RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE OF MOBILE TELEPHONY FIRMS IN KENYA

BY

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DECLARATION

This research project is my original work and has not been presented for any academic award in any university.

Signed………………………………… Date 10/11/12…………………

James King Lorwood

D61/60902/2011

This research project was submitted with my approval as the university supervisor.

Signed………………………………… Date…………………………

Dr. Josiah Aduda

Supervisor

DEDICATION

I would like to dedicate this research project to my beloved wife Mrs. Tenneh Tomo Lorwood, who gave me love, encouragement, moral and financial support. My beloved son, James T. Lorwood who prayed tirelessly during my long stay away from home to do my studies.

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For the success of this research I am heavily indebted to various people and organizations without whose material and non material support this research would have come to naught. I take this opportunity to express my sincere thanks to each of these people and organizations.

Mr. John S. Morlu II, Former Auditor General, General Auditing Commission (GAC) Liberia, under who administration and with no doubt in my mind that without his inspirational instruction and guidance this opportunity would not have been initiated and agreed. My special thanks to you.

Much of the direction on what to do at each stage of this research from the generation of the research idea, to its conceptualization, to the drafting of the research proposal, to the analysis of samples and preparation of the report was provided by my supervisor Dr. Josiah Aduda.

The data of analysis was got from responses from questionnaires circulated to mobile telephone companies in Kenya. It would not have been possible to conduct an analysis and extract out the relevant finding if the data was not available in the first place.

I would wish to thank my family and friends that provided me with encouragement throughout the period while I was conducting this research. Special thanks go to Mr. & Mrs. Edward B. Dagoseh for their advices, moral and financial support which kept me going through the period of this study. I would like to acknowledge Mr. & Mrs. Matthew S. Tarpeh, Mr. & Mrs. Godfrey T. Karmuh for their tireless prayers in the sojourn of this study. Finally, I thank the Almighty God as my source of all inspiration in allowing and giving me good health and wisdom to undertake this project.

ABSTRACT

The objective of this study was to establish the relationship between corporate social responsibility and firm performance of mobile service providers in Kenya. The study focused on the four mobile telephone companies in Kenya. The data used for the study was mainly qualitative got by sending questionnaires to the mobile companies. The findings were that the issues that had a lot of influence of CSR were employee health and safety issues, the need to control hazardous wastes and the safety of products, but relation with workers unions, retirement benefits issues, non-representation of interest groups in management, and controversy in marketing were not key issues in the CSR policies of the mobile telephone companies in Kenya. The employee related factor that was identified as contributing greatly to CSR was the investment in employee health and safety while the least contributing factor was profit sharing payment programs. Environmental issues contributed greatly to CSR because all the identified factors, namely, green production processes, pollution control programs and use of recycling in production process considered important contributors towards the CSR. The contribution of product characteristics on CSR was significant. The regression analysis found a negative relationship between ROA and CSR. However, the coefficient of CONTROLS variable was 114.67 indicating that there is a strong positive relationship between CSR and CONTROLS. The relationship was not strongly significant as indicated by the F value of 0 with a probability of 1.0. The study recommends that companies should include of non-monetary activities in their corporate social responsibility maintaining the health and safety, control of hazardous wastes, ensuring green production programs, pollution control, and recycling of recyclable production materials.

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ABBREVIATION AND ACRONYMS

CCK	Communication Commission of Kenya
CEO	Chief Executive Officer
CEP	Council of Economic Priority
COM	Community Relations
CSR	Corporate Social Responsibility
DIV	Diversity Issues
EMP	Employee Relation
ENV	Environmental Issue
ETKL	Essar Telecom Kenya Limited
KLD	Kinder, Lydenberg Domini & Co
MKBK	Market – to - Book
NSE	Nairobi Security Exchange
PRO	Product Issue
R&D	Research and Development
ROA	Return on Asset
ROE	Return on Equity
SM	Stakeholder Management
SPSS	Statistical Package for Social Science
TA	Total Asset
TD	Total Debt
UK	United Kingdom

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The maximization of the shareholder wealth has long been the prime goal that the management of a firm should pursue. This according to the proponents of shareholder wealth is that it may be impossible to optimize dealings with all stakeholders since the goals of each stakeholder group are often different and may be in conflict. To this extend Stakeholder and corporate social responsibility goal are seemingly at odds and appear to be irreconcilable. However, according to Jensen (2002), these theories are not necessarily incompatible, instead, he points out that a firm would be unable to maximize its value if it ignores other stakeholders. To achieve value maximization, the company must manage all of its critical functions. This implies managing its relations with various stakeholder groups and being socially responsible.

According to Freeman (1984), a firm's corporate social responsibility is a strategic move with stakeholder interests playing an instrumental role in enhancing firm performance. This view is also noted more recently by Jensen (2002) who argues that while the goal of the corporation is to maximize shareholder wealth, this goal cannot be met by treating stakeholders poorly. However, companies should not try to maximize the social welfare of all of its stakeholders, but work with stakeholders to produce shareholder wealth. More specifically, companies should improve stakeholder welfare until the marginal cost of doing so exceeds the marginal benefit to shareholders.

Further, Godfrey (2005) argues that corporate social responsibility and philanthropic activities can generate positive "moral capital" among communities and stakeholders. This moral capital may provide an insurance-like effect for firm reputation during problem periods. He argues for example that when convicted criminals are sentenced, their past good deeds can lessen their penalties. Therefore, companies viewed as socially responsible will not face as severe penalties in the market place when they have problems. Further, Companies that build better relationships with primary stakeholders such as employees, customers, suppliers, and communities may be able to increase their financial gains (Freeman, 1984).

Corporate social responsibility views a firm as a group of stakeholders whose purpose should be to manage their interests, needs, and viewpoints. Managers, as a result, are given the task of managing relations with stakeholders by maximizing the social welfare of all of the company's constituents. These constituents include shareholders, employees, customers, suppliers, and the communities in which they operate. However, Sundaram and Inkpen (2004, p. 49) posit that the "the task of establishing core values such as what a company stands for, and doing this in a manner that takes into account concerns across and within heterogeneous stakeholder groups imposes an unrealistic expectation of managers." This position had however been countered by Brickley, Smith, and Zimmerman (2002) who argued that the process of creating shareholder wealth involves allocating resources to all constituencies that affect the process of shareholder value creation and this process should only proceed only to the point where the benefits from such expenditures do not exceed their additional costs.

The need of a company to take into consideration the mutual needs of its stakeholders as encapsulated by the stakeholder management theory notes that the value maximization objective of a firm cannot be achieved if companies ignore or mistreat their stakeholders. The company's relations with its stakeholders must be rooted in the company's strategies and must be a means to an end, that of value maximization. Accordingly, managers optimize relations with stakeholders to maximize firm value since the management of stakeholder welfare may be a partial determinant of firm value and any deviations from ESM may be detrimental to a firm's value (Jensen, 2002).

A firm's performance can be measured using either financial or non-financial measures. Financial measures as a form of business performance measurement still remains an important part of measuring performance of an entity, especially in the current economic climate. Most businesses target increased profits, liquidity and solvency as a measure of sound financial health of an organization. Liquidity measures the ability of a firm to meet financial obligations as they come due, without disrupting the normal, ongoing operations of the business. Solvency on the other hand measures the amount of borrowed capital used by the business relative the amount of owner's equity capital invested in the business.

Profitability as a measure of financial performance indicates the extent to which a business generates a profit from the factors of production: labor, management and capital. Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business, (Mesquita and Lara, 2003). Other researchers have pointed out that financial measures do not convey the full

picture of a company's performance, especially in today's competitive environment where companies are competing in terms of product, quality, delivery, reliability, after-sales service and customer satisfaction (Bozac, 2005). None of these services is measured by the traditional responsibility accounting system, despite the fact that they represent the major goals of world-class manufacturing companies. Many companies are using both qualitative and quantitative non-financial indicators such as; quality, lead time, number of customer complaints and warranty claims, delivery time, non-product hours, and system down time.

1.1.1Mobile Service Operators in Kenya

The mobile service industry in Kenya has undergone can be traced to the partial privatization of Telkom Kenya Ltd (December, 2007), divestment of the government of Kenya's 25% stake in Safaricom Ltd through a public listing (May, 2008), and the launch of the fourth mobile operator, Econet Wireless Kenya (November, 2008). This has resulted into some of the World's best known telecommunication providers, Vodafone, France Telecom's and Essar Communication through their investment in Safaricom Ltd, Telkom Kenya Ltd, Bharti of India and Econet Limited being major players in the Kenyan market.

Currently, there are over 19.4 million mobile phone users in Kenya which is around 50% of the population. There are four mobile service providers in the country which are, Safaricom which has approximately 15 million subscribers, that is around 76%, Bharti Airtel has around 13% of the subscriber base, with Orange Telkom having around 8% and Econet's Yu with 3% (African Telecom, Website – africantelecomsnews.com, accessed 18.6.2012).

Safaricom Ltd is a leading mobile network operator in Kenya with its headquarters based in Nairobi. It was formed in 1997 as a fully owned subsidiary of Telkom Kenya. In May 2000, Vodafone group Plc of the United Kingdom, the world's largest telecommunication company, acquired a 40% stake and also the management responsibility for the company. Recent reports indicate that Vodafone Plc of UK only owns 35% of the stake in Safaricom Limited and the remaining 5% is owned by a little known company, Mobitelea Ventures Limited.

Bharti Airtel Limited commonly known as Airtel, is an Indian telecommunications company that operates in over 19 countries across South Asia, Africa and in the Channel Islands. It operates a GSM network in all countries, providing 2G or 3G services depending upon the country of operation. Airtel is the fifth largest telecom operator in the world with over 207.8 million subscribers across 19 countries as at the end of 2011. Airtel is the second largest GSM service provider in Kenya after Safaricom Limited. It started its operations in Kenya in 2010 after it bought off Zain Ltd's business interests. Essar Telecom Kenya Limited (ETKL) is a unit of India based Essar Group. ETKL launched a mobile service network under the brand name "Yu" in November 2008 in Kenya. They continue to build their network using the latest equipment that ensures clarity and reliability.

The mobile sector in Kenya still is in its infancy stage and there is growth opportunities especially in data traffic as well as voice services. This can be attested by the increased revenue and profits over the last five years among the mobile service providers. In addition, there is still a huge percentage of Kenyans still unbanked and with the money

transfer innovation; the providers can still capture this market and thus increasing their revenue base. However, with more players coming to the market, there has been a drop of calling charges due to price competition and this has led with a drop in revenue from the voice segment although the firms have had to diversify into other services to cushion themselves from the pricing effects.

1.2 Statement of the Problem

The leading objective of a firm, propagated by many finance scholars, is the maximization shareholder wealth. However, the same shareholder wealth cannot and should not be realized in total disregard of other corporate stakeholders of the firm. Thus a much tenable objective will be to strike a balance about fulfilling the objectives of the stakeholders and at the same time safeguarding the interest of the shareholders wealth. The argument behind the theory has been that organizations should be operated and managed in the interests of all their constituents who can affect or be affected by the achievement of the organization's objectives (Donaldson and Preston, 1995).

Further, it has been observed that a firm's management of its stakeholders can be of strategic value and that creating a shareholder value involves allocating resources to all constituencies that affect the process of shareholder value creation, but only to the point at which the benefits from such expenditures do not exceed their additional costs (Fung, 2009). The corporate social responsibility theory has diverged into at least two approaches. The first is the strategic approach in which firms manage stakeholder relations in the pursuit of value maximization. Here, value maximization is the fundamental purpose of the firm with social responsibility as a means to an end (Freeman, Wicks, and Parmar, 2004). The second approach is the moral approach where

firms manage stakeholder relations for ethical or moral reasons (Freeman, 1984). However, it has been noted that if managers treat all stakeholders with the same priority, it would be difficult to manage a firm as various stakeholders have different interests.

The strategic importance of an organization to be socially responsible has ignited various researchers to focus on evaluating the effect of stakeholder management on a firm's performance. As far back as 1970, Milton Friedman stated that the social responsibility of business is to increase its profits. Brickley et al. (2002) on their part argued that a company must focus its attention on shareholder wealth to survive in a competitive and technology-oriented business world. Benson and Davidson (2009) find that while social responsibility is positively related to firm value, firms do not compensate managers for SM.

Instead, firms compensate their CEOs for achieving the firm's ultimate goal, value maximization. Their results indicate that effective managers optimize relations with stakeholders to accomplish value maximization. Kipkemoi (2010) on his part researched on corporate social responsibility and firm performance of firms listed at the NSE and the findings of the same study is that firms which had earmarked a higher social responsibility budgets in their operation registered better performance in their market prices. Ngurumu (2010) researched on corporate social responsibility practices in the micro finance institutions in Kenya.

The study findings were that, most micro finance institutions had a lean budget and as such most of them carry out their CSR activities within their locality Awuor (2011) on her part researched on corporate social responsibility and its sustainability at the Kenya

commercial bank and found out that it is possible and tenable for a firm to sustain corporate social responsibility budgets since she found out that the customers attach organizations that undertake CSR activities with their performance and hence organizations should always incorporate CSR as part of their strategy. The main motivating force to undertake the study is the apparent lack of empirical evidence on existing literature, CSR and its impact on the firm's performance in the mobile telephony firms.

1.3 Objectives of the Study

To establish the relationship between corporate social responsibility and firm performance of mobile service providers in Kenya

1.4 Significance of the Study

The study will be of importance to the Management of all mobile service providers firms in Kenya as well as, Government, Customers, the Shareholders and the academicians as follows:

The management of the concerned firms will be able to determine the effect that various stakeholder policies will have on their firms' performance. In addition, they will be able to establish the optimal stakeholder policy that will enable them to meet their long run objective of maximizing the shareholder wealth. In a society in which organizations are under scrutiny on their dealings with the society at large, it is important for the management of these companies to develop a pro active approach as far as their interactions with other stakeholders is concerned. Failure to consider their actions in relation with the stakeholders will have negative effect to their performance.

The government will also benefit from the study in that by understanding the effect that various stakeholder policies will have on the profitability of the firm, the government will be able to develop appropriate strategies that will foster adoption of these strategies in order to enhance the profitability of the firms. In addition, this study is expected to increase body of knowledge to the scholars of manufacturing industry especially on matters of maintaining effective stakeholder relationship. It may also encourage further research on other factors influencing stakeholder theory position of the companies and the material resulting from the study will form a source of reference by other scholars in the area of the impact of stakeholder theory on the firms' performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter will have several subsections covering theories and literature by various authors and researchers on the research subject area. It covers the theoretical framework, measurement financial performance, corporate social responsibility and empirical studies on corporate social responsibility.

2.2 Theoretical framework on corporate social responsibility

The theoretical framework helps to make logical sense of the relationship of the variables and factors that have been deemed relevant/important to the problem. It provides definitions of relationships between all the variables so that the theorized relationship between them can be understood. The theoretical framework will therefore guide the research, determining what factors will be measured, what statistical relationship the research will look for.

2.2.1 Stakeholder Theory

Stakeholder theory proposes that managers should operate the company to maximize the social welfare of all of the company's constituents. These constituents include shareholders, employees, customers, suppliers, and the communities in which they operate. Stakeholder theory considers the firm as a group of stakeholders whose purpose should be to manage their interests, needs, and viewpoints (Friedman and Miles, 2006). According to Freeman, a stakeholder is considered as "any group or individual who can affect or is affected by the achievement of the organization's objectives." He therefore

argues that organizations should be operated and managed in the interests of all their constituents who can affect or be affected by the achievement of the organization's objectives. Stakeholder management (SM) captures various firm-stakeholder relationships. Fung (2009) observes that SM is strategically important, and firms can benefit from properly managing their relationship with these important groups.

According to Kelly and Davis (2007), one of the downsides to investing in SM is that it consumes a firm's limited resources they observe that by a firm directing excess resources from shareholders to other stakeholders, this action may hurt firm value. Indeed, some shareholders view SM as being at odds with profit making and value maximization. For example, two shareholders at Goldman Sachs protested the company's donation of land for a nature preserve. The shareholders based their protest on the idea that while the donation would have benefited one of the firm's stakeholders (the world environment), it would be costly to shareholders as the land could have been put to profitable use (Kelly and Davis, 2007).

Stakeholder theory seems to be at odds with value maximization. Jensen (2002) addresses this problem and proposes enlightened value maximization. He argues that a firm's goal is to increase firm value, but a firm cannot maximize its value unless it takes care of its stakeholders. Similarly, Brickley, Smith, and Zimmerman (2002) argue that "creating shareholder wealth involves allocating resources to all constituencies that affect the process of shareholder value creation, but only to the point at which the benefits from such expenditures do not exceed their additional costs." That is, when the marginal cost of SM exceeds the marginal benefit to shareholders, it would not be optimal to pursue

SM any further. Excess SM would be investments in stakeholders beyond this optimal level.

Stakeholder theory attempts to focus on managerial decision making by asking managers to answer two core questions namely: what is the purpose of the firm and what responsibility does management have to stakeholders. He notes that in the quest to arrive at answers for each of these two questions, several arguments have been advanced leading to much debates and confusion in the process. Furthermore, as noted by Sundaram and Inkpen (2004), "the task of establishing core values such as what a company stands for, and doing this in a manner that takes into account concerns across and within heterogeneous stakeholder groups imposes an unrealistic expectation of managers." Further, the question that has been in the minds of many scholars is whether sole purpose of the firm is as a value maximizing economic entity or as a social one with moral and ethical responsibilities that supersede creating shareholder value.

Freeman (1984), frames stakeholder theory as strategic, with stakeholder interests playing an instrumental role in enhancing firm performance (Laplume et al., 2008). However, in his latter works, he argues for a moral basis of stakeholder theory. This argument is criticized by Goodpaster (1991) who distinguishes between managing stakeholder relationships as a means for the achievement of economic objectives (strategic approach) and managing stakeholder relations because it is morally required (multifiduciary approach).

2.2.2Enlightened Value Maximization theory

The theory of enlightened value maximization as advanced by Jensen (2001) suggests that while value maximization is the goal and scorecard for companies, it would not be obtainable if companies ignore or treat their stakeholders badly. He argues that building strong working relationships with stakeholders would help managers pursue value maximization. Further, Graves and Waddock (2000) assert that positive treatment of stakeholders is related to better overall performance.

Jensen (2001) argues that while the goal of the corporation is to maximize shareholder wealth, this goal cannot be met by treating stakeholders poorly. Companies should not try to maximize the welfare of all stakeholders but work with stakeholders to produce shareholder wealth. More specifically, he posits that companies should improve stakeholder welfare until the marginal cost of doing so exceeds the marginal benefit to shareholders. Thus, this approach is somewhat consistent with the management of stakeholders as a means to an end where the end is shareholder value maximization, but it does differ from instrumental stakeholder theory in that stakeholder theory fails to provide a mechanism for making trade-offs between competing stakeholder claims. Enlightened value maximization posits that managers will make trade-offs between stakeholders using the effect on firm value as the decision criteria.

Jensen's (2001) model differs from traditional instrumental stakeholder theory as this model provides a basis for making tradeoffs between stakeholder groups. The company's relationship with its stakeholders must be rooted in the company's strategies and should be used as a means to an end with the result being value maximization. According to this view, managers are directed to optimize relations with stakeholders to maximize firm

value. As a result, if firm value is not a significant predictor of compensation after controlling for endogeneity, then perhaps managers are being directed to pursue value maximization through managing their relationships with stakeholders.

2.2.3 Shareholder Wealth Maximization

Shareholder theory defines the primary duty of a firm's managers as the maximization of shareholder wealth. The theory enjoys widespread support in the academic finance community and is a fundamental building block of corporate financial theory. The shareholder value maximization hypothesis predicts that a firm will engage in risk management policies if, and only if, they enhance the firm's value and thus its shareholders' value. This goal is credit with the advantages that it considers all direct stakeholders of the firm, it is a long term objective and considers all the cash flows and also that it considers uncertainty of returns since discounting rate can be adjusted according to the riskiness of the project.

However, the shareholder model has been criticized for encouraging short-term managerial thinking and condoning unethical behavior. Smith (2003, p.56) notes that critics believe shareholder theory is ". . . geared toward short-term profit maximization at the expense of the long run. Further, he asserts that shareholder theory "involves using the prima facie rights claims of one group shareholders—to excuse violating the rights of others." However, Jensen (2004) argue out that such critics are misguided because wealth maximization is inherently a long term goal—the firm must maximize the value of all future cash flows—and does not condone the exploitation of other stakeholders. The criticisms are understandable because many proponents of shareholder theory, in a stylized version of the model, exhort managers to maximize the firm's current stock price.

2.3 Measurement of Financial Performance

Traditional methods of measuring a company's performance by financial indices alone have virtually disappeared from large organizations (Basu, 2001). Non-financial measures are at the heart of describing strategy and of developing a unique set of performance measures that clearly communicate strategy and help in its execution. Frigo (2002) reported the existence of a gap between strategy and performance measures, which failed to support the communication of strategy within an organization.

2.3.1 Financial Measures

Financial measures as a form of business performance measurement still remains an important part of running a growing business, especially in the current economic climate. Most growing businesses ultimately target increased profits, so it's important to know how to measure profitability. The key standard measures are:-

Liquidity measures the ability of the farm business to meet financial obligations as they come due, without disrupting the normal, ongoing operations of the business. Liquidity can be analyzed both structurally and operationally. Structural liquidity refers to the balance sheet (assets and liabilities) and operational liquidity refers to cash flow measures. Two recommended measures of liquidity are the current ratio and working capital. The current ratio measures the relationship between total current farm assets and total current farm liabilities and is a relative measure rather than an absolute dollar measure. The higher the ratio, the more liquid the farm is considered to be. Working capital is a measure of the amount of funds available to purchase inputs and inventory items after the sale of current farm assets and payment of all current farm liabilities.

Working capital is expressed in absolute dollars; therefore, determining adequate working capital is related to the size of the farm operation (Du Rietz and Henrekson, 2000).

Solvency measures the amount of borrowed capital used by the business relative the amount of owner's equity capital invested in the business. In other words, solvency measures provide an indication of the business' ability to repay all indebtedness if all of the assets were sold. Solvency measures also provide an indication of the business' ability to withstand risks by providing information about the farm's ability to continue operating after a major financial adversity, Hammes (2003).

Unlike liquidity, solvency is concerned with long-term as well as short-term assets and liabilities. Solvency measures evaluate what would happen if all assets were sold and converted into cash and all liabilities were paid. The most straightforward measure of solvency is owner equity, using the market value of assets and including deferred taxes in the liabilities. As with working capital, adequacy of equity depends on business size, making comparisons difficult without using ratios, Hammes (2003). Three widely used financial ratios to measure solvency are the debt-to-asset ratio, the equity-to-asset ratio and the debt-to-equity ratio. These three solvency ratios provide equivalent information, so the best choice is strictly a matter of personal preference. The debt-to-asset ratio expresses total farm liabilities as a proportion of total farm assets.

Profitability measures the extent to which a business generates a profit from the factors of production: labor, management and capital. Profitability analysis focuses on the

relationship between revenues and expenses and on the level of profits relative to the size of investment in the business, Mesquita and Lara (2003).

Four useful measures of farm profitability are the rate of return on farm assets (ROA), the rate of return on farm equity (ROE), operating profit margin and net farm income. The ROA measures the return to all farm assets and is often used as an overall index of profitability, and the higher the value, the more profitable the farm business. The ROE measures the rate of return on the owner's equity employed in the farm business. It is useful to consider the ROE in relation to ROA to determine if the farm is making a profitable return on their borrowed money, Hadlock and James (2002).

Net farm income comes directly off of the income statement and is calculated by matching farm revenues with the expenses incurred to create those revenues, plus the gain or loss on the sale of farm capital assets. Net farm income represents the return to the farmer for unpaid operator and family labor, management and owner's equity. Like working capital, net farm income is an absolute dollar amount and not a ratio, thus comparisons to other farms is difficult because of farm size differences, Mesquita and Lara (2003).

Repayment capacity measures the ability to repay debt from both farm and non-farm income. It evaluates the capacity of the business to service additional debt or to invest in additional capital after meeting all other cash commitments. Measures of repayment capacity are developed around an accrual net income figure, Mesquita and Lara (2003).

The short-term ability to generate a positive cash flow margin does not guarantee long-term survivability. Long-term survivability requires the farm to be profitable. The only way for an unprofitable farm to survive long-term is for income infusions from non-farm sources to offset farm losses. These cash infusions usually come from off-farm employment, inheritances and gifts or from a lender if the farm assets appreciate faster than the farm is losing money and the farmer can successfully refinance the farm's debts, Anderson and Reeb (2003).

2.3.2 Measurement of corporate social responsibility

There are two generally accepted methods of measuring CSR. The first method is the reputation index (Cochran and Wood, 2004). In this method, knowledgeable observers rate firms on the basis of one or more dimensions of social performance. This method has some advantages. First, it tends to be internally consistent because one evaluator is applying the same (albeit usually subjective) criteria to each firm. Second, it makes no pretence of applying a rigorous objective measure to a dimension that may be innately subjective. Third, it may summarize the perceptions of a key constituency of various firms. This alone may be an important factor in determining the relationship between CSR and financial performance.

There are however disadvantages as well. The most important is that such rankings are highly subjective and thus may vary significantly from one observer to another. This raises the spectre of unreliability. A second problem is one of sample size. Most reputation indexes generated to date cover only a relatively small number of firms. Thus one must be cautious about generalizing from the results of these studies. The first

reputation index was a fairly narrow one, generated by the Council of Economic Priorities (CEP) in the late 1970s. In this study the CEP ranked the pollution control performance of 24 firms in the pulp and paper industry (Council of Economic Priorities, 1971). This measure of CSR has been used by a number of other studies, including Folger and Nutt (1975), and Spicer (1978). A second reputation index was generated by Milton Moskowitz, who over a period o f several years rated a number of firms as "outstanding,"" honorable

The second method of measuring CSR is content analysis. Normally, in content analysis the extent of the reporting of CSR activities in various firm publications and especially in the annual report is measured. This can consist of simply noting whether or not a particular item (such as pollution control) is discussed either qualitatively or numerically, or it can mean actually counting a number of items. Content analysis has two significant advantages. First, once the particular variables have been chosen (a subjective process), the procedure is reasonably objective. Therefore the results are independent of the particular research. Second, because sample sizes are possible. However, content analysis also has some drawbacks. The choice of variables to measure is subjective. Further, content analysis is only an indication of what firms say they are doing, and this may be very different from what they actually are doing. At best, one certainly could postulate that firms that are aware of these issues are those that will discuss them as well as act on them. On the other hand, one could imagine that firms that are doing poorly on this front would feel an extra incentive to make they look good by touting their achievements in their annual reports.

2.4 Key Stakeholder Relationships and Firm Strategy

Employees. A range of theory and some empirical evidence suggest that how a firm manages its employees can affect its financial performance (Dean and Lepak, 2006). Indeed, recent work explicitly positions human resources (HR) as an extremely valuable source of competitive advantage for firms. This advantage is achieved through increased efficiency or differential revenue growth. More specific claims include the potential for HR practices to lower turnover and absenteeism, improve productivity, and increase worker commitment and effort. There is also evidence suggesting that properly designed and integrated HR practices may, in combination, produce positive effects that go beyond what specific individual initiatives could accomplish. Although evidence indicates that there is a universal set of "best" HR practices that can benefit all organizations, some good theoretical reasons and some empirical evidence also suggest that firm strategy-HR fit is important for enhancing financial performance (Youndt et al., 2006).

Natural environment. Several different arguments have been advanced as to why concern for the natural environment could enhance firm financial performance. First, being proactive on environmental issues can lower the costs of complying with present and future environmental regulations (Shrivastava, 1995). Second, he observes that environmental responsiveness can enhance firm efficiencies and drive down operating costs, firms can create distinctive, "ecofriendly" products that appeal to customers, thereby creating a competitive advantage for the firms. Further, he points out that being environmentally proactive not only avoids the costs of negative reactions on the part of key stakeholders, but can also improve a firm's image and enhance the loyalty of such key stakeholders as customers, employees, and government.

Diversity. Though the rationales for the positive impact on financial performance of employing a diverse workforce are not highly developed and lack significant empirical testing, many cogent arguments have been advanced. Lack of diversity may cause higher turnover and absenteeism from disgruntled employees (Thomas and Ely, 1996). Diversity may enhance the ability of a firm to attract the best talent from the labor pool, regardless of race, ethnicity, or gender. It has also been argued that employee diversity improves the ability of a firm to relate to a broad customer base and compete more effectively in the highly diverse global marketplace. Thus a diverse workforce may: create cost savings for a firm, enhance its productive capabilities, and expand its markets. (Thomas and Ely, 1996)

Customers/product safety. A number of studies has been conducted to assess the effects of firm-customer relationships on financial performance. Most of this research, however, has assessed the impact of irresponsible (and/or illegal) firm activities. Frooman (1997) noted that the evidence from event studies examining market reactions to corporate irresponsibility and illegal behavior is fairly unequivocal: the market value of firms engaged in such activity decreases. Studies investigating reactions to product recalls in particular (Pruitt, and Reilly 2008) have consistently found market reactions to be strongly negative, except for those occurring in the auto industry. These results suggest that investors expect customers to react to recall announcements with actions that directly affect the bottom line, either through lawsuits, decreased patronage, or both. There is reason to expect a positive relationship as well. For example, positive customer perceptions about product quality and safety may lead to increased sales or decreased costs associated with stakeholder relationships.

Community. The effects of community relations on financial performance are less clear. Recent work by Altman Waddock and Boyle (2005) suggests that companies are reorienting corporate community relations to fit broader strategic plans. Altman conducted interviews with both top managers and community relations officers and found that many executives "believe that community involvement is a business imperative, often creating a competitive advantage" The supporting research is based on case analyses, however, with broad studies of the financial impact of community involvement limited to examinations of corporate philanthropy. Although work like Gabor's (1991), detailing Kodak's commitment to revitalizing Rochester as a center for optics manufacture, stresses the strategic importance of community relations to some companies, the generalisability of such findings is debatable. Other researchers have suggested that good community relations can help a firm obtain competitive advantage through tax advantages, a decreased regulatory burden, and improvement in the quality of local labor.

2.5 Stakeholder Management and Shareholder Wealth

The traditional goal of the corporation is to maximize shareholder wealth. However, Jensen (2002) argues that while the goal of the corporation is to maximize the shareholder wealth, this goal cannot be met by treating stakeholders poorly. He therefore suggests that companies should not try to maximize the social welfare of all of its stakeholders, but work with stakeholders to produce shareholder wealth. More specifically, they suggest that companies should improve stakeholder welfare until the marginal cost of doing so exceeds the marginal benefit to shareholders. Thus, Benson and Davidson (2009) point out that Jensen's (2002) approach is somewhat consistent with the

management of stakeholders as a means to an end where the end is shareholder value maximization.

The effect of stakeholder management on shareholder wealth could be bi-directional where upon there may be rewards for positive actions, as well as penalties for irresponsible ones. Companies that build better relationships with primary stakeholders such as employees, customers, suppliers, and communities may be able to increase their financial gains (Freeman, 1984). Studies by Greening and Turban (2000) have shown that firms viewed as socially responsible may be able to attract more potential applicants for jobs. On their part, Sully de Luque et al. (2008) find that employees view CEOs as visionary when the CEO places a strong emphasis on stakeholder welfare and view value-oriented CEOs as autocratic. Godfrey (2005) argues that corporate social responsibility and philanthropic activities can generate positive "moral capital" among communities and stakeholders. This moral capital may provide an insurance-like effect for firm reputation during problem periods. He argues that when convicted criminals are sentenced, their past good deeds can lessen their penalties. Therefore, companies viewed as socially responsible will not face as severe of penalties in the market place when they have problems.

Alternatively, companies that treat stakeholders' poorly will likely face market penalties. For example, firms that are caught in environmentally unfriendly activities suffer reductions in shareholder wealth, whereas firms that make environmentally friendly investments, such as investments in pollution control technology, improve their income and shareholder wealth (Konar and Cohen, 2001). Further, companies whose employees are accused of or indicted for illegal acts suffer losses in shareholder wealth. Firms that

engage in socially irresponsible actions may find that there will be a boycott of their product, and the announcement effects of boycotts reduce shareholder wealth. Although stakeholder theory posits that stakeholder management may generate increases in income or shareholder wealth, companies that spend resources directed at stakeholder welfare, in excess of the marginal benefits, may find that income and/or shareholder wealth decreases (Hillman and Keim, 2001).

2.6 Empirical Studies

The effect of stakeholder management on shareholder wealth has been found to be bidirectional. According to Freeman (1984), there may be rewards for positive actions, as well as penalties for irresponsible ones. As such, companies that build better relationships with primary stakeholders such as employees, customers, suppliers, and communities may be able to increase their financial gains. In a study on UK firms that practice social responsibility, Brammer, Brooks, and Pavellin (2006) find that scores of social responsibility in UK firms are negatively related to stock returns.

A number of studies have in addition found a positive correlation between stakeholder management and financial performance (Moneva, Rivera-Lirio, and Munoz-Torres, 2007). Other studies, however, have found a negative association between stakeholder management and financial performance (Meznar, Nigh, and Kwok, 1994). In addition, some have found a mixed association between different classifications of stakeholder management and financial performance (Berman et al., 1999) or a generally neutral or no relation between the two.

In a study by Greening and Turban (2000) they found out that firms viewed as socially responsible may be able to attract more potential applicants for jobs and on the same issue of employee attraction to socially responsible employers, Sully de Luque et al. (2008) find that employees view CEOs as visionary when the CEO places a strong emphasis on stakeholder welfare and view value-oriented CEOs as autocratic. Godfrey (2005) argues that corporate social responsibility and philanthropic activities can generate positive "moral capital" among communities and stakeholders. This moral capital may provide an insurance-like effect for firm reputation during problem periods. He argues that when convicted criminals are sentenced, their past good deeds can lessen their penalties. Therefore, companies viewed as socially responsible will not face as severe of penalties in the market place when they have problems.

Companies that treat stakeholders' poorly will likely face market penalties. For example, Gilley et al., (2000) found out that firms that are caught in environmentally unfriendly activities suffer reductions in shareholder wealth, whereas firms that make environmentally friendly investments, such as investments in pollution control technology, improve their income and shareholder wealth. This point was also reinforced by a Vendrzyk, (1999) who found out that companies whose employees are accused of or indicted for illegal acts suffer losses in shareholder wealth while for firms that engage in socially irresponsible actions may find that there will be a boycott of their product, and the announcement effects of boycotts reduce shareholder wealth.

2.7 Conclusion

The importance of stakeholder management in a firm has been expounded both in the literature as well as from the empirical studies done on the subject area. A firm's foregoing objective is to maximise shareholder wealth; however it was found out that the same cannot be realized if the firm does not consider the interest of all stakeholders. The argument behind the corporate social responsibility has been that organizations should be operated and managed in the interests of all their constituents who can affect or be affected by the achievement of the organization's objectives. It has further been observed that a firm's management of its stakeholders can be of strategic value and that creating a shareholder value involves allocating resources to all constituencies that affect the process of shareholder value creation, but only to the point at which the benefits from such expenditures do not exceed their additional costs.

A review of prior literature reveals that there exists a significant relation between organizational performance and corporate social responsibility by using different variable selection for analysis. Further, stakeholder theory seems to be at odds with value maximization. He argues that a firm's goal is to increase firm value, but a firm cannot maximize its value unless it takes care of its stakeholders. However, it is evident from the literature that none of the studies has been able enough to develop a model that will assist managers to establish an optimum investment in corporate social responsibility under different operating environments or even industries. Instead the literature and studies suggest the existence of an optimum level without necessarily suggesting the same level or how to be establishing it.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets to explain the research design, the population of interest, the basis of sample selection, the type of secondary data used, the sources of data, the techniques of analysis to be used and the data analysis.

3.2 Research Design

The research design to be adopted was a descriptive study in which data was gathered just once over the period 2007 to 2011. As such, the causal study was undertaken in a non-contrived setting with no researcher interference. This study was carried out through the use of both the primary and secondary data as detailed in the listed companies' annual reports. Through the use of the listed firms in the NSE, the researcher obtained the data for various variables included in the study from the financial statements in the annual report of the listed companies. This data was then analyzed through the use of regression and correlation analysis to determine the effect and direction of the various factors identified on the level of corporate social responsibility and its effect on the firm's performance.

3.3 Population and Sample

The population of interest in this study was composed of all mobile service providers in Kenya. As at 31ST December 2011, there were four mobile service providers in Kenya (Appendix II). The reason as to why these markets was chosen is primarily due to the

availability and the reliability of the financial statements in that they are subject to the mandatory audit by internationally recognized audit firms. Due to the number of firms operating in Kenya, the study was a census survey whereby all the firms formed the unit of study.

3.4 Data Collection

Data was collected from the organization's annual report that was submitted to CCK. An annual report of the firms was obtained between 2007 and 2011 which was the study period.

3.5 Research Model

The study used KLD Statistical Tool for Analysis of Trends in Social and Environmental performance. The database reports social environment and governance performance indicators for S & P 500 and Russell 1000. The KLD database was used because it is a measure of social performance (Relations with stakeholders) that was developed independently of this study's researchers biases. Furthermore researchers have certified the quality of the KLD database (Chatterji, Levine and Toffel, 2009). In addition KLD database measure several different aspects of stakeholder management.

3.5.1 Firm Value

Financial performance was operationally defined as return on assets (ROA) (Venkatraman and Ramanujam, 1986), computed as the ratio of operating incomc to total assets.

3.5.2 Independent Variable: Stakeholder relationships

To construct measures for corporate social responsibility, the study used the procedure adapted by Coombs and Gilley (2005) and construct a measure of the firms CSR performance using the Kinder, Lydenberg, Domini and Company (KLD) categories of employee relation (EMP), diversity issues (DIV), product issues (PRO), community relations (COM) and environmental issues (ENV). The ratings provided by KLD cover a broad set of socially responsive actions taken by the firms in the database. In the KLD database, firm actions toward each of the five stakeholder groups are measured on five-point Likert-type scales; -2 suggests negative actions toward that stakeholder group, and +2 suggests positive actions undertaken by the firm toward the group. To measure SM, the researcher sum the number of positive (strengths) and negative (concern) indicators assigned to a company in a given year by the stakeholder. The strength and concern indicators were binary variables. Each was assigned a value of one when the company has strengths and concerns (Appendix 1).

3.5.3 Control Variables

In addition, several control variables was incorporated in the model. These control variables was the log of total assets (LN Sales), total debt to total assets (TD/TA), ratio of R &D to total assets (R & D / TA) and advertising expenditure to total assets (ADV/ TA). These variables are thought of to affect the firms' value.

A multivariate regression model was used to analyze the relationship between the value of a firm and the stakeholder management practices adopted by the firm as follows;

$$ROA = f\,(CSR, Controls, e)$$

The equation will specifically take the form;

$$ROA = \beta_0 + \beta_1(CSR) + \beta_2\,(Controls) + e$$

Where ROA is the performance factor of the firm, CSR was the average of the responses to the CSR factors in Part II of the questionnaire. Controls are the factors influencing performance of a firm as explained above and it was the average of the responses to Part III of the questionnaire. βo, β_1, and β_2, are constants representing the direction and the extent to which each variable influences performance of a firm. *e* was the error term that is a surrogate for all other variables influencing performance.

To complement the regression analysis, correlation analysis was carried out to find the direction of the relationship between SM and Firms' value, as well as the magnitude. The Statistical Package for Social Sciences (SPSS) was used to analyse the data.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

This chapter focuses on the presentation of data and interpretation. The first part presents the analysis of the data ending with the regression results. The second part of this section deals with the summary and the interpretation of the findings.

4.2 Data Presentation

Three out of four expected mobile telephone companies participated in this study making a response rate of 75 %. Table 1 shows the mean responses and the standard deviations of the corporate social responsibility factors.

Table 9 Corporate Responsibility Factors

Corporate Social Responsibility Factors	MEAN	SD
Relation with workers unions	3.00	1.00
Health and safety issues	3.67	0.58
Retirement benefits issues	3.00	1.00
The need for a leaner workforce	3.33	1.53
Need to control hazardous wastes	3.67	1.15
Need to reduce ozone depleting emissions	3.33	1.53
Controversy in marketing	2.67	0.58
Safety of products	3.67	1.53
Tax disputes	3.33	1.53
Non-representation of interest groups in management	3.00	1.00
Grand Mean	**3.27**	

Source: Prepared by researcher

According to Table 1, Health and safety issues (with a mean of 3.67), Need to control hazardous wastes (3.67) and Safety of products (3.67) were the factors that affected corporate social responsibility (CSR) to a high extent. On the contrary, Relation with workers unions (3.00), Retirement benefits issues (3.00), Non-representation of interest groups in management (3.00), and Controversy in marketing (2.67) affected CSR to a lesser extent. The grand mean of 3.27 indicates on the average the factors identified were seen to affect CSR to a fairly great extent.

Table 10 Community Factors

Community Factors	MEAN	SD
Giving funds to charity	4.67	0.58
Financing new ideas for social benefit	4.33	1.15
Free support for educational courses	3.67	0.58
Funding housing projects	3.00	0.00
Funding and/or participating in volunteer programs	4.00	1.00
Grand Mean	**3.93**	

Source: Prepared by researcher

Table 2 shows that the community factors had a grand mean of 3.93 indicating that the community factors identified were felt to a fairly serious level. However, the factors that were most felt were Giving funds to charity (with a mean of 4.67) and Financing new ideas for social benefit (with a mean of 4.33); while the least seriously felt were Free support for educational courses and Funding housing projects which had means of 3.67 and 3.00 respectively.

According to Table 3 the most felt Diversity Factors were the board of directors (with mean of 4.00) and the CEO (with a mean of 4.33) while the least serious diversity factor

was the Employment of the disabled persons (3.33). However, the grand mean of 3.83 indicates that the diversity factors seriously contribute to CSR.

Table 11 Diversity Factors

Diversity Factors	MEAN	SD
Board of directors	4.00	1.00
The CEO	4.33	0.58
Employment of the disabled persons	3.33	0.58
Use of promotions in marketing	3.67	0.58
Grand Mean	**3.83**	

Source: Prepared by researcher

Table 4 shows the analysis of the seriousness of the contribution of the employee relations to corporate social responsibility. The factor that was identified as contributing most seriously to CSR was the investment in employee health and safety with a mean of (4.33) while the least contributing factor was profit sharing payment programs (3.00). The grand mean of 3.58 indicated the employee relations fairly seriously contributed to CSR among the mobile telephone companies in Kenya.

Table 12 Employee Relations

Employee Relations	MEAN	SD
Investment in employee health and safety	4.33	0.58
Provision for retirement benefits	3.67	0.58
Encouraging employees to be unionized	3.33	0.58
Profit sharing payment programs	3.00	0.00
Grand Mean	**3.58**	

Source: Prepared by researcher

Table 5, with a grand mean of 4.00, indicates that environmental issues were a serious contributor to CSR. All the identified factors green production processes (4.00), pollution control programs (4.00) and use of recycling in production process (4.00) were all equally important contributors towards the CSR of the mobile telephone companies.

Table 13 Environmental Issues

Environmental issues	MEAN	SD
Green production processes	4.00	1.00
Pollution control programs	4.00	1.00
Use of recycling in production process	4.00	1.00
Grand Mean	**4.00**	

Source: Prepared by researcher

Table 6 had a grand mean of 4.67 which indicated that the contribution of product characteristics on CSR was very seriously considered among the mobile telephone companies in Kenya. All the characteristics identified were viewed as very serious contributors to CSR. These characteristics were: that products have a unique quality to benefit the economically weak (4.67); that the quality of the products is high (4.67); that there is high expenditure on R&D to make products buyer friendly (4.67) and that the product distribution network are vibrant and effective (4.67).

Table 14 Product Characteristics

Product Characteristics	MEAN	SD
Products have a unique quality to benefit the economically weak	4.67	0.58
The quality of the products is high	4.67	0.58
High expenditure on R&D to make products buyer friendly	4.67	0.58
The product distribution network are vibrant and effective	4.67	0.58
Grand Mean	**4.67**	

Source: Prepared by researcher

Table 7 shows the correlation analysis results done on the ROA, CSR and CONTROLS variables. As shown in the table the correlation between ROA and CSR was very high and positive at 0.99577. On the contrary, the correlation between ROA and the CONTROLS was very weak, though positive. Among the independent variables themselves, the correlation between CSR and CONTROLS was weak at 0.345.

Table 15 Correlation Matrix

	ROA	CSR	CONTROLS
ROA	1	0.99577	0.25733
CSR		1	0.345
CONTROLS			1

Source: Prepared by researcher

Table 8 is providing an analysis of ROA as the dependent variable and CSR and CONTROLS as the independent variables. The constant term from the regression was -249.36 which was significant. The coefficient of the CSR was -59.07 showing a significant negative relationship between ROA and CSR. However, the coefficient of CONTROLS was 114.67 indicating that there is a strong positive relationship between CSR and CONTROLS. The relationship was not strongly significant as indicated by the F value of 0 with a probability of 1.0.

Table 16 Regression Analysis

	REGRESSION COEFF
CONSTANT	-249.36
Corporate Social Responsibility	-59.07
CONTROLS	114.67
R-SQUARED	1
ADJ R-SQUARED	0
F	0
P(F)	1
Durbin-Watson (DW)	0.6667

Source: Prepared by researcher
Regression model

$$ROA = -249.36 - 59.07(CSR) + 114.67(CONTROLS)$$

4.3Discussion of Findings

In the regression the coefficient of the CSR was found to be -59.07 indicating that higher expenditure in CSR reduced Returns on Assets (ROA). For the mobile phone companies studied this indicates that the CSR component in their expenditure eats into the returns to a significant level therefore reducing the returns. This is not in agreement with Freeman (1984) who argued that companies that build better relationships with primary stakeholders such as employees, customers, suppliers, and communities may be able to increase their financial gains. In the situation of the mobile companies in Kenya, CSR is reducing the returns on assets. However, it is in agreement with Meznar, Nigh, and Kwok (1994) who found that there is a negative association between stakeholder management and financial performance.

The regression finds a positive coefficient between ROA and CONTROLS indicating that when controls increase, so does ROA. This indicated that there was positive relationship between returns on assets and relationship with the community, diversity, employee relations, environmental consideration and product characteristics. When a firm takes such matters more seriously, there is a positive change in the ROA. This seems to support the findings by Jensen (2002) who argued that while the goal of the corporation is to maximize the shareholder wealth, the goal cannot be met by treating stakeholders poorly. He therefore suggested that companies should not try to maximize the social welfare of all of its stakeholders, but work with stakeholders to produce shareholder wealth. More specifically, he suggested that companies should improve stakeholder welfare.

This study also indicates that when CONTROLS are not taken seriously, then automatically ROA will reduce thanks to the positive coefficient of 114.67. This is in agreement with the findings by Gilley et al., (2000) who found that firms that are caught in environmentally unfriendly activities suffer reductions in shareholder wealth, whereas firms that make environmentally friendly investments, such as investments in pollution control technology, improve their income and shareholder wealth. The findings also support the results of Vendrzyk, (1999) who found out that companies whose employees are accused of or indicted for illegal acts suffer losses in shareholder wealth while for firms that engage in socially irresponsible actions may find that there will be a boycott of their product, and the announcement effects of boycotts reduce shareholder wealth.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1Summary

The objective of this study is to establish the relationship between corporate social responsibility (CSR) and returns on assets (ROA). The study utilized both qualitative and quantitative data in establishing this relationship among the four mobile telephone companies in Kenya.

The findings were that the issues that had a lot of influence of CSR were employee health and safety issues, the need to control hazardous wastes and the safety of products, but relation with workers unions, retirement benefits issues, non-representation of interest groups in management, and controversy in marketing were not key issues in the CSR policies of the mobile telephone companies in Kenya.

Community factors identified contributed to CSR policy to a fairly serious level. However, the factors that were most felt were giving funds to charity and Financing new ideas for social benefit. The least seriously considered were free support for educational courses and Funding housing projects. The most felt Diversity Factors were the board of directors and the CEO. On the other hand the least serious diversity factor was the employment of the disabled persons.

The employee related factor that was identified as contributing most seriously to CSR was the investment in employee health and safety while the least contributing factor was profit sharing payment programs. Environmental issues were serious contributors to CSR because all the identified factors, namely, green production processes, pollution control

programs and use of recycling in production process considered important contributors towards the CSR. The contribution of product characteristics on CSR was very seriously considered among the mobile telephone companies in Kenya.

The regression analysis found a negative relationship between ROA and CSR. However, the coefficient of CONTROLS was 114.67 indicating that there is a strong positive relationship between CSR and CONTROLS. The relationship was not strongly significant as indicated by the F value of 0 with a probability of 1.0.

5.2 Conclusions

This study set out to establish the relationship between corporate social responsibility (CSR) as the independent variable and returns on assets (ROA) as the dependent variable. The study established the factors that were deemed by the respondents as contributing significantly to CSR. The issues that seriously affected CSR among the mobile telephone firms were Health and safety issues, the Need to control hazardous wastes and Safety of products. On the contrary, Relation with workers unions Retirement benefits issues, Non-representation of interest groups in management, and Controversy in marketing did not seriously affect CSR.

The most important Diversity Factors were the board of directors and the CEO while the most important community factors were giving funds to charity and Financing new ideas for social benefit. The factor that was identified as contributing most seriously to CSR with respect to employee relations was the investment in employee health and safety. All the identified environmental issues, that is, green production processes, pollution control programs and use of recycling in production process were important contributors towards

the CSR of the mobile telephone companies. The nature of the products were also seen as serious contributors to CSR because the mobile companies focused on ensuring that products had a unique quality to benefit the economically weak; that the quality of the products was high; that there was high expenditure on R&D to make products buyer friendly and that the product distribution network were vibrant and effective.

The constant term from the regression was -249.36 which was significant. The coefficient of the CSR was -59.07 showing a significant negative relationship between ROA and CSR. However, the coefficient of CONTROLS was 114.67 indicating that there is a strong positive relationship between CSR and CONTROLS. The relationship was not strongly significant as indicated by the F value of 0 with a probability of 1.0.

5.3 Policy Recommendations

This research wishes to make the following recommendations based on the findings that were realized. Companies should include a lot of non-monetary activities in their corporate social responsibility policies and not just focus on the activities that have monetary consequences. In particular companies should focus on maintaining the health and safety of their workers as part of their main CSR policy. The other issues to do with workers welfare should be consideration of the workers retirement programs and housing. These issues are likely to improve the relationship between the company and the workers in a manner that will be profitable to both the workers and the company. Such relationships turn out to be assets as the productivity of the workers will be improved.

The companies should invest a lot in ensuring that the environment in which they operate is improved and kept green. There should be deliberate investment into control of

hazardous wastes, ensuring green production programs, pollution control, and recycling of recyclable production materials. This will ensure the environment is clean and healthy for the company, the workers and the community around the company as a whole.

Companies should also take serious consideration into the welfare of the community around them at large. This is to be done through free support of educational and community programs on voluntary basis. This can also be done by ensuring that the products have the highest safety standards so that not only are the customers safe, but that there will be gains from the trust the customers will have towards the products of the company. This may translate into higher returns.

5.4 Limitations of the Study

The data covers a few mobile telephone companies and in Kenya only. The findings may not be applicable to all the mobile telephone companies in Kenya in their varied nature. The results given by this study are therefore limited to the mobile telephone companies that were studied. Further, the findings may not be applicable universally because the sampling was limited to Kenyan mobile telephone companies.

The strength of the findings of this research is weakened by the nature of the data. The independent variables were operationalized by use of the non-quantitative Likert scale. The findings are therefore highly dependent upon the views, attitudes and the expertise of the opinions of the respondents.

The findings only address a specific instance in time, that is, the time when the questionnaires were completed by the respondents. This limits the universalization of the findings of this research across time, across industries and across countries. This is

because it his highly probable that repeating the same research at a different time may yield different results due to the dynamic nature of corporate social responsibility environment and policy.

5.5 Suggestions for Further Studies

The findings of this study can be improved if the study is expanded to cover all mobile telephone companies. Also given that Kenya is a key player in the East African community the study can be expanded to cover other mobile telephone companies within the East African community in order to provide result that will be useful in that context.

A future research can be carried out on the same topic, but using quantitative data. This is with the assumption that the quantitative data will provide results that are better than those provided by the qualitative data used in this study. The possible objectivity issues that arise may be settled by using quantitative data.

A future researcher can conduct the research with the aim of determining whether there is a causal relationship between the dependent variable (ROA) and the independent variables (Corporate social responsibility and the controls). Such a study will provide solution as to how corporate social responsibility and the controls factors are related to the ROA.

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Appendices

Appendix I: KLD Ratings/ Indicators

Community

Strengths
- Charitable giving
- Innovative giving
- Support for education
- Support for housing
- Volunteer programs
- Other strengths

Concern
- Investment controversies
- Negative economic impact
- Tax disputes

Diversity

Strengths
- Board of directors (BOD)
- Chief executive officer (CEO)
- Employment of disabled persons
- Promotions
- Work-life-benefits

Concern
- Controversies
- Non representation
- Other concerns

Employee Relations

Strengths
- Health and safety
- Retirement benefits
- Union Relations
- Cash profits sharing

Concern
- Union relations
- Health and safety
- Retirement benefits
- Workforce reduction

Environment

Strengths

- Beneficial products & services
- Pollution prevention
- Recycling
- Other strengths
- Management systems

Concern

- Hazardous waste
-Ozone depletion chemicals
-Regulatory problems
-Substantial emissions

Product

Strengths

-Benefits economically disadvantaged

-Quality

controversy

-R & D / innovations

-Other strengths

Concern

- Antitrust

-Marketing/contacting

-Safety

-Other concerns

Appendix II: Mobile Telephony Firms in Kenya

1. Safaricom Kenya limited
2. Bharti Airtel Ltd
3. Orange Telkom
4. Econet YU

Appendix III: Questionnaire

Please answer all questions honestly according to the given instructions

PART I

Instruction: Please complete the table below

Year	ROA
2007	
2008	
2009	
2010	
2011	

PART II

How seriously do the following affect the corporate Social Responsibility Policy of your company? Provide your response on a scale of 1 to 5

5-very seriously 4-fairly serious 3-not sure 2-not serious 1-Not serious at all

	5	4	3	2	1
Relation with workers unions					
Health and safety issues					
Retirement benefits issues					
The need for a leaner workforce					
Need to control hazardous wastes					
Need to reduce ozone depleting emissions					
Controversy in marketing					
Safety of products					
Tax disputes					
Non-representation of interest groups in management					

In tables A to E please rate the extent to which each of the activities contribute to your corporate social responsibility policy.

1-strongly disagree 2-disagree 3-not sure 4-agree 5-Strongly agree

A. Community Factors

	1	2	3	4	5
Giving funds to charity					
Financing new ideas for social benefit					
Free support for educational courses					
Funding housing projects					
Funding and/or participating in volunteer programs					

B. Diversity Factors

	1	2	3	4	5
Board of directors					
The CEO					
Employment of the disabled persons					
Use of promotions in marketing					

C. Employee Relations

	1	2	3	4	5
Investment in employee health and safety					
Provision for retirement benefits					
Encouraging employees to be unionized					
Profit sharing payment programs					

D. Environmental issues

	1	2	3	4	5
Green production processes					
Pollution control programs					
Use of recycling in production process					

E. Product Characteristics

	1	2	3	4	5
Products have a unique quality to benefit the economically weak					
The quality of the products is high					
High expenditure on R&D to make products buyer friendly					
The product distribution network are vibrant and effective					

Appendix IV: Letter of introduction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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Telegrams: "Varsity", Nairobi
Telex. 22095 Varsity

P.O. Box 3019
Nairobi, Keny

DATE. 30-08-2012

TO WHOM IT MAY CONCERN

The bearer of this letter JAMES KING LORWOOD

Registration No D61/60902/2011

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE