THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY PRACTICES AND THE FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN KENYA

BY:

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DECLARATION

This research project is my original work and has not been submitted for examination in any other University or institution of higher learning.

Signature …………………………… Date ………………………

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D61/72738/2012

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

Signature ……………………………. Date ………………………

DR. CYRUS IRAYA

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DEDICATION

This research Project is dedicated to my parents; Mr. Stephen and Janiffer Munyingi for their determination, commitment and contribution towards my education up to this far. You gave your all to see me come this far and be independent in life, for all that I say a big THANK YOU.

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LIST OF ABREVIATIONS

CSR	corporate Social Responsibility
ROA	Return on Assets
SR	Social Responsibility
FP	Financial Performance
IRA	Insurance Regulation Authority
NSE	Nairobi Stock Exchange
SPSS	Statistical Package for the Social Sciences
PAT	Profit after Tax

ABSTRACT

The study intended to determine the effect of corporate social responsibility on financial performance of insurance companies in Kenya. Financial performance was measured using the return on assets, CSR cost was calculated as total of all the amounts spent on CSR activities while for other companies it was by computing the percentage of profit before tax that was set aside for CSR activities. The size of the firm which was one of the independent variables used as a control variable was computed as the natural logarithm of total assets of the firm while retention ratio which was the other control variable was the ratio of net written premium to gross written premium. Secondary data was obtained from annual reports of the companies, IRA annual report, brochures, websites and any other publications of the companies. The study targeted the 48 registered insurance companies but complete could be obtained for only 21 companies. The study was carried out for five years from 2009 to 2013 and used multiple regression and correlation analysis to analyze the data obtained and a linear regression equation was used to represent the research findings. From the research CSR involvement has a very minimal positive relationship with financial performance of insurance companies in Kenya.

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

Though making of profits is one of the top priorities of corporations, in the current times, it is not possible for companies to operate for this reason only. Due to the increased competition with so many corporations offering the same goods and services, consumers can now make the buying decisions based on many factors including how much good a business is doing outside its premises. According to Flammer (2013), one of the ways in which companies use to ensure their survivor in the society is through involvement in corporate social responsibility activities. He says that high competition fosters CSR since corporations would want to remain competitive. Involvement in CSR ensures that companies benefits as well as the society around them. Sauders (2012) observed that there is an ongoing pressure in the global market for companies to promote CSR and there is no one corporation that can afford to be totally oblivious to the needs of a community which it is a part of.

The concept of corporate social responsibility can be traced back to many centuries ago when business people started to concern themselves with community activities. However formal writing on social responsibility started in the 20th century. According to Carroll (1999), 1950s marked a new era of modern CSR and since then there has been changes in definitions of CSR and different innovations in its practices.

Insurance is an important sector that is recognized worldwide due to its contribution both socially and economically. Insurance is a promise by one party, the insurer, to

compensate another party, the insured, for specific potential losses in the future in exchange for a periodic payment made by the insured. The insured knows that, should some unpredictable ill befall him or his property, the insurer will be responsible for resolving some or all of the problem depending on the terms of the insurance agreement.

1.1.1. Corporate Social Responsibility

According to Davis (1973), Corporate Social Responsibility begins where the law stops. It can be defined as a firm's acceptance of social obligations beyond the requirement of the law. He argues that CSR goes beyond the firm's consideration of, and response to the narrow economic, technical and legal issues of the firm to considering the effects that its decisions will have to the external social systems.

According to Jamali and Mirshak (2007) globalization and international trade has led to increased interest in CSR in recent years and this has resulted in increased business complexity and new demands for enhanced transparency and corporate citizenship. Traditionally governments assumed the sole responsibility of improving the living conditions of the population. These social needs have increased beyond the capacity of being fulfilled by the government alone thus necessitating involvement of other organizations. According to Flammer (2013), companies seek to differentiate themselves through engagement in CSR. Jamali and Mirshak (2007) observed that CSR is founded on a stronger realization of the role of business as an active partner in a world that has scarce resources. According to Rangan, Chase and Karim (2012), the more a company is active in CSR the more the identity of the company is enhanced and the more the

consumer identifies himself/ herself with that company's brand. This is because that involvement shows the fundamental values of the company's brand. The result of this is that consumers express themselves positively about the brand and they become loyal to it while supporting it. Due to this reasons there is therefore need to study this subject of CSR so that companies can make informed decisions on whether to engage in it or not.

According to Carroll & Shabana (2010), CSR Pyramid has four kinds of corporate social responsibilities that firms can get involved in; economic which is the foundation upon which the others rest upon because the firm has to make profit for it to continue in operation, legal since the firm has to obey the codification of wrong and right of the society, ethical an obligation to do what is right and fair and avoid harm and finally be philanthropic by being a good corporate citizen. When these are observed by a firm then it can be said to be socially responsible.

1.1.2. Financial Performance

For firm to know whether to continue in business or not they must measure what they expect to accomplish otherwise they would be operating in the dark. Trivedi (2010) defines financial performance as the act of performing a financial activity measured against preset standards of accuracy, completeness, cost, and speed. It is the degree to which financial objectives of an organization are being met or has been accomplished. Financial performance can also be said to be the measure of a firm's financial health over a given period of time or a measure of how well a firm is able to meet its policies and operations in monetary terms. According to Murigu and Mwangi (2015), financial

performance is a measure of an organization's earnings, profits and appreciation in its value which is reflected by the rise in price of the entity's shares. Financial performance can be measured at a given point in time or over a period of time. It can also be compared with similar firms across the same industry or be used to compare industries or sectors in aggregation.

To measure financial performance of a firm, different financial analyses are done to the firm's financial statements. This helps to show the profitability and financial soundness of the business. This information is important as it helps different stakeholders make decisions and also help to analyse the viability of an activity that had been undertaken earlier.

According to Murigu and Mwangi (2015), financial performance in insurance industry is expressed in terms of net premiums earned, profitability from underwriting activities, annual turnover, return on investment and return on equity.

1.1.3. Corporate Social Responsibility and Financial Performance

It is not very clear whether the relationship between CSR and financial performance of the firm is positive, negative or neutral since different studies have shown different results. It is not also clear which variable affects the other i.e. if the firms with high profitability are the ones that should get involved with CSR or CSR is the one that causes firms to have a high profitability.

Those who have seen a positive relationship between the two are of the view that organizations should get involved in CSR since this will increase their profitability and thus the image of the organization. For example Tsoutsoura (2004), observed that socially responsible corporate performance can be associated with a series of bottom-line benefits.

Researchers who have observed a negative relationship are of the view that the main goal of the firm is to maximize profit and therefore any project that will add on the cost to the firm without earning measurable amount of profits should not be undertaken.

There are still those whose study shows that the two have got no relationship at all. With this observation, firms can either participate in CSR activities or not since this will bring no change to the financial position of the firm. The decision whether to participate or not to participate depends solely on other factors e.g. the corporate image and not increase in profitability.

1.1.4. Insurance Companies in Kenya

Insurance companies contribute immensely to the growth and development of every economy. According to Wachira (2008), the concept of insurance has been in existence for a long time with early practices of marine insurance having been reported in Europe over a thousand years ago. However this concept was not known in Kenya until the early 20th century when the early European settlers introduced it in 1904. In 1922, Royal Exchange Assurance opened a branch office in Kenya followed by the Commercial Union in 1929. She observed that many insurance companies came up in 1980s with many others being incorporated in the 1990s following the liberalization of the economy.

The growth has been slow as compared to other industries with 15 insurance companies registered by 1978 and this number increasing to only 39 in the year 2001 and about 49 companies registered today.

Insurance companies in Kenya are regulated by Insurance Regulatory Authority (IRA), a state corporation which was established under the Insurance Act (Amendment) 2006, CAP 487 of the Laws of Kenya to regulate, supervise and develop the insurance industry. It is governed by a Board of Directors which is vested with the fiduciary responsibility overseeing operations of the Authority and ensuring that they are consistent with provisions of the Insurance Act. The Authority is a precursor to the then Office of the Commissioner of Insurance that came into existence with the enactment of the Insurance Act, CAP 487 in 1986. Prior to this, insurance regulation was based on the UK legislation under the Companies Act 1960.

Over the years, the involvement in CSR activities of insurance companies in Kenya has been low as compared to insurance companies in other countries. This is however changing with the insurance companies recognizing the need of corporate social investment and getting more involved in CSR. This can be seen from financial statements of these companies which shows large amounts going to CSR activities. The companies participate in areas like health sector, education sector, environmental conservation, employment creation among others.

There are two forms of insurance which the companies get involved in; life which is long term e.g. whole life assurance, annuities and endowment insurance and general which is short term e.g. medical, funeral and motor insurance. Life insurance are contracts for more than one year while general insurance are contracts for one year or less. An insurance company provides coverage in form of compensation resulting from loss, damages, injury, treatment or hardship in exchange for premium payments. They also invest in other activities that would earn them income.

1.2. Research Problem

According to Ismail (2009), corporate social responsibility refers to the strategies that firms conducts themselves in ways that are ethical and socially friendly, it is a way of partnering with the community and is beneficial to the environment and it's a way of enhancing the value of a business. CSR activities have mutual benefits to both the organization and to the society as well. Through CSR activities, consumers gain confidence and trust in an organization and its activities and this enhances the competitiveness of that firm. The firm also gets to gain access to some of the resources that are within the community, and also use the CSR activities as marketing tools where they make the community aware of their products. CSR also ensures that organizations do not involve themselves in practices that are harmful to the community and that they comply with all the statutory requirements. On the side of the society Lahdesmaki and Suutari (2012), CSR improves the living conditions of the people by providing them with the necessities and also by helping the society address some of its social problems.

According to Olowokudejo and Aduloju (2011), firms that involve themselves in CSR activities have satisfactory organizational effectiveness. With this kind of effectiveness the financial performance of the firm is also enhanced. It is therefore important to study the effect that would be there if insurance companies would involve themselves in CSR activities.

In Kenya, insurance companies have not been very aggressive in CSR activities over the years. This is however changing and the companies are now realizing the value of CSR. This can be seen from their financial statements which shows large amounts of money going to CSR activities. A good example is Heritage insurance which has dedicated 2% of the company's annual PAT with a minimum of sh. 2.5 million to go towards their CSR activities.The main areas of participation by these companies has been health sector, education sector, environmental conservation and employment creation. There is therefore need for establishing other areas in which these companies can get involved in and to establish the effect the effect that CSR involvement has on their profitability.

There has been different studies done on the subject of CSR in an effort to establish its effects on the financial health of a company. A study done by Rahim, Jalaludin and Tajuddin (2011) on whether CSR affects the consumer buying behaviour showed a significant positive relationship between CSR and the buying behaviour of consumers. Waworuntu, Wantah, and Rusmant(2014) did a research to establish whether the commitment of companies to their stakeholders has a relationship with better financial results and the findings were a positive relationship. Fauzia and Idris (2010) also found a

positive relationship in a study investigating whether there are any positive relationships between FP and CSR under the slack resource theory and under good management theory. In another study where Fauzia (2009) carried out a research on 101 firms listed on New York Stock Exchange with an objective of establishing the relationship between CSR and financial performance, he found that CSR has no effect on corporate financial performance under slack resource and good management theory.Tsoutsoura (2004) also did a study on the relationship between CSR and financial performance covering most of the S&P 500 firms for the period between 1996 and 2000. The results indicated a positive relationship between CSR and financial performance. In Kenya, Mwangi and Jerotich (2013) did a study on the relationship between CSR and financial performance of firms in the manufacturing, construction and allied sector of NSE and found that there is a strong relationship between the two. Others who have established a positive relationship between CSR and FP are Musau (2015) who did a study on banks in Kenya a case of Equity bank, Kitale, Omwega (2012) who studied companies listed in NSE between 2007 and 2011 and Wangari (2014) who studied 100 top small and medium enterprises between 2009 and 2013. In a study by Okoth (2012) to determine the relationship between CSR and commercial banks in Kenya, he found that CSR improves the financial performance of large and medium banks but has insignificant relationship with FP of small banks.

Though there are many benefits associated with involvement in CSR by an organization, CSR is not a mandate for organizations to engage in. Due to this reason many studies are done to establish whether it is really worth it for a company to be engaging in CSR. In

Kenya however, insurance companies are not intensely involved in CSR as compared to insurance industry in other countries. It is therefore necessary to determine the factors that hinder their involvement in CSR and establish whether getting involved would improve their financial performance with an aim of improving the awareness of this subject. This paper aims to answer the question; what is the relationship between corporate social responsibility practices and the financial performance of insurance companies in Kenya

1.3. Research Objective

The objective of the study is to establish the relationship between corporate social responsibility practices and the financial performance of insurance companies in Kenya.

1.4. Value of the Study

The insurance industry is one of the most important contributors of the Kenyan economic. They do this through payment of taxes, creation of employment, investment in government bonds, and contribution to charitable works among others. Improvement in financial performance of this industry would therefore be of great benefit not only to the companies but also to the Kenyan economy. This study will help to identify what effects involvement in CSR activities would have to this industry and therefore help the management as they set companies' policies to know whether CSR activities should be undertaken or not. It will also help identify the areas in which insurance companies have been involved in and which other activities can be carried out in order to maximize profits.

The study will also sensitize the community on the areas that insurance companies have been involved in which they can benefit from e.g. sponsorships. Potential employees can also be able to tell from this study, which companies treats their employees well since satisfaction and wellbeing of employees is also a measure of CSR.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

There has been several studies done on the relationship between CSR and FP in Kenya and other parts of the world. Some have shown that CSR and FP have a positive relationship, others have negative relationship while others have established that there is no relationship at all.

2.2. Theoretical Review

The basis of the study rest on several theories including social contracts theory, agency theory and stakeholders' theory.

2.2.1. Social Contracts Theory

The proposer of this theory was Thomas Hobbes and other theorists have built up on it over the years. According to Ndete (2012), social contract theorists were of the view that the state or, more precisely, civil society is the product of a contract, a covenant, an agreement, or a compact. A contract is an agreement by two parties who are expected to abide to certain terms and if violated then the contract is no longer valid. The proposers of this theory believe that people benefits by living together. Social contract provides the framework within which people and governments interacts. These contracts provides protection to people living within a certain social structure from outsiders who may try to harm them and also helps to make a society stable, wealthy and happy.

Thomas Hobbes believed that in nature, individuals had to do whatever was necessary to survive. He believed that people were still likely to fight even if they lived together and therefore, a contract was necessary. In his view of the social contract, people were not capable of living in a democratic society and therefore a powerful, single ruler was needed. With that if everyone did his or her part then, the society could function relatively smooth. The theory states that "morality consists in the set of rules governing behavior that rational people would accept, on the condition that others accept them as well." Social contract theory stipulates that an individual has ethical and political obligations that relate to an agreement he has with every other individual within a society. This agreement can be written, as in the form of laws, or it can be an unspoken or unwritten agreement of social norms and customs.

In the business world, social contract theory includes the obligations that all businesses owe to the communities in which they operate and to the world as a whole. This involves corporate philanthropy, corporate social responsibility and corporate governance. According to the theory therefore, businesses should involve themselves in CSR in fulfillment of its contractual duty to the community.

2.2.2. Agency Theory

This theory was proposed by Stephen Ross. It is an instrumental theory which focuses CSR as an instrument of wealth creation. It is a supposition that explains the relationship that exist between principals and agents in business. According to Jensen &Meckling (1976), shareholders' value maximization is the supreme reference for corporate

decision-making. This means that every investment that would lead to an increase of shareholders value should be taken and if the investment only implies a cost on the company they should be rejected. The main objective here is to maximize the wealth of the shareholders even at the expense of the other stakeholders.

In the view of agency theory, CSR is a waste of an organization's resources which could have been used in other projects to increase the value of the shareholder and therefore CSR activities should not be taken. Organizations should therefore not engage in CSR activities not unless it adds to its profitability.

2.2.3. Stakeholders Theory

According to Branco and Rodrigues (2007).R. Edward Freeman is the original proposer of stakeholders' theory.Stakeholders are the parties who have an interest in the operations of a certain company. Stakeholders' theory looks at the relationships between an organization and others in its internal and external environment and also how these connections influence how the business conducts its activities. Stakeholders can come from inside or outside the business e.g. customers, employees, stockholders, suppliers, non-profit groups, government, and the local community, among many others. These persons or groups affects or are affected by the activities carried out by an organization.

According to stakeholder theory, firms that manage their stakeholder relationships effectively will survive longer and perform better than those that do not. Freeman suggests that organizations should commit to monitoring stakeholder interests,

developing strategies to effectively deal with stakeholders and their concerns and also to dividing and categorizing their interests into manageable segment. According to Matten et al., 2003, as cited by Branco and Rodrigues (2007), stakeholder theory is therefore considered a necessary process in the operationalization of corporate social responsibility, as a complimentary rather than conflicting body of literature. According to the theory therefore, participating in CSR activities will lead to better relationship with the stakeholders and therefore better financial performance of the firm.

2.3. Determinants of Financial Performance of Insurance Companies

According to Burca and Batrinca (2014), financial performance of insurance companies can be analyzed at micro and macroeconomic level which is determined by either; internal factors which are represented by specific characteristics of the company or external factors which regards connected institutions and macroeconomic environment. These factors include.

2.3.1.Financial Leverage

This is a measure of total debt to equity. It shows how a firm is utilizing its borrowed funds and the ability of an insurance company to manage its economic exposure to unexpected losses. A negative linkage between the insurance financial leverage and the insurers' financial performance is expected. There is a negative relationship between insurance financial leverage and financial performance.

2.3.2. Size of the firm

A larger firm is more efficient than a small firm in different ways; they have more resources, a better risk diversification, complex information systems and a better expenses management since they can exploit economies of scale. There is therefore a positive relationship between firm's size and financial performance.

2.3.3.The age of the company

There is a positive relationship between the number of years a company has operated and its financial performance. This is because a company gains a reputation with age, a greater experience and designs efficient strategies over the years.

2.3.4. Underwriting Risk

This is the risk that an insurance company will suffer losses because the economic situations or the occurring rate of incidents have changed contrary to the forecast made at the time when a premium rate was set. It shows the efficiency of the insurer's underwriting activity and it is measured through the loss rate, which is computed as a ratio of gross claims to gross written premiums. There is a negative relationship between the underwriting risk and the insurer's financial performance since taking an excessive underwriting risk can affect the company's stability through higher expenses.

2.3.5. Retention ratio

This is the percentage of the underwritten business that is not transferable to the reinsurers. It is the ratio of net written premiums to gross written premiums. There is a

positive relationship between the ratio and the financial performance of a firm since reinsurance involves a certain cost.

2.3.6. Corporate Social Responsibility

According to Sawhny (2008), CSR is measured differently in different countries and industries. Some of the standards used involve: Evaluation of standards for CSR which focuses on financial, compliance and qualitative indicators, Comprehensive SR indicators that focus on qualitative factors like management, employees' welfare & social responsibility and finally new corporate management indicators which is based on impact on local community, consumers & users, employees and society. The value of CSR is understood in terms of increased brand loyalty, stakeholders' satisfaction, higher goodwill and positive impact on corporate stock price

2.4. Empirical Review

Rahim et al. (2011) did a study to examine the influence of CSR on the buying behaviour of Malaysian consumers and whether they consider a corporation's CSR initiatives before making any purchase decisions of the products and services. They also wanted to identify which type of CSR component, namely economic, legal, ethical and philanthropic, based on Carroll's pyramid of CSR will have significant impact on consumers' buying behavior. The data obtained were analysed using the SPSS software, where descriptive and multiple linear regression statistics were used. The results showed significant positive relationships between all of the variables used in measuring CSR and consumers' buying

behaviour. Economic responsibility remained the utmost priority of a firm, philanthropy stood second, followed by ethical and legal responsibility.

Waworuntu, Wantah, and Rusmant (2014) did a research to investigate whether the commitment of companies to their stakeholders has a relationship with better financial results and also to establish the extent and pattern of corporate disclosure in the top listed companies in the ASEAN region. They used Statistical Package for Social Science (SPSS) to analyse and interpret data. The research found that there is a moderate to strong positive correlation between all the variables when analyzed as a whole but the correlation result varied when broken down into individual countries and sectors. They also found that there was an increasing awareness of CSR disclosure in the top listed ASEAN companies.

Fauzia (2009) carried out a research on 101 firms listed on New York Stock Exchange with an objective of establishing the relationship between CSR and financial performance by moderating company's size and financial leverage with the use of type of industry as control variable. He used a moderated multiple regression model to analyse the data and four models were developed. The findings were that corporate social performance has no effect on corporate financial performance under slack resource and good management theory it is also showed that only financial leverage could moderate the interaction between CSR and corporate financial performance (CSP).

In another study investigating whether there are any positive relationships between FP and CSR under the slack resource theory and under good management theory, Fauzia and Idris (2010) integrated the concept of strategic management into the definition of CSR as sustainable corporate performance including economy, social, and environment. The data collected was analysed using psychometric analysis, factor analysis and multiple regression analysis. The study they found that there is a positive relationship between FP and CSP under the slack resource theory and under good management theory.

Tsoutsoura, (2004), did a study to explore and tests the relationship between corporate social responsibility and financial performance. The dataset included most of the S&P 500 firms and covered the years 1996 to 2000. The relationship was tested using empirical methods. The results indicated a positive relationship supporting the view that socially responsible corporate performance can be associated with a series of bottom-line benefits.

Mwangi and Jerotich (2013) did a research on the relationship between corporate social responsibility practices and financial performance of firms in the manufacturing, construction and allied sector of the Nairobi securities exchange. Data was obtained from the audited financial reports of the companies from the year 2007 to 2011.Multiple regression model was used to establish the relationship between the two variable and control variables of manufacturing efficiency and capital intensity were introduced to the model. The result of the study showed a strong relationship between two variables.

Okoth (2012) carried out a study to determine the impact of CSR on financial performance of commercial banks in Kenya between the year 2007 and 2008. CSR was measured by the amount spent on CSR activities while financial performance was measured using ROA, ROE and GII using a Regression model to analyse data. The study found that CSR improves the financial performance of large and medium size banks while the effect on the ROA of small banks is insignificant.

Musau (2015) carried out a study to assess the effect of corporate social responsibility on the performance of banks in Kenya, a case of Equity Bank, Kitale. He used a sample size of 565 customers which was drawn from the target population selected using stratified and random sampling techniques. Descriptive statistics and inferential statistics were used to analyze the data collected. From the study it was established that most customers at Equity Bank, Kitale branch had knowledge of the existence of Corporate Social Responsibility in the Commercial Banks and others were already beneficiaries of CSR programs. The study showed that there is a positive relationship between CSR and profitability of Banks, customer satisfaction, customer retention and service delivery.

Omwega (2012) carried out a study to establish the relationship between corporate social responsibility and financial performance in Kenya of companies listed at the NSE. The study covered a period of five years from 2007 to 2011. She used the amounts spent on CSR programs to measure CSR and the net profits from the financial statements of companies to measure the financial performance. Data collected was analyzed by the use of descriptive statistics using SPSS and used inferential statistics regression to establish

the relationship between CSR and financial performance. The findings were that there is a positive relationship between the CSR practices and the financial performance of companies listed on the NSE.

Wangari (2014) on the effect of corporate social responsibility on financial performance of 100 top small and medium enterprises in Kenya between 2009 and 2013 found CSR to have significant positive effect on financial performance of small and medium sized enterprises in Kenya. The data obtained was analyzed using SPSS with multiple regressions model.

2.5. Summary of Literature Review

There has been extensive study done on the subject of CSR and how it affects the financial performance of companies in different industries. These studies have shown different kinds of relationships between these two variables with some showing positive relationship others negatives while there are those that depicts no relationship at all between the two. Most of these studies shows that there are benefits that comes with the firms being socially responsible even if these benefits may not always be quantifiable in monetary terms.

Some theories have tried to explain how firms should behave towards CSR activities. Some of these theories includes social contract theory, agency theory and stakeholder theory. Social contract theory shows that every business has an obligation to the community to be socially responsible, agency theory view CSR as a waste of resources which could have been used for other projects. Stakeholder theory on the other hand,

states that a company owes a responsibility to a wider group of stakeholders, other than just shareholders and therefore they should participate in CSR.

Though there has been these many researches on the topic of CSR and financial performance little has been done in the insurance industry. This study seeks to cover this area that has not been researched on.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This chapter will bring to light the research methodology that was used and the research design chosen. It will also explain the population of the study, data collection methods as well as data analysis and data presentation methods that were employed in the study.

3.2. Research Design

Research design outlines the methods that were used to collect data, measure and analyse it. The study used descriptive survey design since the design required that the variables of interest be measured within one group and therefore it was the most suited for this research project. The research covered a period of five years from 2009 to 2013 since this data is readily available from the companies' websites.

3.3. Population of the Study

This study was carried out on all the 48 insurance companies as from the year 2009 to the year 2013. According to the IRA, 48 insurance companies have been licensed to operate in Kenya. Since this number is small, the study targeted all of these companies (see Appendix 3)

3.4. Data Collection Technique

The study used secondary data since it was readily available from the companies' websites, newsletters, published financial statements, brochures and all the other available publications.

3.5. Data Analysis

The data collected from secondary source was analyzed by the use of Statistical Package for the Social Sciences (SPSS). A regression analysis was then done on the data. The findings from the analysis were then organized, summarized and presented on tables to be used to answer the research question. CSR cost data was obtained from the CSR statements in the annual reports of respective companies. Most companies' sets aside a certain percentage of either gross or net profit after tax to go towards CSR activities while in others they contribute according to the need each particular year.

3.5.1. Regression Equation

The study used ROA as a measure the financial performance since ratios provide a standardized method which enables comparison between companies and industries. According to Burca and Batrinca (2014), ROA represents one of the most used methods of quantifying financial performance. It was developed in 1919 by Dupont and it emphasizes on the company's ability to efficiently use its assets. ROA (Return on Assets) is computed as the ratio of net income to total assets. The relationship between the factors affecting the financial performance of insurance companies in Kenya was found to take the form of;

$$ROA=\alpha + \beta_1X_1+ \beta_2X_2+ \beta_3X_3 + e$$

Where:

ROA =Return on Asset

X_1=Total cost on CSR activities.

X_2=size of the Firm measured in terms of sales turnover

X_3=Underwriting Risk

e=The error term.

$\beta 1$, $\beta 2$, $\beta 3$ and α are constants.

The size of the firm and the underwriting risk will be used as control variables in this study

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter looks at data analysis and findings, summary of the findings and the interpretations thereof. Most of the CSR activities carried out by insurance companies can be categorized as targeting the Community, environment, consumers, employees' empowerment or others like compliance with statutory laws. A regression analysis is done to determine the effect of CSR spending on the financial performance of the companies.

4.2 Response Rate.

Data used in this study was obtained from companies' brochures, newsletters, CSR statements in the annual financial reports of the companies and IRA annual reports. A total of 48 insurance companies were targeted but only 21 of them provided credible information that could be used in the analysis.

4.3. Descriptive Statistics

4.3.1 Corporate Social Responsibility (CSR).

The information on the amount of money spent on CSR activities was obtained from CSR statements in the annual reports. This amount was described either as a percentage of gross profit or net profit after tax of respective companies. The percentages range between 1.0% and 2.5% of the profits. For other companies the amount was obtained as the total of the amounts spent on different aspects of CSR. According to appendix 1 some insurance companies in Kenya are highly involved in CSR activities, spending up to the tune of forty million shillings per year on average. On average insurance companies spent

more than 125 million shillings per year to give back to the community between the year 2009 and 2013.

4.3.2 Return on Assets (ROA)

The ROA of the companies was calculated and presented on appendix 2 below. From the results obtained ROA of insurance companies ranges from as low as -3.93 to as high as 27.71. Mayfair Insurance is one of the lowest performers having the lowest average ROA of 2.78 while Geminia Insurance is the best performer among the ones analysed with average ROA of 12.01.

4.4 Regression Analysis

Table 1: regression Results

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	-1.93	4.70	-0.41	0.69	-11.86	8.00
CSR	0.00	0.00	0.15	0.88	0.00	0.00
FIRM'S SIZE	1.13	0.61	1.84	0.08	-0.16	2.42
RETENTION RATIO	-0.01	0.03	-0.20	0.85	-0.08	0.06

From the regression analysis done, the following equation was derived:

$ROA = -1.93 + 1.13X_2 - 0.01X_3$

From the analysis the value of α is -1.93. This shows the value of the firm's ROA when CSR, firm's size and retention ratio are all at zero level. The coefficient of CSR was 0.0000149182meaning CSR had very minimal relationship with the financial

performance of insurance companies in Kenya. Firm's size had a positive coefficient of 1.13 and retention ratio had a negative coefficient of -0.01.

Table 2: Output Summary

Regression Statistics	
Multiple R	0.457469528
R Square	0.209278369
Adjusted R Square	0.167661441
Standard Error	2.61838984
Observations	21

The correlation coefficient (R) was used to measure the magnitude and the direction of the relationship between both the dependent and independent. The correlation coefficient R of 0.4575 depicts not a very strong positive relationship between the dependent and independent variables. 20.93% of the changes in financial performance are explained by CSR spending, firm's size and retention ratio of the firm as depicted by $R^{2.}$

4.5 Correlation Analysis

Table 3: Correlation Matrix.

	ROA	*CSR*	*FIRM'S SIZE*	*RETENTION RATIO*
ROA	1			
CSR	0.457469528	1		
FIRM'S SIZE	0.582417038	0.755469529	1	
RETENTION RATIO	0.170407713	0.32670715	0.350080529	1

This analysis shows the multi-collinearity between two predictor variables. -1 shows that two predictor variables have a very strong correlation with each other while +1 shows a very strong positive correlation. If two predictor variables have a strong correlation with each other say from 0.8, then one of them needs to be dropped from the model. From the analysis there are no two variables with such a strong correlation so all the variables are good for the analysis.

4.6 Discussion of Research Findings.

The study was done to determine the effects of CSR to the financial performance of insurance companies in Kenya. ROA was used to measure the financial performance while the size of the firm and retention ratio were used as control variables in the model. It was observed that insurance companies are not so much involved in CSR activities in Kenya. For those that have set a portion to go towards CSR per year they give less than five percent of their net profits for it while others only participates in few CSR activities if any. The major aspects of CSR that insurance companies gets involved in include community, environment, employees' empowerment and consumer product.

The study came up with a model of the form; $ROA = -1.93 + 1.13X_2 - 0.01X_3$

CSR had very minimal effect on the financial performance of a company which is almost insignificant. From the model equation CSR had a coefficient of 0.00001492 (which was very small thus left out of the model) meaning that for every one unit increase in CSR spending the financial performance of the company increases by 0.00001492 of a unit. This is almost insignificant increase in the financial performance.

The firm's size had a significant positive effect on the financial performance and a unit increase in the size of the firm would lead to 1.13 units increase in the financial performance of the firm. A unit increase in the retention ratio would lead to o.o1 unit reduction in the financial performance of the firm which is not significant. A correlation coefficient of o.4575 shows a weak relationship between the independent and dependent variables. Only 20.92% of the changes in ROA can be explained by the independent variables. The regression model obtained is therefore not a very good tool for use to estimate the relationship between the variables.

CHAPTER FIVE: SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1. Introduction

This chapter gives a summary of the study, conclusion, recommendations, limitations of the study and suggestions for further research.

5.2. Summary of the Findings

The research covered a period of five years from 2009 to 2013. It targeted 48 insurance companies that were registered in Kenya by then according to Insurance Regulatory Authority but only 21 were analysed since data on CSR spending was not available for the others. Return on assets was used to measure the financial performance of the companies. It was calculated as the ratio of net income to total assets of the company. This information was obtained from IRA annual reports and annual reports of respective companies.

CSR activities carried out by insurance companies were found to be targeting specific areas like the community, the environment, empowerment of the employees, improvement of consumer products and other areas like compliance with statutory requirements. Some companies sets aside a certain percentage of their profits to go towards CSR while others contributes according to the present needs. From the research there is no pattern on how the companies contribute toward CSR, a big company can contribute more or contribute less than a small company and vice versa or fail to

contribute at all. For the companies that have not tagged any percentage to CSR, total cost was obtained by adding all the amounts spent on all CSR activities. Firm's size which was one of the control variables was obtained by finding the natural logarithm of total assets of the company. Retention ratio which was the other control variables was calculated as the ratio of net written premium to gross written premium.

A multiple regression model was then used to analyze data. The study revealed that CSR has no significant relationship with the firm's financial performance. The change that results from the change in CSR spending to financial performance of the firm is so minimal that it can hardly be felt. According to the study therefore if a company is to increase its spending on CSR it should do so but not having the intention of increasing its profitability. The firm's size has a positive relationship with the financial performance while retention ratio has a negative relationship.

5.3. Conclusion

The study intended to determine whether investment in CSR activities by insurance companies in Kenya has an effect on their financial performance. The study found out that CSR investment has very minimal effect on the performance of the insurance companies. Insurance companies should therefore not engage in CSR activities with the main aim of improving their profitability but they should also be driven by other factors. From the testimonies given by the beneficiaries of CSR activities by companies, it is evident that CSR involvements paint a very positive image of a company to the society.

Involvement in CSR is also one way of meeting the requirement for a good citizenship where a company is expected to be socially responsible to the environment in which it operates in. a company is also supposed to meet statutory requirements that is part of the CSR requirements of a company. Even if an organization is not getting involved in CSR for financial gains, insurance should still be involved in CSR activities for its survival. In the short run organizations may not experience financial benefits but in the long run these activities may be very critical for organizations profitability and survival. This is because being a good corporate citizen attracts new and unexpected customers, new capital, tax exemptions, government favors and in the end this may lead to achieving greater profitability.

5.4. Recommendations

The study found that CSR has very minimal relationship to the financial performance of insurance companies in Kenya. This may be because the companies also involve themselves minimally in CSR activities. Insurance companies should therefore involve themselves more in CSR and those not involved at all should start being active for good citizenship image. The researcher would recommend that insurance companies pool together to do common CSR activities as this would lead to greater achievements and reduced cost. They can also partner with companies from other industries to do the same activities.

The researcher would also recommend the responsible regulatory body, IRA, to devise a way in which the cost on CSR activities can be reported by insurance companies. This

information is found only in the financial reports statements and for many companies they are not defined in monetary terms. Other costs to the company such as time spent in the activities cannot be quantified in monetary terms. This would facilitate better measurement which would ensure accurate research findings. They should also dictate the percentage of the profits that insurance companies need to commit to CSR activities so as to ensure all of them will be socially responsible and the society benefits even as their profitability increases.

It's also recommended that the companies should be involving all their stakeholders before engaging in CSR activities so that they can recommend those activities that would yield maximum results and those that would have the greatest influence. This would ensure that a cost benefit anlysis is done before starting any activity. This would also ensure that stakeholders are in light of what their resources are being spent on and that companies are accountable for whatever they do.

5.5. Limitations of the Study

During the study it was difficult to quantify the non-monetary input that was employed in CSR activities such as time spent during the activities that the companies were involved in, donations that were made e.g. to schools and hospitals without stating the amounts spent. These costs were left out which ended up giving inaccurate total amount spent on CSR which could have affected the results of the research. Another challenge was the way companies treated their costs on CSR. Some companies treated it as general expenses others marketing expenses but did not disclose this information in their notes

and this affected the profit that was used to determine the CSR cost. Other companies treats the cost as tax exempt while others treated as taxable and this had effects on the research results.

5.6. Suggestions for Further Research

This study was conducted to determine the effects of CSR on financial performance of insurance companies in Kenya. It is recommended that a similar study be done to establish how involvement in CSR affects the market share of insurance companies in Kenya during the same period. A similar study may also be done on other industries in the economy.

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APPENDIX 1:

Analysis of financial spending on CSR

		2009 Sh.(000)	2010 Sh.(000)	2011 sh.(000)	2012 Sh.(000)	2013 Sh.(000)	AVERAGE Sh.(000)
1	UAP	3,626	7,558	21,466	4,657	22,750	12,011
2	APA	2,367	2,839	3,974	2,101	6,635	3,583
3	KENYA RE	26,310	29,553	30,773	44,553	72,010	40,640
4	BRITAM	4,734	15,539	10,016	1,414	17,807	9,902
5	Africa Merchant Assurance (AMACO)	1,255	1,614	827	1,347	2,660	1,541
6	Cannon Assurance Company Limited	4,155	5,168	1,963	6,891	5,082	4,652
7	Fidelity Shield Insurance Company	1,403	2,075	732	1,654	1,375	1,448
8	Gateway Insurance Company Ltd	32	22	675	19	150	180
9	Geminia Insurance Company	3,920	723	1,108	3,768	2,524	2,408
10	ICEA LION Group	4,311	5,482	9,202	8,686	13,433	8,223
11	Kenindia Assurance Company	3,138	4,944	-	2,051	5,455	3,118
12	Kenya Orient Insurance	178	12	156	262	451	212
13	Madison Insurance Company Kenya	6,384	12,239	3,339	13,379	6,995	8,467
14	Mayfair Insurance Company	15	203	210	263	2,071	553
15	Occidental Insurance Company	1,134	530	917	1,367	2,399	1,269
16	Phoenix of East Africa Assurance Company	953	2,409	316	1,109	1,699	1,297
17	Real Insurance Company	788	791	1,465	1,282	923	1,050
18	Tausi Assurance Company	-	568	-	599	752	384
19	Heritage Insurance Company	2,500	3,943	3,205	10,914	10,738	6,260
20	kenya Alliance Insurance Co.	2,805	2,605	3,566	792	8,063	3,566
21	Jubilee Insurance Company Limited	10,997	21,174	16,420	16,851	9,246	14,938
	TOTAL						**125,702**

Source: Data on CSR spending was obtained from newsletters, statements on CSR in the annual financial reports.

APPENDIX 2:

Return on Asset (net income/total asset)

	COMPANY	2009	2010	2011	2012	2013	AVERAGE
1	UAP	1.75	4.25	6.08	5.20	8.16	5.09
2	APA	3.07	3.22	3.55	1.96	3.70	3.10
3	KENYA RE	8.86	8.94	10.02	11.77	10.63	10.04
4	BRITAM	11.37	25.33	9.57	7.03	5.66	11.79
5	Africa Merchant Assurance (AMACO)	4.44	4.34	2.33	2.91	3.67	3.54
6	Cannon Assurance Company Limited	12.26	12.80	4.46	13.09	10.02	10.53
7	Fidelity Shield Insurance Company	9.41	11.15	3.56	6.19	5.47	7.16
8	Gateway Insurance Company Ltd	2.24	1.68	4.09	0.92	7.62	3.31
9	Geminia Insurance Company	27.71	4.30	5.94	13.52	8.60	12.01
10	ICEA LION Group	6.57	7.47	10.32	4.62	8.21	7.44
11	Kenindia Assurance Company	8.07	10.47	-3.93	2.20	6.80	4.72
12	Kenya Orient Insurance	4.40	0.33	3.13	4.91	6.03	3.76
13	Madison Insurance Company Kenya	7.51	10.36	2.83	9.00	5.64	7.07
14	Mayfair Insurance Company	0.22	2.20	1.08	1.35	9.03	2.78
15	Occidental Insurance Company	9.22	3.64	4.80	5.88	9.68	6.64
16	Phoenix of East Africa Assurance Co.	3.17	7.73	1.19	3.75	5.45	4.26
17	Real Insurance Company	5.79	5.18	7.85	5.25	3.83	5.58
18	Tausi Assurance Company	-0.14	7.82	3.52	8.22	11.06	6.10
19	Heritage Insurance Company	1.28	4.90	12.15	13.42	9.26	8.20
20	kenya Alliance Insurance Co.	3.17	5.67	4.75	2.95	6.80	4.67
21	Jubilee Insurance Company Limited	9.07	15.17	10.13	7.92	3.04	9.07

Source: Data on ROA was obtained from IRA supervisory annual reports and respective company's annual reports.

APPENDIX 3:

Insurance Companies in Kenya

AAR Insurance Kenya Limited

APA Insurance Limited

Africa Merchant Assurance Co. Ltd

AIG Kenya Insurance Company Limited

British-American Insurance Company

Cannon Assurance Company Limited.

Capex Life Assurance Company

CFC life Assurance Ltd.

CIC General Insurance Limited

CIC Life Assurance Limited

Continental Reinsurance

Corporate Insurance Company

Directline Assurance Company

East Africa Reinsurance Company

Fidelity Shield Insurance Company

First Assurance Company

GA Life Assurance Ltd.

GA Insurance Limited

Gateway Insurance Company Ltd

Geminia Insurance Company

ICEA LION Group

Intra Africa Assurance Company

Invesco Assurance Company

Kenindia Assurance Company

Kenya Orient Insurance

Kenya Reinsurance Corporation

Madison Insurance Company Kenya

Mayfair Insurance Company

Mercantile Insurance Company

Metropolitan Life Insurance Kenya

Occidental Insurance Company

Old Mutual Life Assurance Company

Pacis Insurance Company

Pan Africa Life Assurance

Phoenix of East Africa Assurance Company

Pioneer Assurance Company

Real Insurance Company

Resolution Insurance Company

Takaful Insurance of Africa

Tausi Assurance Company

The Kenyan Alliance Insurance Co. Ltd.

Heritage Insurance Company

Jubilee Insurance Company Limited

Monarch Insurance Company

Trident Insurance Company

UAP Insurance Company& UAP Life Assurance