | 1 | .215 | -.224 |
| | Sig. (2-tailed) | .927 | .021 | | .074 | .062 |
| | N | 43 | 43 | 43 | 43 | 43 |
| Net income | Pearson Correlation | .448** | .480** | .215 | 1 | .000 |
| | Sig. (2-tailed) | .000 | .000 | .074 | | .996 |
| | N | 43 | 43 | 43 | 43 | 43 |
| Dummy | Pearson Correlation | .260* | -.313** | -.224 | .000 | 1 |
| | Sig. (2-tailed) | .030 | .008 | .062 | .996 | |
| | N | 43 | 43 | 43 | 43 | 43 |

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

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

### 4.3.2 The Model Results

Regression analysis was conducted to empirically determine whether there exist a relationship between CSR activities and financial performance. Variables under study were a significant determinant of the ROA (as a measure of financial performance). Regression results in table 4.3 1b indicate the goodness of fit for the regression between independent variables and dependent variable is satisfactory. An R squared of 0.52 indicates that 52% of the variances in the ROA (financial performance) are explained by the variances in the independent variable (s).

**Table 4.15: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .631[a] | .52 | .361 | .07280 |

a. Predictors: (Constant), Dummy, Net income, Growth_in CSR, ROA to CSR (net income)

**Table 4.16: Regression Coefficients**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .048 | .022 | | 2.233 | .029 |
| | ROA to CSR (Net income) | .033 | .009 | .442 | 3.736 | .000 |
| | Growth in CSR | -.019 | .025 | -.080 | -.780 | .438 |
| | Net income | .009 | .004 | .253 | 2.250 | .028 |
| | Dummy | .070 | .019 | .381 | 3.645 | .001 |

a. Dependent Variable: ROA (Financial performance)

ROA (Financial performance) = 0.048+ 0.033ROA to CSR (net income) -0.019 Growth in CSR + 0.009 Net income+ 0.070 Dummy

### 4.4.1 Results and Findings

The general objective of the study was to establish the relationship between CSR on one hand and financial performance on the other among top 100 SMEs in Kenya.

### 4.4.2 General Information

The general information sought in the study included all the top 100 SMES in Kenya i.e. financial data, CSR policies, industry sector, stakeholders importance in CSR activities, issues targeted by CSR policies, amount spent on CSR activities among other variables, level of income, percentage return on assets and other variables that explains financial performance. From the analysis of the research, 66% of the SMEs responded by filling in the questionnaires while 34% did not.

### 4.4.3 Summary of Data Analysis

The information collected was mainly based on suggestions, opinions and comments in which respondents were required to fill the answers as laid out in the questionnaires .Looking at the objective of the study on the CSR and financial performance among SMEs in Kenya, various suggestions were made by respondents concerning the questions asked especially on amount spent on CSR activities. Most of the suggestions given related closely to CSR and financial performance.

### 4.5 Summary and Interpretation of Findings

The other ratios of interest were ROC (Return on Capital), Return on Capital Employed (ROCE) and Return on Equity (ROE) among other profitability ratios. The independent variable figures were gotten from the relevant questionnaires administered to the various officers of the different SMEs. Net profit (profitability) will be measured using profitability ratios. Also, net profit/income figures were taken from the questionnaires administered and where responses were gotten. Financial performance will be measured using the SMEs profitability figures extracted from their financial statements as reported in the questionnaires and Return on Assets (ROA), These are the financial performance measures. Also, growth in CSR activities will be measured using the CSR amounts spent over the years under study.

To analyze the relationship between CSR activities and financial performance, inferential statistics will be used. Specifically, multiple regression technique and correlation will be used to establish whether a relationship exists or not.

The information collected was from the financial statements as reported in the questionnaires and suggestions, opinions from respondents regarding to CSR and financial performance of the SMEs. From the analysis of the research, at least 66% of the SMEs although the target was 100% were analyzed and relevant information on the subject of the study taken and tabulated. The data mainly centered on the following variables namely Net profit/profitability, return on assets, and total assets. In conclusion, most SMEs that undertook CSR activities showed there is a positive relationship between the two variables under study. The more the income, and the more expenditure on CSR activities.

The study findings indicated that the average Return on Assets (ROA) compared to the variables under study for the SMEs in the year 2008 was 4%. The same was 5.5% in the year 2009, 6% in the year 2010, 6.2% in the year 2011 and 7.5% in the year 2012. The overall Return on Assets (ROA) and net income/profitability over the 5 year period was 15.55%.

From the study it was also revealed that the average growth in CSR activities and income for the SMEs studied in the year 2008 was 28.42%. The average growth in assets for the SMEs in the year 2009 was 31.13%. The average growth in assets for the SMEs in the year 2010 was 10.58%. The average growth in income for the SMEs in the year 2011 was 26.65%. The average growth in income for the SMEs in the year 2012 was 36%. The overall average growth in assets over the 5 year period was 16.54%. In addition the findings revealed that the average CSR for the banks in the year 2008 was Kenya shillings 5M, 2009 and 2010 was Kenya shillings 3M and respectively. The average growth in CSR activities for the 5 year period was 15%.

From the findings, the trend for the average ROA for the SMEs was increasing. This maybe attributed to growth in CSR activities. There was slight increase in the year 2008. The results indicated that there was a drop in the average ROA in the year 2009, 2010 & 2011. However, an increase in the ratio was observed in the year 2012.

From the findings it was also revealed that a decrease in ROA to CSR and net income was observed in year 2008 and 2009. However, a slight increase was observed in the year 2010. The same is to increase as we move forward. It was also revealed from the findings that a slight increase in average growth in assets ratio was observed in year 2008. However a decrease was observed in the year 2009 followed by an increase in the year

2010. Study findings further indicated that there was a sharp increase in the SMEs gross income from year 2008 to year 2010. Most of the SMEs net income (60%) was between 100M to 500M Kenya shillings averaging to about Kenya shillings 16M. The growth in net income if projected to increase from year 2010 onwards.

The study further revealed that there was a positive and significant correlation between ROA, other variables under study and net income. This also implies that there is a positive relationship between net income, CSR, financial performance and growth in the total assets. Results also indicate that the correlation between ROA and growth in CSR and net income was significant. The correlation between ROA, growth in income, growth in CSR and net income was positive and significant (r=0.556 and p value =0.000).

Regression analysis was conducted to empirically determine whether independent variables were a significant determinant of ROA/ financial performance and growth in CSR activities. Regression results in table 4.3.1a indicate the goodness of fit for the regression between independent variables and dependent variable is satisfactory. An R squared of 0.398 indicates that 39.8% of the variances in ROA are explained by the variances in the independent variables. Independent variables did a good job in explaining ROA/ financial performance.

The relationship between ROA to net income, Growth in assets and dummy is positive and significant. (b1=0.033, p value 0.00, b3=0.009, p value 0.028, b4=0.070, p value 0.01) However, the relationship between growth in CSR is negative and insignificant (b2=-0.019, p value, 0.438).

From the study returns on assets increased significantly within the years under study. This directly shows that the financial performance of the SMEs increased over the years under study. Hence it serves to reinforce the fact that there is a positive relationship between CSR activities and financial performance. Other variables were also analyzed namely profitability ratios, return on equity, gearing ratios, total assets among others albeit to a lesser extent. These other variables also explain the positive relationship between CSR and financial performance.

# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter covers summary of the study, conclusion and recommendations. The summary of the study entails and outline of how the study was conducted and findings. The conclusion and recommendations of the study are based on the study findings.

## 5.2 Summary of the study

This research intended to find out the relationship between CSR activities and financial performance of SMEs in Kenya. The study used regression analysis targeting population of top 100 SMEs of 2012 in Kenya. From the 100 SMEs, the researcher selected 80 companies which are majorly in Nairobi and was used for this study. An open and closed ended questionnaire was used for this study, analyzed and summarized in frequencies and percentages. Spearman's Rank Correlation Coefficient was used to determine the relationship between the study variables. The findings were presented in tables and charts for easier interpretation.

All the questionnaires gotten from SMEs analysed in this study showed that 36% of the companies undertook CSR activities which impact significantly on their income and financial performance which are determined by the level of income. The above fact is reinforced by the increase in the return on assets over the years under study. Also the figures for the amount spent on the CSR activities have been increasing over the past few years.

## 5.2 Conclusions

The relationship between CSR and financial performance of SMEs is positive. This was clearly explained by a number of variables namely return on assets, level of gross income, amount spent on CSR activities among others. The relationship between CSR and level of income/profitability ranked highest followed return on assets. Other variables like return on equity, return on capital employed were considered albeit to a lesser extent. Each variable, however, have a strategic significance to the SMEs performance and would be useful in explaining level of CSR. An SME would decide whether to increase or reduce the amount spent on CSR activities by the use of the variables discussed in the preceding paragraphs.

Thus, investments or expenditures like in CSR activities in businesses subject to wide profit swings and competitive pressures would command a premium above the return standard, while with fairly predictable businesses a less-than-average return may be acceptable. The concept rests on the assumption that a diversified company can derive a range of standards that, in combination, represent an appropriate return to the shareholders and also fairly reflect the relative risk of the individual lines. In summary, expenditure in CSR activities has far reaching implications on the financial performance of SMEs hence choice of CSR project must be inline with the company's strategies and should improve on the returns.

## 5.3 Policy Recommendations

The study presented recommendations for practice and for policy. The study recommends that CSR activities among SMEs should be continued and capital/ income should be invested in projects that maximize returns. The governance structures need to be put in place so as to enhance returns on assets and in turn maximize returns to the SMEs.

Our evidence suggests that CSR does improve the performance of the SMEs studied in terms of their gross income. There is a contagion effect between CSR and financial performance. Researcher recommend that this study be carried out further and the whole SME sector to be studied under various categories e.g. depending on the income levels. This should also extend to other firms listed at the NSE and not just the SME sector. From a broader perspective, we note that there was a great improvement in ROA ratio among other ratios like ROC, ROE, profitability ratios. Also improvement was noted among other variables that were considered in the study. Most items on the balance sheets showed an increasing trend during the study period. This serves to show that the higher the income, the more CSR activities are undertaken.

Policy makers should undertake to understand why CSR activities among SMEs is not as robust in Kenya as compared to other developed countries or other sectors and what should be done to improve CSR activities in the SME sector to maximize returns.

## 5.4 Limitations of the study

One of the limitations of the study is that SMEs sector is still underdeveloped and unexplored Kenya. So there could be a lot of information about SMEs that was not captured in the study that needs to be incorporated in further studies. Second is limitation is access to information on SMEs. Most companies do not give out information regarded as sensitive in nature e.g. regarding to financial data, CSR activities etc.

Another limitation relates to the operationalization of CSR activities. The assumption is that all companies including SMEs engage in CSR activities which in the actual sense is not the case. As shown in the above study, out of 53 responses obtained, only 19 companies undertook CSR activities under the year of study. This translates into 36% of the SMEs 53 responses obtained. To guarantee the consistency and availability of the data, the analysis is limited to the SME sector. Data are derived from the questionnaires sent to the SME among other sources which may not be reliable. In addition, information on CSR activities is sensitive and access to such information proves a challenge.

## 5.5 Suggestions for further study

The study suggests that another research be done on other independent variables that explains financial performance under SMEs. All the aspects of CSR activities in the SME sector should be studied so that better results can be obtained.

This study covers a shorter period. A study should be done covering a longer period such as 10 years which may give different results than the one obtained in this study. Also, SMEs should put more emphasis on whether CSR activities improve performance of SMEs especially financial performance. Proper project appraisal is key hence another study can be done on each aspect of CSR and its effect on financial performance. In addition, the study also suggests that further studies should be conducted on long-term and short term effects of CSR and whether the same maximizes the shareholders' value.

The study also suggests that broader areas of study like the economy in general and a much bigger population be covered so that bigger and better results can be obtained on other variables that can explain whether there is a relationship between CSR activities and financial performance or economic performance . This study was only limited to the SME sector. Also, proper measures of financial performance must be incorporated in the study.

It addition , the study suggests that the qualitative aspects must also be introduced so that first hand information can be obtained from the SMEs and even management of the various SMEs. Questionnaires must be administered and one on one interview with SME officers and also other people e.g. customers who are directly or indirectly affected by CSR activities be held so that the qualitative aspects can also be measured. This study centers more on quantitative aspects only and fails to capture the qualitative aspects.

Finally, CSR activities and amount invested in CSR activities among SMEs should also be compared to other sectors in the developed and un developed economies. Policy makers must come up with better policies governing CSR activities.

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# APPENDICES

## Appendix I: Sample of 2012 Kenya Top 100 Companies

| Rank | Name of SME | Rank | Name of SME |
|---|---|---|---|
| 1 | Atlas Plumbers and Builders | 51 | Gina Din Corporate Comm |
| 2 | Tropikal Brands Afrika | 52 | Amar Hardware ltd |
| 3 | Keppel Investments ltd | 53 | Melvin Marsh International |
| 4 | Shian Travel | 54 | Lanor International ltd |
| 5 | Rupra Construction Co. | 55 | Synermed Pharmaceuticals (K) ltd |
| 6 | Powerpoint Systems (E.A) ltd | 56 | Sahajanand Enterprises ltd |
| 7 | Chemical and School Supplies | 57 | Vehicle & Equipment Leasing ltd |
| 8 | Satguru Travel and Tours | 58 | Silverbird Travel Plus |
| 9 | Radar ltd | 59 | Waumini Insurance Brokers ltd |
| 10 | Kentons ltd | 60 | Kenapen Industries ltd |
| 11 | Avtech Systems ltd | 61 | Hardware and Welding Supplies |
| 12 | Sai Sharmaceuticals ltd | 62 | I solutions Associates |
| 13 | Kunal Hardware and Steel | 63 | Mombasa Canvas ltd |
| 14 | Coninx Industries ltd | 64 | East Africa Canvas Co |
| 15 | R & R Plastic ltd | 65 | Total Solutions ltd |
| 16 | Capital Colours C . D ltd | 66 | Print Fast (k) ltd |
| 17 | ASL Credit ltd | 67 | Optiware Communications ltd |
| 18 | Kandia Fresh Produce Suppliers ltd | 68 | Deepa Industries ltd |
| 19 | Furniture Elegance ltd | 69 | Endeavour Africa ltd |
| 20 | Muranga Forwarders ltd | 70 | Travel Shoppe Co ltd |
| 21 | BBC Auto spares ltd | 71 | Kema (E.A) ltd |
| 22 | Digital Den ltd | 72 | Amar Distributors ltd |
| 23 | Xrx Technologies ltd | 73 | Pwani Cellular Services |
| 24 | Nairobi Garments Enterprise ltd | 74 | Sheffield Steel Sytems ltd |
| 25 | Charleston Travel ltd | 75 | General Aluminium |

| | | | |
|---|---|---|---|
| 26 | Spice World ltd | 76 | Creative Edge ltd |
| 27 | Master Power Systems ltd | 77 | Brollo Kenya ltd |
| 28 | Software Technologies ltd | 78 | Trident Plumbers limited |
| 29 | Kenbro Industries ltd | 79 | Physical Therapy Services ltd |
| 30 | Skylark Creative Products ltd | 80 | Praful Chandra & Brothers ltd |
| 31 | Ganatra Plant & Equipment ltd | 81 | Dharamshi Lakhamshi & Co / Dalco Kenya |
| 32 | Security World Technology ltd | 82 | Madhupaper Kenya ltd |
| 33 | Specialized Aluminium Renovators limited | 83 | Union Logistics ltd |
| 34 | Wines of the World ltd | 84 | Oil seals and Bearing Centre ltd |
| 35 | Virgin Tours ltd | 85 | Skylark Construction ltd |
| 36 | Aramex Kenya ltd | 86 | Biodeal Laboratories ltd |
| 37 | Canon Aluminium Fab ltd | 87 | Warren Concrete ltd |
| 38 | Panesar's Kenya ltd | 88 | Rongai Workshop & Transport |
| 39 | Tyre Masters ltd | 89 | Complast Industries ltd |
| 40 | Lantech Africa ltd | 90 | Kinpash Enterprises ltd |
| 41 | Warren Enterprise ltd | 91 | Sight and Sound Computers ltd |
| 42 | Africa Tea Brokers ltd | 92 | De Ruiter East Africa ltd |
| 43 | Meridian Holdings ltd | 93 | Ace Autocentre ltd |
| 44 | Dune Packaging ltd | 94 | Kenya Suitcase Mfg ltd |
| 45 | The Phoenix ltd | 95 | Hebatullah Brothers ltd |
| 46 | Fairview Hotel ltd | 96 | Market Power Int. Ltd |
| 47 | Specicom Technologies ltd | 97 | Nivas ltd |
| 48 | Punsani Electricals & Industrial Hardware ltd | 98 | Sigma Suppliers ltd |
| 49 | Biselex (K) ltd | 99 | Impala Glass Industries ltd |
| 50 | Victoria Furnitures ltd | 100 | Eggen Joinex ltd |

Source: Website: www.kenya top 100.co.ke

**Appendix II: Questionnaire on Corporate Social Responsibility on SME's in Kenya**

This research project guarantees respondent confidentiality and the survey responses will not be analysed or reported in any way in which confidentiality is not absolutely guaranteed.

**Name of Company**

1. What industry sector does your company belong to? (Please choose **ONE** from the list)

a) Financials and Investment

b) Wholesale and retail

c) Technology

d) Agriculture

e) Transportation

f) Environmental

g) Media

h) Manufacturing

i) Other:

2. What size is your company (Approximately how many employees)?

a) Less than 100

b) 100-500

c) 500-1000

d) More than 1000

3. Do you have a corporate social responsibility (CSR) policy?

[**Please note that this may be called corporate citizenship/corporate responsibility/ethical business… in your company**]

Yes ……

No…….

4a. How is CSR organised in your company? (please choose **ALL** that apply)

a) We have a CSR manager

b) We have a CSR committee

c) We have a board member with specific responsibility for the CSR policy

d) Each function director (e.g. Human Resources director) has responsibilities for our CSR policy

e) We do not have a board member with specific responsibility for our CSR policy

Other (please specify)

4b. Please identify who in the company is responsible for the following activities.

a) Identifying CSR issues:

b) Developing CSR policy:

c) Implementing CSR policy:

d) CSR monitoring and evaluation:

e) CSR reporting and communication:

4c. Please rank these stakeholders in order of importance for your company's CSR activities (please enter a number next to each stakeholder: 1=most important, 9=least important)

a) Customers

b) Government

c) Suppliers

d) Employees

e) NGOs

f) Investors

g) Media

h) Communities

i) Business coalitions

5. Please pick the key driving force behind your company's CSR (Please choose one option only):

a) We are required by law to engage in CSR

b) Our stakeholders expect us to engage in CSR practices

c) We follow our competitors who have adopted CSR policies

d) Our company believes CSR is the right thing to do

6. What issues does your CSR policy target? (Please choose all that apply)

a) Health

b) Bribery and corruption

c)HIV/AIDS

d)Pollution

e)Water

f)Environment

g)Human Rights

h)Climate change

i)Transport and infrastructure

j)Waste recycling

k)Education

(Other please specify)

**Financial Data**

Please fill the following information for your company in the table below

| Year | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Gross Income | | | | | |
| Total Assets | | | | | |
| Total Equity | | | | | |
| Total Sales | | | | | |
| CSR amount spent | | | | | |

*Thank you*