EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF FIRMS LISTED IN THE NAIROBI SECURITIES EXCHANGE

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DECLARATION

I declare that this research project is my original work and has not been submitted to any other university for academic award or to any examination body.

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

Supervisor

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Dr. Mirie Mwangi.

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Attainment of post-graduate Studies has finally been made a dream comes true in my academic sojourn. This journey has not been an easy one. It has been a blend of tireless effort, sleepless nights and challenges meant to make me a whole and complete person in the realm of academia. However, these conditions fulfilled this journey through the instrumentality, contributions and support from astute individuals who directly or indirectly contributed immensely to this process. Therefore, this project will be incomplete if the contributions and support of these individuals are not acknowledged.

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DEDICATION

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ABBREVIATIONS

ANOVA	-	Analysis of Variance
CDSC	-	Central Depository Settlement Corporation
CFP	-	Corporate Financial performance
CMA	-	Capital Markets Authority
CSP	-	Corporate social performance
CSR	-	Corporate social responsibility
FP	-	Financial Performance
ICPAK	-	Institute of Certified Public Accountants
MFI	-	Micro Finance institutions
HR	-	Human Resource
NSE	-	Nairobi Securities Exchange
ROA	-	Return on Assets
ROE	-	Return on Equity
ROS	-	Return on Sale
SPSS	-	Statistical Package for social sciences
SWOT	-	Strength, weaknesses, opportunities and threats
US	-	United States of America

ABSTRACT

Corporate social responsibility (CSR) is a significant notion that is progressively being deliberated and adopted worldwide. Various stake holders are demanding the incorporation of social activities in the organizations daily practices. Some of the reasons why companies adopt CSR are; compliance with the law, to enhance a competitive advantage, others do it because it is the right thing to do for the society. The study sought to establish the effect of CSR on financial performance of listed firms in the Nairobi Securities Exchange. Financial performance was measured using the return of assets. Investment in CSR was measured using monetary spending on social activity. Data was obtained from audited financial statement, websites publications and annual report. Secondary data was obtained from the year 2010 to 2014. The data was cleaned, pretested, validated, coded and analyzed using SPSS, Pearson correlation and ANOVA. The study adopted a descriptive research design to test, for the linear relationship between financial performance and CSR. The study applied multiple regression analysis model to assess the influence of CSR on financial performance. Financial performance was the dependent variable while corporate social responsibility, capital intensity and efficiency were used as the explanatory variables in the study. Target population comprised of 66 publicly listed companies of which, complete and necessary data available was for 14 companies. This data was collected for 5 years for each firm giving 70 observations. Most company's analyzed, engaged in CSR but failed to disclose the actual cost incurred on CSR activities. Conclusions were derived based on 5% significance level. The study established that CSR had a positive but insignificant effect on financial performance. Study findings were that none of the variables were strongly correlated. The study concluded further that a positive but insignificant relation existed between CSR and financial performance. The study recommended that firms should be socially responsible so as to enhance the value of the firm for the shareholders. The study also recommends CSR not to be viewed as a voluntary undertaking but a compulsory practice for the firms. Lastly, policies among firms to ensure that the firm acts in ethical and socially responsible manner to all stakeholders should be formulated and implemented.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Corporate social responsibility is an important concept that is progressively being deliberated and adapted worldwide. Initial research by scholars focused on whether CSR should exist or not (Shimshack and Kitzmueller, 2010). Economically oriented scholars such as Friedman (1962) posited that the business should only focus on making profits as its only social responsibility provided it does so without engaging in fraud and while observing fair and open competition. Freeman (1984), on the other hand, argued that a firm could only succeed if it creates value for its stakeholders. Recent researchers acknowledge existence of CSR and now focus on why it is adopted and how it influences the organization. Mcguire and Schneeweis (1988) posit that firms invest in reputation through their active involvement in CSR. Kallio (2006) described corporate goodness as nothing other than naivety and can only be advanced as taboos. Ponnu and Okoth (2009) provided empirical evidence that firms engaging in CSR activities seek to enhance their corporate image which can enable them improve their profits and revenue. Carroll and Shabana (2011) stated that CSR should be applied so as, to obtain reputational capital and maintain legitimacy within the society. Human beings relate a lot to what they see. With this knowledge, corporations of all sizes have taken advantage and increasingly engaged in CSR projects with an expectation that firms' value and reputation will increase.

Various stakeholders are demanding for incorporation of CSR activities in the organizations daily practices. Additionally, the current world of business management is

full of dynamism and firms are using CSR as a strategic tool to compete aggressively. Friedman (1970) supports adoption of CSR activities by organizations if and only if it has a return or an economic advantage to the firm in the future. Carroll (1991) identified the four kinds of social responsibility firms can engage in which includes economic, legal, ethical and philanthropic responsibilities. Economic responsibilities involve production of valuable goods and services. Legal responsibility involves obeying the laws. Ethical responsibilities involve doing what is just fair and right. Humanitarian duties encompass being a moral corporate entity.

Investors and stakeholders alike have also increasingly pressured firms to disclose their CSR information (Hooghiemstra, 2000). Willing businesses have responded to the public concerns by disclosing CSR activities and social performance through the annual reports and websites (Ponnu and Okoth, 2009). Orliziky, Schmidt and Rynes (2003) note that disclosure of CSR information is a strategic tool meant to influence the company's financial performance and market value. It can also enhance corporate reputation through gaining trust and support from stakeholders (Wood ward, 1996). However, Ferreira and Ding (2014) established that the major shortcoming of CSR information is lack of required assured disclosure on standardized measures that investors can turn on

1.1.1 Corporate Social Responsibility

Businesses are instrument that can be used to improve the society's standard of living. According to Kanter (2011), the value the companies created should be measured over a lengthy period of time so that one can determine how long it can sustain its flourishing condition. Although there is no overall agreement on the definition of CSR, various authors

have interpreted it in different ways. Hopkins (2004) defined CSR as handling the interested parties of the business in a way deemed acceptable in a civilized society with an aim of improving quality of life and at the same time preserves profitability of the corporation. Buchholz (1991) interpreted CSR as a technique a company attains a balance amongst its commercial, communal and ecological duties in its processes to enable it attain the expectations of both the shareholders and other stakeholders.

Mullins (2010) also contributed to the debate on CSR by indicating that it is a tactic that firms adopt to enable them attain and surpass stakeholder's expectations. This goes past the common responsibilities of profit, revenue and legitimate duties. CSR is hence imputed to include employee relations, public investments, ecological practices, human rights and moral behavior. A more comprehensive definition was obtained from Pour et al. (2010) who posit that businesses should not only be responsible for making maximum profit, but should also protect the environment and contribute to the wellbeing of societies .This could only be achieved if it conducts socially responsible businesses and help solve societal issues. In this context, Wambui (2013) noted that CSR thus refers to attaining profitable achievement using methods that respect communities, the public and natural environment and at the same time adhering to moral values. An organization that depicts socially responsible behavior is able to foster the organizations good will, improves image and helps avoid unnecessary and costly regulations.

Whereas corporate social performance is a practicable and measurable variable, CSR is not. Thus, it can only be measured through analyzing the corporate social performance of a firm. Abbott and Monsen (1979) identified three broad measurement strategies of CSR,

which include content analysis, reputation index and social accounting. Cochran and Woods (1984) identified content analysis and reputational index as the two main methods. Like any other measurement tool, they all have weaknesses and strengths.

The first CSP measurement tool consists of content analysis. It focuses on either qualitative or quantitative extent of involvement in CSR. It involves disclosing CSR activities through annual reports, sustainability report or corporate websites. Some of the researchers who have used this tool include; Abbot and Monsen (1979) and Preston (1978). Reputational index is a measure that involves rating and ranking firms based on one or more dimensions of social performance as it is viewed by independent knowledgeable observers. Some of the researchers who have adopted this measure are Cochran and wood (1984), Alexander and Buchholz (1978). Other studies in the field of CSR have used various indices to measure and assess CSR of firms. Dow Jones sustainability Group Index is a measure used in CSR measurement. Thus, Inconsistency existing in CSR empirical findings arises because of lack of a standard measurement.

1.1.2 Financial Performance

Selecting firms that are performing well can be a difficult task. An organization can be making profit and at the same time be having low levels of liquidity. As a result, the term financial performance is interpreted differently by the various stakeholders. Managers believe that an organization is performing well if it is making profit. For the shareholders and other aspiring investors, they are interested in receiving dividends and wealth maximization, customers are in need of quality goods and they like buying from profit making companies among others. Thus financial performance refers to how well

organizations' are managed and satisfying the interest of their stakeholders. It also involves determining how effectively an organization has applied its assets to generate revenue in its key kind of business (Harber and Reichel, 2005). It is important for firms to manage the limited resources within the company or corporation. This will ensure efficiency and at the same time deliver quality goods and services required in order to achieve effectiveness. Most businesses fail due to poor financial planning and management. Firms are required to measure their financial performance to determine their financial well-being over a given period.

There exist both financial and nonfinancial indicators of performance. Ratios such as profitability, liquidity, solvency and efficiency are used as financial indicators. Economic value added and market value added are nonfinancial indicators. Maditinos (2005) divided performance measures in to traditional accounting measures and modern value based measures. The commonly used accounting measures include Return on Equity (ROE), Return on sales (ROS) and Return on Assets (ROA). The most widely used measure of financial performance is ROA (McGuire, 1988) and it tells what earnings were generated from invested capital. The main demerit of using ROA is that it only measures the historical performance. Tobins Q can be used as a marketing measure. It's described as the ratio between market value and replacement value. A ratio greater than one signifies a greater market value of assets than what is recorded thus encouraging the company to invest more in capital.

1.1.3 Corporate Social Responsibility and Financial Performance

There is still much debate over the years regarding how CSR influences on financial performance of firms. The empirical studies have never been in accord. Some found a positive correlation; others determined a negative one, others found no correlation at all, while others found that, it affects companies differently. Barnett (2007) argues that the impact of CSR varies from one firm to the other. Okwoma (2012) seems to provide support as he tested on effect of CSR on FP of commercial banks in Kenya. Results indicated that CSR is good for the financial health of large and medium sized banks but not small banks. Flammer (2013) tested whether CSR led to superior performance. The results indicated a positive relationship but the influence is less strong when companies engage in higher CSR levels. This advocated for the notion that CSR has decreasing positive effects when the levels of CSR increase.

Besides the empirical analysis, there are various theoretical studies trying to explain the relationship between CSR and FP. Freeman (1984) and Teppo (2007) recognizes the importance of other parties apart from shareholders within the organization. Firms can improve performance by reducing the cost associated with maintaining the relationship with its stakeholders. This is achieved when companies meet the expectations and demand of its very diverse stakeholders (Hirigoyen and Rehm, 2015). A good relationship also positively influences the company's corporate image. Slack resource hypothesis put forth by Waddock and Grave (1997), also postulates that improved financial performance increases the availability of slack resources, which then helps companies invest in CSR activities.

There are various academicians differing with the involvement in CSR and argue that managers only have a duty towards owners of maximizing shareholders value and wealth. Friedman (1962, 1970) stated that there exist a tradeoff between profit maximization and socially responsive purpose. This position was based on the fact that, CSR is none wealth maximizing behavior. Margolis and Walsh (2003) described the use of organization resources to conduct CSR activities as misappropriation and misallocation of funds. These theoretical studies provide a backbone for the rational against existence or lack of CSR-CFP relation. It also provides a basis through which analysis can be conducted.

1.1.4 Firms Listed at the Nairobi Securities Exchange

In Kenya, listed companies are regulated by the Nairobi Securities Exchange (NSE), Capital Markets Authority (CMA), Central Bank of Kenya (CBK), the Central depository and settlement corporation (CDSC) and the Insurance Regulatory Authority (IRA) (www.nse.co.ke). Capital markets authority (CMA) has the mandate to approve public offers and listing of securities traded at the NSE, while the CDSC oversees the conduct of the central depository agent such as stock brokers and investment banks. In 2012, during the excellence in financial reporting award ICPAK, NSE and CMA showed the combined commitment to supporting distinction in encouragement of comprehensive corporate governance, improving corporate social responsibility, financial reporting and ecological reporting in East Africa (www.africaexchange.org).

CSR practice in Africa is still at its early stages as noted by (Klins, Niekerk and Smit, 2010), due to the increased poverty, ineffective administration and service delivery. However, it is not a new notion in Kenya. “Harambee” is the Kenyan cultural concept

which can be used to define CSR (Winston and Ryan, 2008). It generally means ‘all pull together’ to obtain funds for charitable purposes. It points out that communal support usually prevails over individual aid. CSR is well practiced in Kenya as evidenced by the outstanding publicly listed companies such as Kenya Airways, Safaricom Limited, Equity bank, East African Breweries limited, Kenya power to mention but a few. However, it is not well regulated (Khamah, 2014) and is usually provided as part of the voluntary information disclosed in the corporate governance section of the annual report (Kalunda, 2012).

Muthuri and Gilbert (2011) concluded that the nature and orientation of CSR in Kenyan companies differ from those head quartered abroad. Public relations, performance and institutional pressure are the main drivers. It’s however difficult to measure financial performance. A single factor cannot reflect every aspect of company’s performance (Omondi, 2013) thus; the use of several factors can better evaluate the firm’s financial profile. Ponnu and Okoth (2009) notes that Kenyan companies are small compared to international standards and their willingness to engage in CSR may not be due to financial capabilities but due to their desire to strategically position themselves within the society for a future economic advantage. Companies participation has enabled them develop a mutually productive and sustainable business relationship between them and the community.

1.2 Research Problem

The company’s primary objective is to increase shareholders wealth however, those in favor of CSR believe that businesses exist for more than just economic goals (Khamah,

2014). There is an increased pressure by the various stakeholders who are in quest for different role for businesses in society. These changes in roles have resulted to most companies engaging in CSR. As observed by Okiro, Kinyua and Omolo (2014), CSR expenses are being accepted by managers much the same way as operational expenses. This then raises complex issues as to whether firms that are socially responsible perform better or worse than those firms that are not considered to be socially responsible. This further raises the question on how much effort and resources that firms should allocate to social activity. This study hence sought to examine the influence of CSR on a firm's financial performance.

Finances in business are becoming a major concern. According to Ajao and Obida (2012), bank loans are becoming too expensive to maintain causing the local and international markets to tighten and the public are hesitant to invest in company shares thus resulting to the crushing of the capital market. Financial performance is therefore a crucial matter that always needs attention from businesses due to the rapid spread of information. Value of a company is gauged by the indicated financial performance in the annual report. A sound long term financial success in publicly quoted companies will encourage investors to invest in shares hence enabling the companies gain access to more capital. Kipruto (2014) suggests that good operating results could reduce screening, monitoring cost, diversify risk across different projects and reduce liquidity risks. It's also a good indicator of company's ability to maintain its operations and determines its future growth. Kim, Mauer and Sherman (1998) found that companies could meet favorable future investments prospective by building their liquidity. It allows companies invest in long term projects, innovative

technologies that can boost returns. Employees feel that their jobs are secured. It also indicates existence of good corporate governance.

Many studies on CSR have been conducted both locally and internationally but little research has focused on this issue. Even the existing empirical study has some inconsistencies in the results studying the effect of CSR on FP due to flawed empirical analysis. Internationally, Hayek (1969) argues that adoption of CSR causes deviation from the company's primary objective of increasing shareholders wealth. Henderson (2011) argues that adoption of CSR causes a threat to the prosperity of countries. He viewed it as a cost that reduces economic freedom and competition. On the contrary, Ofori (2014) viewed CSR as a firms' strategic tool used to enhance their competitive advantage. Freeman (1984) also viewed CSR as an investment in stakeholders that would benefit the firm even in the future. Cochran and Woods (1984) concluded that there exist a correlation between CSR and Financial performance. Waworuntu (2014) found a positive correlation between CSR and FP.

In Kenya, Naiseka (2014) established that firms are driven in to CSR practices to meet legitimacy and shareholders demand. The study concluded that link between CSR and financial performance is not clear. Wanjala (2011) conducted a study that assessed factors that impact on corporate social responsibility. The study focused on commercial banks in Kenya and established that profitability was one of the key factors influencing CSR activities in the surveyed commercial banks. A study by Kipruto (2014) on the other hand established that being socially responsible did not have any effect on performance of commercial banks in Kenya. A study by Nkaiwatei (2011) that focused on the oil industry

in Kenya established that financial performance was a key factor in influencing CSR activities by firms in the Kenyan oil sector. Njiru (2013) found a positive relationship between CSR and FP of MFI's institutions in Kenya but statistically insignificant.

The above studies dwelt much on banking and the oil industries without linking these practices with other industries' financial performance. In a study on the firms in the manufacturing and allied sector listed in the NSE, Onyenje (2012) established that CSR is a driver of the firm's financial performance. However, Onyenje only focused on one sector and the findings from such study cannot be generalized to other sectors. There have been few studies in Kenya on CSR and its effect on corporate financial performance. This, therefore, creates a proper avenue to fill the gap that other researchers have left. The study try's to focus on effect of CSR on FP of firms at the NSE which then leads to the question; What effect does CSR activities has on financial performance?

1.3 Research Objectives

The objective of the study is to determine the effect of Corporate Social Responsibility on financial performance of companies listed at the Nairobi Securities Exchange.

1.4 Value of the Study

CSR is an important aspect of the organization as it establishes the human face that the society can relate to. CSR practice helps organizations differentiate themselves and improve their competitiveness in the market thus an improved performance. This is a beneficial concept that would be relevant even to players outside the companies in NSE. For researchers who intend to dig deeper into the topic, they can use the findings from this

study to assist them to effectively design further research in the subject area and help them identify the knowledge gap.

Findings from this topic will enable management to draw the effect of CSR on FP to greater depth. The shareholders will be able to make decisions on whether to invest on CSR or not. Organizations that are hesitant in engaging in CSR will now have a greater and deeper insight as to the intangible effect of this engagement. Additionally, the research findings will be of value to management, directors of companies and other interested stakeholders who are interested in CSR and socially responsible behavior by companies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the review of literature relevant to the study area of CSR and financial performance. Presented in the chapter is the theoretical and empirical review. The theoretical review focuses on the relevant theories on CSR and corporate financial performance and discusses the relevance of the theories to the subject area. In addition to the above, the chapter concludes the empirical studies in corporate social responsibility.

2.2 Theoretical Review

There are various theories trying to figure out the company responsibilities to the society. They are divided in to two groups, that is, those that suggest a positive relationship between CSR and corporate financial performance and those that depict a negative relationship.

2.2.1 Stakeholder Theory

This theory emphasizes that the firm has a relationship with its stakeholders and the processes and outcomes of these relationships are of interest (Hillman and Luce, 2001). It purports that since businesses focus to appeal to both financial and non-financial stakeholders, they should focus on engaging in CSR undertakings that are apparently significant to non-financial stakeholder groups. This is because the firm needs both of these groups to be sustainable in the long run. Freeman and Reed (1983) identified two groups of stakeholders; those that affect and can be affected by the firm and those that provide support to the firm in form of resources. Stakeholder theory recognizes the long term effect

that the actions of stake holders may have on the company. Pedersen (2004) notes that maximizing the value of one's stakeholder will maximize the value of the company. Stakeholder relationship will also enhance trade. Kakabadse and Rozuel (2005) emphasizes that, for business perform to well, they must deal with a variety of constituents other than its owners. Jensen (2002) proposes that the society expects the organization to perform various responsibilities in order for them to survive. Zingales (2000) also suggests that firms can only succeed by maintaining a quality relationship with the society.

Freeman (1984) postulated that a firm possesses both formal and informal agreements with numerous stakeholders and are hence liable to honour all such contracts. This enables the company to develop its reputation. Implied contracts become self-regulating through maintaining this relationship and the cost associated with these contracts also reduces (Telser, 1980). Moreover, Tesler argued that it improves performance and reputation of the firm. The function of management is to balance the demand of different existing stakeholders. The stakeholder theory proposes that CSR is positively associated with corporate financial performance. However, there are several critiques from scholars such as Sternberg (1997) who indicates that the theory challenges the property privileges of shareholders. Moreover, Sternberg posits that the theory also undermines the role of capitalism, relegates the role of government and hence compromises the mechanism of the free market.

2.2.2 Slack Resource Theory

Cyert and March (1963) defined slack resource as any free or underutilized resources that can be redeployed for use by the organization. This theory proposes that companies with

slack resources at their disposal have an opportunity to invest more on CSR activities thus improving its corporate social performance (Wissink, 2012). Waddock and Grave (1997) noted that a company is enabled to perform its CSR activities when it has improved financial performance due to the availability of slack resources. The insinuation of this approach is that CSR is an extra cost and social actions by companies can only be pursued if the firm has extra resources or cash flows (McGuire, 1988). Proper utilization of slack resources enhances effectiveness and efficiency and can augment to achievement of organizational goals. Buchholtz (1999) further argued that this enables a firm to effectively adjust to inside burden for modification or to outside burdens for modification in policy.

Whereas CSR may influence the company's financial performance, there is a different direction of causation in this theory where by a CFP-CSP relationship is involved. The financial performance is interpreted as the independent variable and it is the one that drives the corporate social performance which is the dependent variable (Ahmed, 2014). It shows an interesting cycle where by responsibility and improved performance goes hand in hand. There is no clear evidence showing whether slack resources enhances or hinders financial performance (Zhong, 2011). Managers can make decisions that encourage use of its extra resources to engage in useful projects thus positively influence performance. However, agency theory proposed by (Ross, 1973) tends to differ as it suggests that slack resources can be a source of agency problem and can cause inefficiencies and thus negatively influence performance.

2.2.3 Agency Theory

Ross (1973) was among the first scholars to propose the theory. It is defined as the relationship between the owners and the agents. The owners hire the agent to perform work. The owners of the company who are the principals expect the agents to make decisions and act in the principal's interest. The agency theory relies heavily on the notion that the sole responsibility of the corporation is to maximize value of owners. Friedman (1962) uses the agency theory to explain his criticism of CSR by arguing that managers are agents for the owners of the firm. Their only responsibility is to use their assets and take part in activities intended to maximize their returns that results to an increase in the shareholders wealth as long as they act as per the laid down rules and procedures. Gerrans and Murphy (2005), argue that managers should only accept projects that increase shareholders wealth and reject non value adding projects. From the agency theory point of view, CSR is a misuse of corporate resources (Mc Williams and Siengel, 2005) and such resources can be used by firms to engage in other profitable project. Moral hazard and agency cost can also emerge when managers make decisions to invest in CSR activities without any observable consequence.

Jones (2004), posits that the agent is an expert and has an in depth knowledge of that particular industry. He is also aware of the various uncertain outcomes likely to happen more than the principal is. Thus, the principal is required to trust on the agent and should let them work on their behalf. The existing contract between the management and shareholders encourages managers to choose profit maximizing projects. According to Hill and Jones (1992) the principal can prevent deviation from interests by use of incentives for

the agent and incurring monitoring cost. The classical theory supports this theory as it undervalues the possible merits of CSR in terms of resource productivity, cost saving and product differentiation. The agency theory proposes an adverse association concerning CSR and corporate financial performance.

2.3 Determinants of Financial Performance of Listed Firms

CSR can be defined as not breaching the laws and regulations when pursuing shareholders wealth maximization goal (Kipkemoi 2010). It involves aiding solve important community problems. There exist various factors that influence financial performance. According to Ogore and Kusa (2013), FP is influenced by both internal and external factors. Internal factors depend on decisions made by the board and management while the external factors are beyond firms' control. Mirza and Javed (2013) identified economic conditions, capital structure and corporate governance as the key determinants of financial performance. Other factors include company size and age.

2.3.1 Company Size

It is usually measured by the value and the amount of assets that exist in a company. Large firms have well-established culture and qualified structures (Chen, 1995), they have an easier access to factors of production such as capital and human resources. The presence of a large market base, gives them an opportunity to charge higher prices hence making larger profits. They also benefit from large economies scale as additional products can be manufactured in large scale with fewer resources. However there is a certain level that the economies of scale and collaborations could increase above which corporate financial performance reduces due to diseconomies of scale (Yenesew, 2014).

Several studies have been done on effects of firm size on financial performance and have yielded different results. Some acknowledge the existence of a positive relationship while others found a negative relationship. Kirui (2015) posits that size of a firm is positively associated with corporate financial performance while Lee (2009) concluded that firm size is a significant factor in explaining the company's profitability. Lee further concluded, large firms had reduced profitability gain compared to smaller firms. Similarly, Pervan and Visic (2012) noted that the firm size may be positively related with performance for certain firm sizes and negatively related for others. Niresh and Velnampy (2014) found no indicative relationship and impact between firm size and the firm's profitability of listed manufacturing firms in Sri Lanka.

2.3.2 Age

Age refers to the number of years that the company has been in operation. It's usually calculated by the difference between the year the company begun its operation to the current period. Firms are expected to gain more experience and learn more through research and development as it matures. They should be able to discover what they are good at. Aging firms are also characterized with having an established culture, structures, enhances efficiency and can easily analyze their SWOT. Studies on effect of age on firm performance have shown different results. Barret and Mayson (2007), notes that new firms are perceived unable to achieve economies of scale and lack sufficient managerial resources and expertise.

Agnes (2013) pointed out that aging firms weaken over time and as a result, they are taken over by other strong firms. A study by Claudio and Waelchii (2010), showed that getting

older is associated with lower profitability. The study further concluded that aging firms are associated with slower growth, assets become obsolete and a decline in investment. Yussuf and Olagbemi (2010) in their study established that age of the firm was positively related to financial performance of small businesses.

2.3.3 Capital Structure

For capital structure, firm can decide to obtain their finances either through borrowing (loans and bonds) or from the retained earnings. Costs of obtaining the finances should be weighed first before making the decision. It is measured using debt to equity ratio which is also known as the gearing ratio. The use of either ways has its own merits and demerits. Use of more debt financing increases the risk of bankruptcy; one has to fulfill the debt covenants. However, it's usually the cheapest cost of financing because of tax benefits, one can also be able to mitigate the agency conflict Mirza and Javeth (2013), gain a creative and strategic control of the business. On the other hand, use of internally generated funds enables the capital gains to be taxed lower than dividends.

Most companies use debt financing due to the fact that highly leveraged firms are more profitable (Muriu, 2011). Mwangi and Birundu (2015) suggested that firm need not burden itself with more debt than its capacity to service as this could lead to bankruptcy. The study also concluded that capital structure is not significantly associated with SMEs' financial performance. Ndiwa (2014) in a study on sugar manufacturing companies in Kenya established that capital structure decisions had a negative effect on financial performance. Saeed and Rasheed (2013), on the other hand, established that capital structure of firms was positively related with performance of the banking industry in Pakistan. Nirajini and

Priya (2013) found a positive relationship between capital structure and financial performance of the firms listed in Sri Lanka.

2.3.4 Corporate Governance

Corporate governance encompasses a sequence of associations amongst the company board, management of the company, investors and other interested parties. According to Bairathi (2009), corporate governance involves more than just corporate management as it also entails having a fair, efficient and a transparent administration. The separation of management and ownership in modern corporation increases the need for corporate governance. The key purpose of integrating corporate governance on firms, is to increase shareholders wealth. Wanjiru (2013) notes that with good corporate governance in the business environment, companies can be held accountable for their action. Contrary, weak corporate governance provide a loophole for companies to waste and mismanage funds.

According to Freeman (1984), companies with good corporate governance deliver good and sustainable business performance. Zheka (2005) concluded that corporate governance predicts financial performance. Javed and Iqbal (2007) posit that indices and performance are significantly related except for transparency and disclosure. A study by Kigotho (2014) on companies listed in the NSE posited that there is a positive association between corporate governance attributes and corporate financial performance. Wanyama and Olweny (2013) studied insurance companies in Kenya and determined that firm performance and corporate governance were positively related. The board can be used as an instrument for sourcing critical resources and information to create a sustainable competitive advantage and can improve the financial performance of an organization.

Similarly, a study by Sanjai and Bolton (2009) depicted that a more independent board is perceived to be a better approach of providing high returns to the suppliers of capital.

2.3.5 Economic Condition

There are multiple ways in which economic condition of a country can affect the firm's financial performance. Such factors are interest rate, exchange rate and prices of commodities. Kenyan economy has notably experienced fluctuations of interest rates, exchange rates and prices of commodities. The government has put in place policies required to control the fluctuations of the economic factors. According to (Cote, 1994) increase in exchange rates fluctuations increases uncertainty of profits on contracts dominated in a foreign currency thus reducing levels of GDP.

Various studies indicated a significant association between macroeconomic elements and firm financial performance. According to Cliff and Willy (2014), excessive change in interest rate can cause operating expenses to increase, change the value of assets thus causing a significant threat on firm's earnings. Increase in prices of commodities due to inflation increases the productions cost thus causing a decrease in profitability. Other economic conditions such as cost of borrowing negatively influence financial performance (Ntim, 2009). It reduces a company's capacity to invest due to firm's inability to obtain finances.

2.4 Empirical Studies

The relationship between CSR and FP has been long studied by scholars but an agreement has never been reached. Various empirical studies have shown different results.

Internationally, a study by Fauzi (2009) on organizations listed on the New York Securities Exchange (NYSE) sought to establish the association between corporate financial performance and CSR. The study applied a sample of 101 companies and conducted analysis using a regression model. In the model the independent variable was CSR whereas the dependent variable was financial performance. The study established that CSR did not have any significant effect on corporate financial performance.

Fauzi and Rahman (2007) examined the relationship of CSP and CFP on companies listed in Jakarta stock exchange in Indonesia. Secondary data was collected from audited reports of 383 firms from 2002-2003. Using the Regression model, the study found Link between CSP and CFP to be inconclusive. This study thus did not establish any significant association between CSP and firm performance. Tsoutsoura (2004) conducted a study to establish the association between CSR and FP in California. Data was collected from a sample of 422 firms covering 5 years. Using the regression model, he established a positive and a significant relationship between CSR and financial performance. Gheli (2013) aimed at determining strength direction of the correlation between CSR and company's FP. Data collected from a sample of 322 US companies was covering one year. After a series of regressions, the results indicated existence of a positive significant relationship between CSR and FP.

Ahmed (2014) aimed at explaining the relationship between CSR and CFP. Data was collected from three firms listed in Bursia Malaysia covering from 2007-2011. Using regression analysis, the study concluded existence of a positive relationship between CSR

and CFP. Anasthasia and Maria (2010) performed a study on the relation between CSR and FP in the banking sector. The study applied a sample of 189 commercial banks selected from 45 countries. Data available up to 2008 was used. Using regression analysis, the study found no evidence that banks with high CSR activities are more profitable than convention. Thus there is not any positive link between CSR and FP.

Locally, Okwoma (2012) carried out a research focusing on commercial banks in Kenya on the impact of CSR on FP. The study considered two years where CSR and financial performance measures for 28 banks was studied between the year 2007 and 2008. The study applied ordinary least squares regression model to analyze the data. Findings from the study depicted that CSR had a significant positive effect on corporate financial performance of the surveyed banks. On classification based on size, the study established that there was a significant and positive effect of CSR on corporate financial performance of large and medium sized banks. However, the study established that CSR did not have a significant effect on performance of small banks.

A study by Ondieki (2013) in the commercial and services sector of firms listed in the NSE examined the association between CSR practices and corporate financial performance. Primary and secondary data available as at 31st December 2012 for the 9 companies listed in the commercial sector was collected. The study used descriptive and inferential analysis to assess the association. Ordinary least squares regression was applied. The study established that there was a positive association between CSR practices and corporate financial performance (r = 0.987).

Kipruto (2014) studied commercial banks in Kenya and examined the influence of CSR on financial performance. The study utilized secondary data which was sourced from audited financial statements of the commercial banks, annual reports, websites and publications. Eight out of 44 commercial banks were studied covering over the five year period (2009-2013). Using regression model, the study findings were that expenses on social course have an effect on FP of commercial banks in Kenya. The study also revealed that not all commercial banks report their CSR involvement.

Wambui (2012) carried out a research focusing on the partnerships between NGOs and corporate firms assessing the influence of CSR on corporate financial performance. The study focused on a sample of 30 firms and noted that there was a 48% relationship extent been CSR and corporate financial performance. This implied that companies with the least ROA had an index of 48% while the maximum of 89%. Mean ROA was about 67.6% with a standard deviation of approximately 96%. This means that ROA can donate from mean to both sides by 9.6%. Wambui concluded that CSR and CFP are positively related. Moreover, a study by Obusubiri (2006) assessed the effect of CSR on FP and noted that CSR had a positive association with portfolio performance. Obusubiri attributed these findings to the good corporate image that emanates from companies engaging in CSR activities. Investors are usually attracted to firms that have effective CSR activities making such companies have a good reputation. Mutuku (2004) performed a census survey on 32 companies listed in NSE. Using regression analysis, he found no relationship between CSR and FP on companies listed in NSE.

2.5 Summary of the Literature Review

In the theoretical review, studies have shown their different arguments on CSR and CFP relationship. Stakeholder theory, good management theory and slack resource theory all postulate that CSR is positively associated with corporate financial performance. Similarly, the three theories support the facts that companies will only be able to make good profits if they also make use of their resources to attend to society's needs. On the other hand, agency theory over emphasizes the cost of social involvement of business. It upholds that the company's only objective is to maximize wealth of shareholders so long as they stick to the game. It predicts a negative relationship between the two variables.

The empirical research has shown mixed reaction between scholars both internationally and locally on CSR/CSP relation. Internationally, Ahmed (2014), Tsoutsoura (2014) and Gheli (2013) observed that financial performance and CSR were positively related. While Fauzi (2007), Athanasia (2010) and Fauzi (2009) on the other hand established that CSR and corporate financial performance were not positively related. Locally, Okwoma (2012), Ondieki (2013) and Wambui (2012) found a positive correlation between financial performance and CSP, while (Mutuku, 2004) found no correlation between them. Even though most research has found a positive relationship there are still those with mixed results such as Mutuku. This indicated the need to do more research to assess the relationship that existed between financial performance of a firm and its CSR activities. This hence justified this study. Empirical evidence also shows that most studies considered single variable. See for example Okwoma used financial spending on CSR as the

independent variable, Kipruto only considered investment as his intermediate variable to establish the relationship. These study therefore aim at using multiple variables on the model to determine how corporate finance performance is affected by CSR.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was applied to conduct the study. Presented in the chapter is the research design, population, sampling design and sample size, data collection methods applied and the data analysis procedures. Moreover, the regression model used and the test of significance applied are also presented.

3.2 Research Design

This study applied a descriptive study design. This design was appropriate as secondary data was applied in the study to test the relationship between corporate financial performance and CSR. The focus of the study was on firms in the NSE and the study sought to describe how financial performance is associated with CSR. A descriptive study describes the characteristics of a phenomenon hence it provides a clear account of how things are in regard to opinions, facts and attitudes. In this study, the study assessed facts relating to CSR and financial performance. Descriptive statistics helped summarize the large sets of quantitative information using standard deviation and mean score (Njiru, 2013).

3.3 Population

The population of the study constituted 66 publicly quoted companies at the NSE from year 2010 to 2014.

3.4 Sample Design

Sample size refers to a designated part that represents the whole population. A simple random sampling of the companies was used in this study. Simple random sampling was suited to this study as it ensured that each company listed in the NSE had an equivalent opportunity of being incorporated into the sample. This also ensured that a high number of respondents were reached to increase the accuracy of the results. Judgmental sampling technique was also used. This is a form of non-probability sampling technique that permits the researcher to use a predefined criterion which units must satisfy in order to be selected into the sample. In this study, this method was applied to include those firms that had information that was important for the study (Mugenda & Mugenda, 2003).

3.5 Data Collection

Secondary data was used to extract the financial results of the selected companies. It was obtained from the published annual reports, respective companies' websites or any other relevant reliable source of data. Nature of data to be used included the statement of financial position, Statement of comprehensive income and annual reports to stake holders. Study covered a period of five years.

3.6 Validity and Reliability

Validity is usually related to data collection instruments such as questionnaires and interview. Abott and Monsen (1979) described validity as the extent to which a measuring procedure actually measures the theoretical concept for which measuring procedure is intended. It usually checks whether there exist any consistency between theoretical concept

and operationalization procedures. Reliability evaluates how data was collected. Kaguri (2012) describes reliability as a concept used for testing and evaluating quantitative research. It involves determining the quality in quantitative study. During the study, data validity and reliability was ensured as data was obtained from reliable sources such as audited annual reports and the company's websites.

3.7 Data Analysis

Data was analyzed in various ways. Statistical package for social sciences (SPSS) was applied for data analysis where the various data regarding CSR, financial performance, efficiency and capital intensity was entered. The means and standard deviation for the independent variable were determined. The study applied ordinary least squares regression technique to assess the influence of CSR on finance performance of the selected companies. Analysis of variance (ANOVA) was used to assess the model significance while t-tests were used to assess the significance of the independent variables in explaining the dependent variable. The results from the study were presented in tabular form.

3.7.1 Regression Equation

Ordinary least squares regression model was applied to assess the influence of CSR on corporate financial performance. To assess the distribution and dispersion of the data, descriptive statistics were used. Moreover, correlation analysis was conducted to assess the association between CSR, efficiency, capital intensity and corporate financial performance. In the study, the independent variables were CSR, capital intensity and efficiency while corporate financial performance was the dependent variable. Efficiency was measured

using the ratio of costs of sale on total revenue (Cost of sales/Total sales) while capital intensity was measured using the ratio of total sales on total revenue (Total assets/Total sales). These were used as control variables in the study. The regression model depicted below explained the expected;

$$Y= \beta_0 +\beta_1 X_1+ \beta_2 X_2+ \beta_3 X_{3+}\varepsilon$$

β_0 is the regression coefficient while β_1, β_2, β_3 represents the slope of the regression equation.

Where:

Y- Financial performance (Return on Asset (ROA)) (Net income/ Total Assets)

α_o- Constant

x_1- CSR score (Financial expenditure on CSR activities)

x_2-Efficiency (Cost of Sale/Total Sales)

x_3- Capital intensity (Total Assets/ Total Sales)

ε - The error term

3.8 Test of Significance

F test was used at 95% confidence level to establish statistical significance of the whole model. T test was also used at a 95% confidence level to determine significance of the independent variable. Coefficient of determination was used to establish reliability of regression model.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATIONS AND PRESENTATION

4.1 Introduction

This chapter presents information regarding the results from the study after assessing the influence of CSR on corporate financial performance. The study had focused on the firms listed in the NSE. The research period for this study was from NSE from year 2010 to 2014. This chapter also provides information on descriptive statistics, pre estimation diagnostic tests and finally discusses the results of the pooled OLS model.

4.2 Response Rate

The study focused on 66 firms quoted at the NSE. The firms with all the necessary data complete and available were 14 companies. This data was collected for 5 years for each firm giving 70 observations. Most companies analyzed, engaged in CSR but failed to disclose the actual cost incurred on CSR activities. Data on capital intensity and efficiency was readily available but since the studies main focus was on influence of CSR on corporate financial performance, such data could be of no help. In determining each firms CSR, ROA, capital intensity and efficiency excel was used.

4.3 Descriptive statistics

The descriptive statistics of ROA, CSR score, efficiency, and capital intensity is provided. Data on CSR score was in shillings and the logarithm for the data was computed so as to be comparable with the other data which was in ratio form. The results indicate that the

average ROA was 0.077 while average log of CSR was 7.078. Moreover, average efficiency was 0.76 while average capital intensity was 1.32.

Table 4.1: Descriptive Statistics

		N	Minimum (%)	Maximum (%)	Mean	Std Deviation
UNITS	ROA					
	CSR	70	-.192282	.331828	.07733688	.085711812
	EFF	70	6.118684	8.327906	7.07778781	.477157184
	CI	70	.396105	.983475	.76242241	.137257652
	Valid N (List wise)	70	.169764	.2777170	1.32367644	.827583587

4.4 Correlation Analysis

Correlation analysis offers an assessment of the amount of relationship among variables under study. In this study, Pearson correlation analysis was used to determine multicollinearity between the variables. Using SPSS, statistical relationship between financial performance and CSR at 5% significance level was sought. When the correlation coefficient is close to positive or negative one, there exists a strong correlation between the variables thus indicating multicollinearity. However if the predictor variable has correlation coefficient close to +1 or -1, then one has to be dropped. From the correlation

matrix presented in Table 4.2, none of these variables was strongly correlated with each other.

Table 4.2: Correlation analysis

		EFF	CSR	CI	ROA
EFF	Pearson Correlation	1			
CSR	Pearson Correlation	-.318	1		
CI	Pearson Correlation	.134	-.284	1	
ROA	Pearson Correlation	-.477	.190	-.460	1

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

4.5 Regression Analysis and Hypothesis Testing

To test the hypothesis of the study, regression analysis was performed. The independent variables used were capital intensity, efficiency and CSR Score while the dependent variable was corporate financial performance.

4.5.1 Regression Model Diagnostics

Before regression analysis, diagnostic tests for OLS assumptions were conducted. The first diagnostic test carried out was the test whether the variances of error terms were constant (homoscedasticity). To test for heteroskedasticity, the Breusch-Pagan Cook-Weisberg test was used. The null hypothesis in the test has a constant variance of errors (homoskedasticity) with the alternate hypothesis being that errors are not constant (heteroskedasticity). Results from the test are presented in Table 4.3. These results reveal that there was no heteroskedasticity ($p > 0.05$) in the residuals of the variables.

Table 4.3: Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Model	Dependent variable	χ^2- value	p-value
1	Organizational	3.53	0.0603

The second test that was performed was the test of normality of residuals. This is required for any linear regression as having residuals that are not normally distributed may produce forecasts that are inefficient or biased. Shapiro Wilk was used to test the normality of residuals as the sample size was small (N=70). The test has null hypothesis of normality of residuals with the alternate hypothesis being that residuals are not normally distributed.

Results are presented in Table 4.4. The findings indicate that all the p values were above 5% indicating that residuals for all the variables were normally distributed.

Table 4.4: Shapiro Wilk Test of Normality

Variable	F-value	P value
CSR	1.803	0.192
EFF	1.761	0.218
CI	1.792	0.211

Further, the study assessed multicollinearity in the data using variance inflation factor (VIF). Multicollinearity is the high correlation between any two independent variables. The results are presented in Table 4.5. For there to be multicollinearity, the VIF of any two variables needs to be 10 or above. In the study, no variable had VIF of more than 10. Furthermore, the VIFs of the independent variables were very small. This indicates that no two independent variables were highly correlated.

Table 4.5: Testing Multicollinearity Using VIF

Variable	VIF
CSR	1.153
EFF	1.073
CI	1.027

The other test conducted was test for serial correlation which was done through the Woodridge test. The results indicated that there was serial correlation in the data as indicated in Table 4.6. The results indicated that there was serial correlation in the residuals ($p < 0.05$). Serial correlation in linear OLS regression results in biased standard errors which makes the results of the model to be less efficient and hence not reliable.

Table 4.6: Serial correlation Test Using Woodridge Drukker

Dependent Variable	F-value	p-value
Financial Performance	22.249	.0000

After revelation that the residuals in the data were serially correlated, there was therefore need to transform the data so as to correct the problem. This was enabled by the use of Cochrane-Orcutt procedure. The transformation was able to correct the serial correlation problem as indicated in Table 4.7 ($p > 0.05$).

Table 4.7: Serial correlation Test Using Woodridge Drukker (Transformed)

Dependent Variable	F-value	p-value
Financial Performance	1.212	.5609

4.5.2 Regression Results

After establishing that the data satisfied all the OLS assumptions, pooled regression analysis was performed on the data. The r-squared for the regression model was 0.455 as indicated in Table 4.8. The model therefore is explaining 45.5% of the change in performance in the listed companies. These findings indicate that the three independent variables selected can explain 45.5% of performance of listed companies.

Table 4.8: Coefficient of Determination – Combined R^2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.675	.455	.431	1.008

a. Predictors: (Constant), CSR Score, Efficiency, Capital Intensity

F test was used to establish the statistical significance of the overall model (Table 4.8). The results indicate that the model was statistically significant and could provide predictive value using the four independent variables to predict the performance of the listed companies ($F = 18.395$; $p < 0.05$).

Table 4.9: Analysis of Variance of the Regression Model

Model	Sum of Squares	Df	Mean Square	F	Sig.

		Sum of Squares	df	Mean Square	F	Sig.
	Regression	56.102	3	18.701	18.395	.000[b]
1	Residual	67.098	66	1.017		
	Total	123.200	69			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), CSR Score, Efficiency, Capital Intensity

The test of the statistical significance of the independent variables in the model was done using t-tests. Results are presented in Table 4.10.

Table 4.10: Test of Significance of Independent Variables

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	6.950	1.936		3.591	.001
Capital Intensity	-.820	.136	.666	-6.025	.000
Efficiency	-1.055	.173	.641	-6.112	.000
CSR Score	.790	.469	.179	1.686	.096

a. Dependent Variable: Financial Performance

The statistics that provided basis for hypothesis testing were provided by the regression analysis. The null hypothesis predicted that β1=0 indicating that there was no significant relationship between corporate financial performance and CSR. The hypothesis was tested at 5% significance level to assess the significance of the three variables (CSR, efficiency

and capital intensity). Significance values below 5% indicated that a correlation exists between the independent variable and the dependent variable. As shown in Table 4.10, both capital intensity and efficiency were significant ($p < 0.05$) hence indicating that both had significant influence on corporate financial performance. This hence led to the rejection of the null hypothesis and acceptance of the alternate hypothesis. Findings, however depicted that CSR score was not a significant factor in influencing corporate financial performance ($p>0.05$). The null hypothesis in this case was hence accepted.

The results in Table 4.9 also indicates that capital intensity was a significant factor in explaining the performance of listed companies ($\beta = -0.820$; $p < 0.05$). This indicates that when capital intensity of companies improves, their performance is negatively affected and vice versa.

The study also established that efficiency had a significant negative effect on performance of the listed companies ($\beta = -1.055$; $p < 0.05$). These findings indicate that improvement in efficiency (lowering of the cost of sales/total sales ratio) would lead to improvement in corporate financial performance of the listed companies included in this study. The study further, revealed that CSR score did not have any significant effect on performance of the listed companies ($\beta = 0.790$; $p > 0.05$). This implies that the amount of money expended on CSR projects does not significantly explain financial performance of the company.

4.6 Discussion of the Research Findings

From the research findings it is clear that there was positive relationship that existed between corporate financial performance and CSR. However the effect was insignificant. This is explained by the fact that the βeta for CSR Score is 0.790 ($\beta = 0.790$; $p > 0.05$).

From Table 4.10, the regression equation that was fitted was;

Financial performance = $6.950 + 0.790X_1 - 0.820X_2 - 1.055X_3$

The regression constant in the regression equation (6.950) indicate that when CSR score (X_1), capital intensity (X_2) and efficiency (X_3) were fixed at zero, financial performance of the firms listed at the NSE would be 6.950 percent as measured using ROA. The regression model also depicts that for every unit increase in CSR score (X_1), financial performance would rise by 0.790 units. On the other hand, every unit increase in capital intensity (X_2), there would be a decrease of 0.820 of financial performance. Moreover, every unit increase in efficiency (X_3) would results to a decrease of 1.055 on financial performance if all other factors are held constant. The results also indicates that capital intensity was a significant factor in explaining the performance of listed companies ($\beta = -0.820$; $p < 0.05$). This indicates that when capital intensity of companies improves, their performance is negatively affected and vice versa. These results imply that a high capital intensity ratio may indicate that the firm is not utilizing its assets properly. Having lower capital intensity would hence indicate that the firm is using its assets better to generate revenue and hence becoming more profitable than its peers in the industry.

Efficiency had a significant negative effect on performance of the listed companies ($\beta = -1.055$; $p < 0.05$). These findings indicate that improvement in efficiency (lowering of the cost of sales/total sales ratio) would lead to improvement in financial performance of the listed companies. The implication of these finding are that a high efficiency ratio will indicate that the company is being inefficient while a lower ratio would indicate efficiency. It is hence expected that efficient companies are more profitable than their inefficient counterparts. The study findings were hence as expected.

These findings agree with those of Lawrenzia (2010) who established that a positive association existed between corporate financial performance and CSR. This study had been conducted in MFIs in Kenya. These findings also agreed with those of Ahmed (2014) that was conducted on firms listed in Bursia Malaysia and depicted that the CSR was positively related with financial performance. Wambui (2012) also had similar findings to the study that CFPO and CSR had a strong positive association. However, the findings from this study contradicted those from a study by Mutuku (2004) that corporate financial performance and CSR are not significantly related. Contradiction of these findings and those of Mutuku (2004) can be attributed to differences in methodology used. This study adopted the descriptive research design while Mutuku (2004) adopted the cross sectional research design. Moreover the study focused only on banks listed at the NSE.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusions and recommendations that were made. The chapter also presents the limitations of the study and also provides suggestions for further research on CSR and corporate financial performance. This study had the intention of establishing the influence of CSR and corporate financial performance for all companies listed in the NSE from year 2010 to 2014.

5.2 Summary of Findings

The researcher used Nairobi Securities Exchange firms, whose management has contributed to CSR activities. The study also provides greater insight into the relationship between CSR and corporate financial performance. The study utilized secondary data which was collected from published annual reports, audited financial statements respective company's websites. The study used descriptive study as the research design and covered a period from 2010 to 2014. Financial performance was computed in terms of Net Income/Total Assets. The ratio of cost of sales on total sales was used to compute efficiency. A high efficiency ratio would hence indicate inefficiency whereas a lower ratio would depict efficiency. The ratio of total assets against total revenue was use to measure capital intensity. High capital intensity ratio would imply that the firm is poor in utilizing its assets to generate revenue while a lower ration would indicate efficiency of the firm in utilizing its assets to generate revenue. Companies with a lower capital intensity ration will

be able to have more revenue and therefore leading to a high financial performance for a company. CSR activities were measured through monetary spending on social activities. Ordinary least squares regression model was applied to assess the influence of CSR on corporate financial performance. This led to the finding that CSR has a positive but insignificant relationship with financial performance. In general, the results suggest that firms engaging in CSR do not necessarily increase its financial performance.

5.3 Conclusion

The purpose of the study was to assess the relationship between corporate financial performance and CSR. The model used proved to be viable and in line with the previous studies done in regards to establishing the relationship between CSR and financial performance. The study concludes that there was a positive but insignificant influence of CSR on corporate financial performance of companies listed in NSE.

Secondly, the study concluded that capital intensity was a significant factor in explaining the performance of listed companies. When capital intensity of companies increase, their performance is negatively affected and vice versa. Efficiency had a significant negative effect on performance of the listed companies. These findings indicate that improvement in efficiency (lowering of the cost of sales/total sales ratio) would lead to improvement in financial performance of the listed companies. The CSR score did not have any significant effect on performance of the listed companies. This implies that the amount of money expended on CSR projects does not significantly explain financial performance of the company. Businesses ought not to incur high expenditures on CSR with the anticipation of

enhancing their corporate financial performance and other sustainability factors. Firms ought to improve efficiency in their processes and operations so as to enhance their financial performance.

5.4 Recommendations

Even though profitability is the main objective of a company, there are other objectives that also need to be achieved. Some companies engage in social activities so as to be compliant with laws of the land, have goodwill among the stakeholders and hence have a conducive working environment. Most firms practice CSR as they perceive it to be ethical and also an effective public relations. The study therefore recommends firms to be socially responsible so as to enhance the value of the firm for the shareholders. Sustainable performance of businesses cannot be achieved in unfavorable environment or a society full of unemployment, insecurity and other social challenges. An organization viewed not to be socially responsible will have negative perception in the market.

The study also recommends CSR not to be viewed as a voluntary undertaking but a compulsory practice for the firms. Policies among firms to ensure that the firm acts in ethical and socially responsible manner to all stakeholders should be formulated and implemented. For example, to ensure that listed companies in Kenya are socially responsible, Capital Markets Authority has put guidelines and requirements for the same. Such guidelines should be implemented for firms.

To ensure this, the study recommends formulation of policies and institutions to support growth of small firms to large owns. Policy makers should also undertake to understand

why CSR activities among firms is not as robust in Kenya as compared to other developed countries or other sectors and what should be done to' improve CSR activities in the firms sector to maximize financial returns for economic growth.

In the process of carrying out this study, the researcher noted a few issues which may require the attention of the concerned authorities. It was noted that the firms under study do not have a standardized reporting format for their involvement in CSR activities. While most firms listed have a report on CSR activities, there is no formal location where the report is published. While others include the information on annual reports, others have it on the website and newsletters. As firms under study discover that CSR has a negative relationship with their financial performance, the motivation to engage in CSR purely for the sake of reducing the company's financial performance may begin to take shape.

5.5 Limitations of the Study

In carrying out this study, CSR was measured using financial spending. The researcher acknowledges that CSR has several dimensions and can be accomplished in several ways other than just financial spending. However, due to time and budget constraints, only financial spending was used to measure CSR performance among the firms listed in NSE. Nonfinancial CSR effort, for example, man hours used by employees in planting trees, cleaning the environment, fair employment practices adopted by management , to mention a few, were not included in the study. There is a possibility that if non-financial aspects of CSR mentioned above were to be taken into account through generation of CSR performance index, the results of the study would probably be different.

The other limitation of the study relates to the measurement of performance. The study used return on Assets but there are other measures of performance like market share. It is possible that if any other measure was used, the results could probably be different. The study was also limited by the number of years within which data was collected. The study used longitudinal research design and due to time and financial constraints, the study covered a five year period from 2010 to 2014, both years inclusive. If the number of years within which the study was carried out were to be increased then probably the results would be different.

Lastly, the study is limited by its data sources. Data on CSR was obtained from the firm's annual statements and the firm's corporate social responsibility reports updated in the various companies websites. The researcher acknowledges that the accuracy of the data as obtained from the source may limit the results of the study.

5.6 Suggestions for Further Research

In this study only company's further studies could be done on impact of Corporate Social Responsibility on other financial performance measurement variables like net profit. The study could determine the relationship between the total amount invested by the firm on CSR and the annual profit. A longer period of analysis of more than five years can also be used.

The researcher suggests that a study be carried out to determine if financial spending on CSR in the current year has any effect on the financial performance of firms listed in NSE in the following accounting period. As noted in the limitations of this study, the measurement

of CSR was limited to financial spending. The researcher suggests further research in this area but this time by use of and incorporation of non-financial aspects of CSR in the measurement of CSR. More research in this area could also be done using data for a period of ten years and above.

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Appendix 1: Companies listed at the Nairobi Securities Exchange

AGRICULTURE

1. EAAGADS Ltd.
2. Kakuzi Ltd
3. Kapchorua Tea company Ltd
4. Limuru Tea Company Ltd.
5. Rea Vipigo Plantation Ltd.
6. Sasini Ltd
7. Williamson Tea Kenya Ltd.

AUTOMOBILES AND ACCESSORIES

8. Car and General (K) Ltd.
9. CMC Holdings Ltd.
10. Marshalls E.A Ltd.
11. Sameer Africa Ltd.

BANKING

12. Barclays Bank of Kenya.
13. CFC Stanbic of Kenya Holdings.
14. Diamond Trust Bank Kenya Ltd.
15. Equity Bank Ltd.
16. Housing and Finance Kenya Ltd.
17. I &M Holding Ltd.
18. Kenya Commercial bank.
19. National Bank of Kenya.
20. NIC Bank LTD.
21. Standard Charted bank Kenya Ltd.
22. The Co-operative Bank of Kenya.

COMMERCIAL AND SERVICES

23. Express Kenya Ltd.
24. Hutching Biemer Ltd.
25. Atlas Development and Support Services.
26. Kenya Airways Ltd.
27. Long Horn Kenya Ltd.

28. Nation Media group Ltd.

29. Scan Group Ltd.

30. Standard Group Ltd

31. TPS Serena Eastern Africa.

32. Uchumi Supermarket Ltd.

CONSTRUCTION AND ALLIED

33. ARM Cement Ltd.

34. Bamburi Cement Ltd.

35. Crown Berger Kenya Ltd.

36. EA Cables Ltd.

37. E.A Portland Cement Company Ltd.

ENERGY AND PETROLEUM

38. KENGEN Company Ltd.

39. Kenol Kobil Ltd.

40. K.P.L.C Ltd.

41. Total Kenya Ltd.

42. Umeme Ltd.

INSURANCE

43. British American Investment.

44. CIC Insurance Group.

45. Jubilee Holdings Ltd.

46. Kenya Re Insurance Corporation Ltd.

47. Liberty Kenya Holding Ltd.

48. Pan African Insurance Holding Ltd.

INVESTMENTS

49. Centum Investment Company Ltd.

50. Olympia Capital Holdings Limited.

51. Trans Century Limited.

52. Home Africa Limited.

53. Kurwitu Ventures.

INVESTMENTS AND SERVICE

54. Nairobi Securities Exchange.

MANUFACTURING AND ALLIED

55. A. Bauman and Company Ltd.

56. BOC Kenya Ltd.

57. British American Tobacco Kenya.

58. Carbacid Investment Kenya Ltd.

59. East African Breweries Ltd.

60. Ever ready East African Ltd.

61. Kenya Orchards Ltd.

62. Mumias Sugar Company Ltd.

63. Unga Group Ltd.

TELECOMMUNICATION AND TECHNOLOGY

64. Access Kenya Group Ltd.

65. Safaricom Limited.

GROWTH ENTERPRICE MARKET SEGMENTS

66. Home Africa Ltd.

Source: Capital Markets Authority

Appendix II: Data collection form

	Year 2010	Year 2011	Year 2012	Year 2013	Year 2014	Average
Expenditure on CSR						
Sales						
Cost Of Sales						
Total Assets						
Return on assets						