EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE IN THE TELECOMMUNICATION INDUSTRY IN KENYA

BY

MOGAKA, MAXWELL MOSOTI

A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILMENT OF REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE IN FINANCE (MSC), UNIVERSITY OF NAIROBI

OCTOBER 2016

DECLARATION

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

Signature ....Date.................................

Mogaka, Maxwell Mosoti

D63/72992/2014

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

Signature...................................... Date..............................

Mr. Barasa Joseph Lumumba

Lecturer, Department of Finance & Accounting

University of Nairobi

DEDICATION

To

My dear wife

Mary Kwamboka,

(You are the reason I have reached this far.)

and

To

My lovely flowers

Kate Moraa

Benjamin Ndege

Stephen Orina

Ruth Kemuma

Martin Mogaka

(Thank you and may you excel beyond this.)

ACKNOWLEDGEMENTS

I would like to give praise and thanks to the Almighty God for His guidance and protection throughout my life and also seeing me through my studies.

I wish to express my gratitude to my supervisor Mr. Barasa J. Lumumba who took time to read and made the necessary criticisms, suggestions and corrections in the course of writing this project.

I would also like to extend my gratitude to the administration of the University of Nairobi through the university's library and the library staff that enabled me to access the various materials used in compiling this work. Special attribute goes to my class members and friends who through their persistence assistance and hard work saw the achievement of this study.

I am extremely grateful to my nephew, Jared Momanyi, for his support. Thank you very much and may God reward you abundantly. Again, my gratitude goes to my family especially my wife and our children.

Finally, I could like to express my gratitude to the Communication Authority of Kenya for the study scholarship. In particular I thank the Director General, Mr. Francis W. Wangusi MBS, for his immense support by approving the scholarship of my studies, I am very grateful. Moreover, am thankful to Ruth Kemuma and Jared Momany for being supportive in proofreading my work. Sincere appreciation goes to D. Kiprop, S. Chege, J. Kinuthia, D. Ooko, for supporting me to collect data. Further I thank Mr. J. Chepchieng, C. Wanbua for their moral support.

ABSTRACT

It is a fact that CSR is a technique, which has and continues to be used in many organizations to communicate with the public indirectly about the existence of a certain firm and its products and/or services being offered. In most cases CSR is carried out as a way to show gratitude to the community by giving back. CSR, therefore, is a concept often used in Kenya and indeed globally by many organizations to engage in philanthropic work by giving back to the community aiming at being seen as a good neighbour by the immediate community next to the organization in question. Thus, the main purpose of this study was to establish the effects of corporate social responsibility on financial performance in the telecommunication industry. This study adopted a cross-sectional survey whereby three companies in the telecommunication industry, were targeted. A statistical packages for social sciences (SPSS version 21.0) was used to analyze the quantitative data for a period of 10 years. Both correlation and a multiple regression were applied to determine the strength of the relationship between and among the variables. From the findings of the study, it was concluded that there is a significant relationship between the CSR and financial performance (ROA and ROE) for all aggregated telecommunication companies in Kenya. Hence, it was recommended that Telecommunication companies should engage in very many CSR activities as this increases their customer base which will eventually increase the amounts of profits hence the company's financial performance also improves.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS AND ACRONYMS

ANOVA	Analysis of Variance
CFP	Corporate Financial Performance
CSR	Corporate social responsibility
EABL	East African Breweries Limited
GDP	Gross Domestic Product
KCC	New Kenya Cooperative Creameries
KP	Kenya Power
KPTC	Kenya Posta and Telecommunication Corporation
KTN	Kenya Television Networks
MTN	Mobile Telephone Networks
NTV	Nation Television m
ROA	Return on Assets
ROE	Return on Equity
SPSS	Statistical packages for Social Sciences

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

It is a fact that corporate social responsibility is a practice that has been applied in a number of businesses as a means of communicating with the people circuitously with regard to the presence or operation of a given business and the goods or services provided by the said company. Ordinarily, corporate social responsibility is conducted as an approach to exhibiting appreciation or indebtedness to the setting in which the firm operates and as such, the firm endeavors to give back to that particular society or community. Essentially, corporate social responsibility is a strategy marketing approach regularly applied by Kenyan form and on the global business scene; more and more companies are adopting the strategy as a means of engaging in community participation by carrying out philanthropic activities. More frequent than not, corporate social responsibility has been instrumental for many business as it enables companies to give back to the community in which the business operates to an extent that the organizations undertaking corporate social responsibility do not necessarily gain from the CSR activities. In other words, organizations implement corporate social responsibility as a means of gaining a good or enhanced view from the (Kotler & Armstrong, 2008).

Jatana and Crowther (2007) observe that international organizations focusing on profits did not concentrate on corporate social responsibility until lately. However, in the contemporary society established companies such as multinational corporations must conduct their business in ethical approaches or they will get a negative response from the public. To this end, organizations are getting concerned about the negative feedback from the customers to an extent that they have been forced to conduct their day-to-day operations within the confines of the international law. Sorsa (2008) argues that "in any case, business are expected to perform well in non-financial areas such as business ethics, environmental policies, corporate contributions, community development, human rights, corporate governance, and workplace issues". Some examples of corporate social responsibility include good employee working conditions, contributions to community groups and charities, and environmental stewardship. Moser and Miller (2001) reveal that "the problem with corporate social responsibility is that many organizations, which assert to be socially responsible often, do not live up to the expected ethics". Since corporate social responsibility has become an essential marketing tool for many multinational companies, there exist worries that certain organizations carry out corporate social responsibility as an approach to securing their client base ad remaining profitable. Kapoor and Sandhu (2010) argue that transparency and accountability are essential to carrying out business an approach that is ethically responsible.

Idemudia (2011) the government of Nigerian formulated legislation and if the legislation is enacted into law, all companies operating in Nigeria will be required to pay 3.5% of their profits to initiatives of. Currently in Kenya, corporate social responsibility is evidently carried out but there are no regulations in place compared to Nigeria. There exist many companies conducting their businesses in Kenya and these businesses include but not limited to product-oriented and service-oriented marketing. Some of the companies operating in Kenya and have been conducting corporate social responsibility include Kenya Television Networks, Safaricom, Kenya Power, East African Breweries Limited, Nation Television (NTV), Co-operative Bank, Equity Bank, Kenya Airways, Coca Cola, Airtel, Brookside Dairy, New Kenya Cooperative Creameries (KCC), among others. The aforementioned companies and others conducting corporate social responsibility do it as a means of giving back to the communities and as such, the study of corporate social responsibility is challenging, dynamic, and contemporary. To this extent, organizations indulge in corporate social responsibility in their businesses and this is majorly motivated by the different goals of the said organizations. Against this backdrop, it is imperative to note that businesses are bound by the laws of the host nation and the international laws in their day-to-day operations to an extent that businesses carry out corporate social responsibility as a means of consolidating their client base and attract new customers. To this end, the study seeks to determine the impact of CSR on financial performance in the industry of telecommunication in the republic of Kenya.

1.1.1Corporate Social Responsibility

Corporate social responsibility is all about how companies incorporate economic, environmental, and social concerns to be part of their culture, strategy, values, operations, and decision making and this should be done in an accountable and transparent approach, which will make it possible for the said businesses to operate ethically to an extent that the same businesses are able to improve and create wealth within their operational settings. Soch and Sandhu (2008) observe that businesses conduct CSR as a way of "continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of workforce and their families as well as of the local community and society at large"

It is imperative to note that corporate social responsibility plays an essential role in promoting brand equity of profit making organizations. CSR augments the brand equity of organizations because it is one of the strategic approaches employed by organizations to concentrate on the restricted resources as a means of up surging sales and realize a viable competitive advantage.

There exists no approach to gauging corporate social responsibility. To this end, Maignan and Ferrell (2000) classified the prevailing substitute techniques into three key methods: The methods or approaches include surveys of management, single or multiple indicators, and expert assessment. Pegged on Turker (2009) and describing this categorization, the following methods are considered realistic for gauging corporate social responsibility and the approaches or methods include reputation indices, databases, content analyses of publications, single and multiple indicators, and measurement frameworks at the individual and organizational ranks. For the purposes of this research, the following dimensions of corporate social responsibility will be applied and they include total percentages expenditure to total firm expenditure and operating costs.

1.1.2 Financial Performance

Damodaran (2005) defined financial performance as extent or degree of how good a firm uses its primary resource of business in order to generate income of the business. Financial performance is the key measure of success in many organizations in the world. The key prominent measure is the use of financial ratios in measuring the performance. Alexander (2010), indicated that ratios used over the years include; liquidity ratio which is known as current ratio, which indicate the company capacity to recompense the short term bills, solvency ratio, which show financial stability of firm debt and equity, profitability ratio, which measure profits and cash flows, efficiency ratio, which measures the inventory turnover and receivable turnover of the company.

Dollinger (1984); Birley and Wiersema (2002); Pegels and Yang, (2000) observes that financial performance of companies is measured by different ways and evaluated, like net income and sales return on assets and market to book value of the equity return on investments, return on sales and the combination between return on investments and return on sales.

1.1.3 Relationship between CSR and Financial Performance

Scholars have different opinions on companies that enjoy solid financial performance possess availability of extra resources to spend in social performance domains which include community relations, environmental concerns, or employee relations. Maignan and Ferrell (2000) opines that firms that have enhanced financial muscle are able to afford many investments in approaches which yield enhanced long-term strategic effect and this may include offering services for the employees and the society. In other words, companies with better financial resources conduct corporate social responsibility as a means of realizing an improved public image and better association with the society in which the business operates and through this approach, the company is able to attract skilled and competent workforce. Freedman (1984) explained that "good environmental and social performance will result in good financial performance due to the effective use of resource and stakeholder commitment which is the reason that customers' loyalty increased, as they perceived the firm as a member of the society. Eventually, sales increased leading to better returns."

Conversely, firms that have financial drawbacks normally assign their small resources in projects that have short run and this proposition of allocating scanty resources is associated with the theory referred to as slack resources theory. Contrariwise, other scholars opine that financial performance of organization hinges on the extent to which organizations are willing to adopt performances that are socially responsive and responsible. In the words of Waddock and Graves (1997) "meeting stakeholder expectations before they become problematic indicates a proactive attention to issues that otherwise might cause problems or litigation in the future". Additionally, organizations that are socially responsible possess and a positive status among customers and a better brand image. Moreover, socially responsible businesses possess the capacity to appeal to talented and skillful business partners and staff to exten that these organizations experience lower risk of undesirable happenings. Organizations which implement the principles of corporate social responsibility are extra transparent and experience lower corruption and bribery risk. Besides, socially responsible organizations experience lower risk of recalling defective product lines which will otherwise make the company undergo heavy fines owing to extreme polluting. Socially responsible companies experience lower negative social events risk that could injury their status and costs millions in material and publicity campaigns or lawsuit.

1.1.4 Telecommunication Industry in Kenya

The history of telecommunication in Kenya dates back to more than a century. The services of telecommunication started in 1888 in Kenya and this preceded the discovery of the telephone by Alexander Bell. Submarine cables, which linked Dar es Salaam, Mombasa, and Zanzibar, were the first linkages that connected Kenya to the outside world. Cleevely and Walsham (1980) observe that the connection of Kenya to the outside world "began a long process of expansion of the telecommunications system countrywide, first along the railway line to the present near national network". By 1908, the Capital of Kenya had its earliest eighteen customers. Until the 1977 telecommunications, facilities in Kenya were administered as part of the EAC regional network with neighboring Tanzania and Uganda. In 1977 the Community came down, and the Kenya Government came up with the Kenya Posts and Telecommunications Corporation to manage the services of telecommunications in Kenya. Kenya Posts and Telecommunications Corporation carried out the mandate of managiung telecommunication services for 22 years on a domination base until the year 1999 when the Government came4 up with the telecommunications sector reform, presenting competition in given market sections and terminating Kenya Posts and Telecommunications

Corporation. (Mureithi, 2002) argue that “Global trends in telecommunications industry reform- towards liberalization and privatization, the inability of the telecommunications monopoly to satisfy demand, and demand for advanced services forced the Government to reform the sector”.

Further to the above, Mureithi (2002) contends that “Kenya had to import technology and skills for the telecommunications sector and therefore had limited leeway to control input costs”. Presently, according to Communications Commission of Kenya “third Quarter Report for 2012/2013 released in April 2013, Kenya currently has around 30.4 million mobile phone subscribers, indicating a 77.2 percent penetration”. At this time, the country faced enormous challenges in the delivery of the benefits of telecommunications services to the majority of the population, particularly in rural areas. On one hand, poverty and low incomes made telephone services unaffordable to the majority of the population.
The report according to Communications Commission of Kenya, for the time span between July and September 2012 designate an increase in capacity of mobile money transactions with KSh205 billion deposited on the mobile money transfer services, up from the previous KSh192 billion (US$2.2 billion) in the previous period, representing a 6.7 percent growth.

According to the CCK quarterly report (2012), subscription of Internet in Kenya has carried on to rise, with the total number of internet users increasing to 8.5 million up from 7.7 million in the previous quarter and this emblems a 10.2% increase. This takes the number of Internet subscribers in Kenya to nearly 13.53 million, with 34.2% of the population accessing the Internet via the cell phone. Broadband users increased by 38.4% to about 1,006,000 users from some 726,800 users documented during the previous period during the time under review.

The upward trend is credited to the country's international connectivity of the internet bandwidth, with the international internet used bandwidth recorded standing at 278,329 Mbps up from 264,584 Mbps documented in the earlier period, translating the sum available bandwidth in Kenya to 576,186 Mbps. In the voice calls and short messaging sector, a sum of 7.0 billion minutes of calls were made on the mobile networks up from 6.3 billion minutes recorded in the previous period representing an rise of 10.5%. According to CCK quarterly report (2012) "cross to one billion text messages were sent in the quarter up from 986 million in the previous period representing a 10.1 per cent increase".

1.2 Research Problem

Corporate social responsibility refers to a set of practices, programs, and policies, which are formulated in order to achieve commercial success in ways that honor commercial, economic, ethical and other anticipations that the people has for business and formulating decisions, which justly equilibrium the rights of all crucial investors. Dehradun (2010) points out that "often businesses sponsor community events such as medical camps, sports, school fees, festivals, scholarship and awards and environmental clean-up". This is a far cry from the doctrine of Friedman (1970), which states that the one and only responsibility of a firm is to engage in activities that will increase its profits within the confines of the law.

Telecommunication industry is rapidly realizing that competition is the hallmark of the contemporary business environment as such there is the demand to provide benefits to the society in the long-term and short-range (Muriuki, 2010). Therefore, providing and allocating the resources to which have the end resulting of uplifting the community do constitute CSR for the organization. The returns which are realized from such investments should occur in tandem with the overall objective of the firm, principally as expressed in the mission statements and the effective allocation of resources to aid CSR (Lichtenstein, *et al.*, 2010).

Several studies have been conducted on CSR in the context of Kenyan companies. Mulwa (2001), Kiarie (1997) and Kweyu (1993) studied managers' attitudes towards corporate social responsibility in selected Kenyan companies. Kamau (2001) investigated the awareness of the social responsibility concept among managers in Kenyan firms and concluded that there was indeed awareness but lack of positive implementation of the concept. Kubai and Waiganjo (2014) studied the association between competitive advantage of commercial banks and strategic CSR and found that CSR contributed to brand image, customer perception and stakeholder involvement. Muriuki (2010) studied CSR link to strategy as applied by providers of mobile telephone services and Mbogoh (2014) studied challenges of implementing corporate social responsibility strategies by commercial banks in Kenya.

In light of this significant resource consumption and immense contributions, there is need to establish whether CSR undertakings are part of corporate plan of the firms in the mobile telephone service industry. There is also need to determine the outcome of CSR on financial performance of mobile service industry. This study attempted to fill this gap in literature.
To this end, the study endeavors to undertake an exploratory analysis of the effects of CSR on financial performance in the telecommunication industry.

1.3 Research Objective

The main objective of the study was to determine the impact of CSR on financial performance in the telecommunication industry.

1.4 Value of the Study

The study aims to determine the impact of CSR on financial performance in the telecommunication industry. This will help both private and public firms to achieve the need of formulate and implement corporate social responsibility for realization of improved performance and competitive advantage. Moreover, the research will highlight and describe the benefits and pitfalls of CSR programs and effectively let the stakeholders in this field have a grasp of what can be done as a means of enhancing the implementation of CSR programs. To telecommunication industry, the study will give recommendations for better implementation of CSR in order to improve its financial performance.

Finally, the study will be important to academics and scholars. The research outcome will enrich the discussions on corporate social responsibility and enhance the existing literature and theories. Other researchers can apply the study findings and expand on the extents not yet research in CSR, corporate strategy and CFP. The findings of the study will perform as reference material for future studies and to this extent, lay the basis for alternative CSR studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The key object of this section review relevant theories and literature needed to evaluate and connect to the objectives of the study. To this end, the chapter will begin by undertaking a review of theories, which guide this research to an extent that this will provide the study with a sound and solid theoretical foundation. Moreover, empirical studies conducted on this subject of study will be reviewed with an aim of enhancing the understanding the topic of study. The study will apply a conceptual framework as a means of showing the association among the variables, whereby the dependent variable will be the topic of research while the independent will cover the study objectives.

2.2 Theoretical Framework

There is an array of theories offered either in support of or against Corporate Social Responsibility. Whereas some are based on the simple rationale of social and environmental sustainability, others focus on their capacity to woo customers and influence firms' financial performance. Three theories will be employed to guide this study. In practice, each corporate social responsibility theory shows four measurements associated with political performance, ethical values, profits, and social demands. This study reviews three of the theories from the four categories, of relevance to the subject matter.

2.2.1 Corporate Social Responsibility Theory

Friedman's Theory of CSR explains how firms are not only legal units with responsibilities but also moral units that have ethical obligations similar to those populations in a society (Friedman, 1993). The proponents of this theory point out that CSR has two meanings one being a overall term for any theory of a business, that stresses the need responsibility to register profits and the responsibility to interact in an ethical approach with the surrounding societies. William and Siegel (2001) infer that “CSR is also a specific conception of that responsibility to profit while playing a role in broader questions of community welfare”.

Further to the above, William and Siegel (2001) suggest, “As a specific theory of the means by which companies interact with the surrounding community and larger world, CSR is comprises of four responsibilities. One of the obligations is the economic responsibility to make money. The other obligation is legal responsibility to adhere to rules and regulations. The third obligation is ethical responsibility that involves doing what is right even when not required by the letter or spirit of law. The fourth responsibility is the philanthropic responsibility to contribute to society’s projects even when they are independent of the given a business endeavor”.

2.2.2 Managerial Theory

This theory originates from Jules Henri Fayol (1925). This theory emphasizes on the effects corporate management decisions and policies in companies that practice CSR. According to the management theory, everything external to the companies is taken into account for in the organization by the management. Secchi (2007) argues that “Managerial theories have three key sub groups which are; corporate social performance, social accountability and auditing reporting, social responsibility for multinationals”.

The theory argues that management seeks to gauge the input of the social variable with regard to a given business’s economic performance. In addition, managerial theory puts the manager’s actions and decisions to account especially when managers are making the decision of CSR activities. Managers are seen as agents of shareholders who want their wealth be maximized while also they want the interest of other stakeholders be satisfied. The managerial theory hinges on the discovery and perusing of, coupled with effects to, the demands that are social, which realize greater social acceptance, social legitimacy and performance of Telephone firms.

2.2.3 Value Theory

Siltaoja (2006) observe that the value theory claims that “although stakeholders are different in terms of their value priorities, the interest of a stakeholder’s value relative importance that they place on these universally important value types”. According to Bromley (2002) “large firms have as many reputations as there are distinctive groups that take an interest in them” while MacMillan et al (2005) suggest that “stakeholder prefer coherence with a common concern for a reputation entity”. Therefore, for companies to maintain and protect their corporate reputation, the said companies ought to raise their relationship with their shareholders through the disclosure of corporate social responsibilities.

(Dowling 2004) contend that a number of studies have pinpointed the significance of perceptions of the stakeholder as a means of comprehending the scope of reputation of a company. Against this backdrop, Siltaoja (2006) contend, “Value is an overarching matter, meaning a company with good reputation has values, which suit to individuals own values”. Value theory has been applied to assess the scope of corporate reputation and corporate social responsibility by application of qualitative data. In a study conducted by Schwartz (1999) established that “ten motivationally distinct types of values such as power, achievement, hedonism, stimulation, benevolence, and security that enable scholars to use them in culture worldwide. These motivations are included within CSR actions that are disclosed in annual reports of firms”.

2.3 Determinants of Financial of Performance

2.3.1 Firm Size

The size of a company defines the financial performance of that particular firm. To this end, the firm influences its financial performance in a number of ways. For instance, established companies have the capacity to make use of the economies of scale to an extent that they are extra efficient juxtaposed to small and struggling companies. Accordingly, the firm size can be established by using a representative to represent size the size of a company and this representatives can be total assets and total turnover. In light of the aforementioned, this research project will employ total assets (converted into natural log) of the companies to denote the size of the firm.

2.3.2 Cash Flow

The concept of cash flow is an essential tool for realizing the contemporary business requirements and it is equally a gauge of a company's capacity to pay a the suppliers of goods and services. Copeland et al. (2000) contend that, "the availability of cash payouts to resource providers determines the financial benefit, or value, that they realize from an organization". Usual business valuation approaches hinge on the anticipated cash flows, which is available and the timing of the cash payouts to investors. West and Jones (2009) suggest, "Cash flow is the numerator used in determining the current value of an organization".

In light of the above, it is suitable to gauge the availability of cash flow to stockholders to be component of performance by organizations. Approaches to the measurement of the cash flow are net cash cash flow as a percentage of capital stock, operating cash flows as a percentage of total assets, the growth rate of operating cash flows, and flow from operations.

Each of these approaches to measurement hinges on the available cash to a company to realize its obligations on financing activities and capital for investment.

2.3.3 Operating Costs

Turban and Greening (1997) suggest that,"The action that the firm performs its responsibility for suppliers can make full use of the commercial credit hence decreasing the cost of management, which in turn improves the organization value". A company's obligation for the suppliers chiefly states to not going contrary to the commercial contract and returning the payable accounts timely. If the company performs responsibility for suppliers, the company will attract added suppliers because suppliers contest hugely to decrease the raw materials' cost. Conversely, the supplier can agree to take additional advantageous credit situations to the company, enhance the effectiveness of funds, and thereby improve the company. In addition, a firm can experience added efficiency not only by reducing its costs but also by rising costs of the competitors. Accordingly, an associated resource-based claim hinges on the impact of corporate social responsibility as a strategy, which is political to upsurge the costs of the rivals' (McWilliams et al., 2002). Besides, additional studies have pointed out that corporate social responsibility undertakings assist companies by decreasing costs. Epstein and Roy (2001) suggest that corporate social responsibility not only decreases a number of costs, it also enhances efficiency resources use while Logsdon and Wood (2002) observe that engaging in corporate social responsibility activities can decrease the waste and other connected costs of treatment.

2.4 Empirical Review

In an attempt to comprehend the relationship between financial performance and corporate social responsibility, there have been many empirical studies undertaken to the association between future financial performance and corporate social performance. The said studies have established that there exists a general positive association between corporate social responsibility and performance, supporting the perspective of corporate social responsibility.

These studies about corporate social responsibility impacts on the financial performance of enterprises and its relations include Margolis and Walsh's review (2003). They conducted 127 studies and found that corporate social performance has been employed as a dependent variable and is affected by the financial performance. In 22 out of 127 studies researches, 22 studies, 16 studies reported a positive relationship between financial performance and corporate social performance. In 109 of 127 studies, corporate social performance was treated as an independent variable able to influence the financial performance. Almost 54 studies out of 127 studies reported a positive correlation and only seven showed a negative correlation. The remaining studies out of the 127 studies, 28 found a non-significant relation and 20 reported mixed results. Margolis and Walsh (2003) suggested the relation and the effects between the CSR and financial performance should be analyzed in details in order to have a more complete vision of the topic.

Onlaor and Rotchanakitumnuai (2010) conducted a study on how to raise the loyalty of customers with regard to CSR of Thai mobile service providers. The study was pegged on a review from 400 mobile clients and the results established that four scopes of CSR included legal, philanthropic, ethical, and economic responsibility. Ethical scope possessed the sturdiest influence on consumer satisfaction while the rest influenced loyalty. In tandem with these findings, Lindgreen, Swaen and Johnston (2009) observe that provision of good working environment and philanthropic activities improved business performance.

In a study conducted by Filho et al. (2010) on strategic CSR management for competitive advantage, the research findings established that social responsibility strategic approached were connected with competitive advantages, for instance improving the company reputation and image, and drawing skilled and competent workforce. Husted and Salazar (2006) conducted a study in which they investigated corporate social responsibility strategies in companies with the aim of exploiting social performance and profits. By employing a contrast between companies, the Husted and Salazar pinpointed three kinds of social investment and they comprised of strategic, selfish, and altruistic, whereby they established that strategic investment leads to improved results for firms, which try simultaneously to realize the maximization of social performance and profit. This strategic investment consists of the creation of well-being and positive benefits to society and the local community. Moreover, it comprises of extra benefits to the firm, such as an improved reputation, better and more qualified workforce, the differentiation of goods and extraction of a premium price. The deductions of this study established that a firm can augment value and realize competitive advantage by means of undertaking socially responsible activities, however the company ought to perform its day-to-day activities in a strategic and corporate social responsibility should be linked with the corporate strategies.

Murila (2013) studied corporate social responsibility in East African Portland Cement Company Limited Kenya Limited. The study found that CSR can be used as a foundation for building a competitive advantage by both enhancing the firm's efficiency and increasing the value of its market. The study found that leveraging corporate social responsibility in a strategic manner provided the company with more options in developing strategy and creating a competitive advantage. At a time when customers' opinions of businesses together with their resulting buying behaviors are essentially changing to an extent that corporate social responsibility can no longer be seen as only a discretionary or regulatory cost, but as an investment, which yields financial returns.

Ramasamy and Chumptaz (2008) used social identity theory of planned behaviour to explore factors affecting consumer purchase intentions and found that customer's perception of firm's corporate social responsibility commitment had a critical impact on their purchase intention. The study further found that consumer-firm identification had a positive impact on loyalty and customer retention.

Adebesi and Taiwo (2014) carried out a study on “Building winning strategy for competitive performance through corporate social responsibility focusing on MTN Nigeria”. The primary objective of the research was to evaluate the likelihood of companies leveraging on CSR as a strategic approach for competitive performance with specific reference to MTN limited, which an established Telecom company in Nigeria. The findings indicated that good ethical and environmental corporate social responsibility, appropriate delivery of societal focused corporate social responsibility and economic empowerment of the host community had significant effects on organizational performance of the mobile service provider.

Muriuki (2010) studied the relationship between CSR and strategy for Kenyan mobile telephone service providers. The study strived to pinpoint the CSR practices adopted by Kenyan mobile telephone service providers and to determine if the practices were associated to corporate strategy of the individual firms. The findings of the study established that the firms investigated undertook CSR practices coupled with structured and formal strategic planning. The strategic plans were executed and clear efforts were undertaken as a means of monitoring the implementation and this was accompanied with regular feedback and reports. On top of that, these companies had departments of strategic plans and corporate planning, whereby CSR policies were outlined and resource allocations carried out.

The CSR were drawn in the firm’s vision, mission, precisely articulated in the values of the organization. Each of the company’s corporate strategies had official CSR policies, which offered elaborate advice for the areas to invest, sponsorships, benchmarking and implementation. CSR was observed to provide the organizations with enhanced relationships with important constituents, devoted clients and a general advancement of the company's reputation in society (Muriuki, 2010).

Kubai and Waiganjo (2010) conducted a study on the association between strategic CSR and competitive advantage of commercial banks in Kenya with particular emphasis on Equity Banks' Wings to fly program. The findings of the study established that CSR had played a crucial part in influencing better client perceptions mainly among the beneficiaries and they showed a high ability to rapport with the bank presently and in the prospective or forthcoming days.

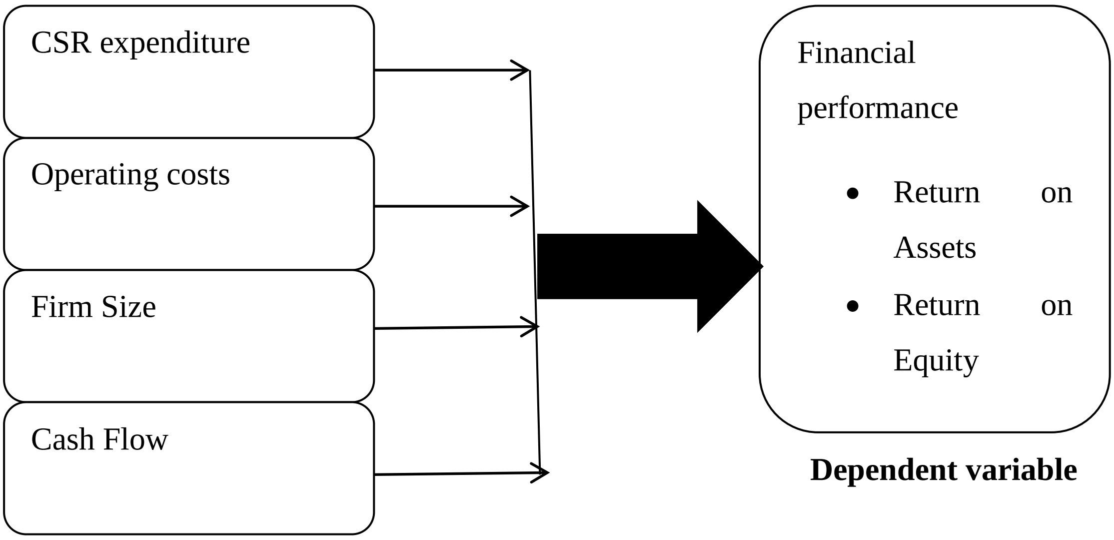
Wando (2010) examined the effects of corporate social responsibility of Sugar companies domiciled in Western Kenya and the study focused on the small and medium enterprises in the aforementioned area. All the sugar firms in Western Kenya have embraced a socially leaning approach and as such, the companies have a moral duty to give back to the community in which they operate. Moreover, organizations practicing corporate social responsibility ought to undertake beneficial undertakings with the objective society being incorporated in the entire phases of the day-to-day operations. The study was correlation in nature and adopted the use of questionnaires as the tool or instrument for collecting primary data. The study conducted by Wando (2010) established that businesses should entirely integrate community participation in the design and application of corporate social responsibility programs as a means to ensuring sustainable business vis-a-vis the expectations of the surrounding community.

2.5 Conceptual Framework

The conceptual framework below indicates the association between the independent variables and financial performance**.** The independent variables include CSR expenditure and operating costs while the dependent variable for this study is financial performance was measured by by Return On Assets and Return on Equity.

Figure 1: **Conceptual Framework**

Independent variable



Independent variables

2.6 Summary of the Literature and Research Gap

Majority of the studies did find a positive, correlation between the CSR and how companies perform financially. This has raised more questions about the area of research, telecommunication industry, which is not represented in the studies.

In addition, even if differences in the studies are not statistically significant. In this study, definite scopes of sustainability and positive outcome arise, showing that some aspects of CSR could also lead to the addition of shareholder value. It will be noted that few researches has been done in this area to address the effects of CSR activities on telecommunication industry in Kenya. This calls for further research on this particular topic, effects of CSR on financial performance with regard to the telecommunication industry in order to give comprehensive study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section described the design of the research, sample design, target population, methods of data collection, analysis of data, and ethical issues.

3.2 Research Design

According to Mugenda and Mugenda (1999), a research design refers to the structure or plan of a research, which strives to find appropriate solutions to research questions, which comprises of an summary of the research work ranging the from hypothesis, methods and techniques for gathering and analyzing data and presenting the outcomes in a form which can be understood. To this end, the research applied a cross-sectional survey, which Mugenda and Mugenda (1999) describes as an approach to gathering data from the study population and describing the prevailing position of two and additional variables at a certain point in time.

3.3 Target Population

The study covered the firms in the telecommunications industry. Paton (2002) defines a population as the ‘aggregate of all cases that conform to some designated set of specifications”. The target population for this study comprised of all the firms in the telecommunication industry who are licenced by the Communications Authority to offer communications services . A span of 10 years (2006-2014) employed to collect secondary on CSR and financial performance.

3.4 Data Collection

From the conceptual framework, this study had four independent variables (CSR expenditure, operating costs, firm size and cash flow) and one dependent variable. The dependent variable was financial performance in the telecommunication industry, which was measured, in quantitative terms. The data about these study variables were therefore gathered from the annual reports and financial statements of the companies in the telecommunication industry as from 2006-2015 analysis. The collected data was in thousands of Kenya shillings which were input in SPSS

3.5 Data Analysis

The quantitative data collected were coded on statistical Packages for Social Sciences version 21.0 software and data were analyzed by use of descriptive and inferential statistics. Descriptive analysis encompassed use of standard deviations and means while inferential analysis involved use of multiple regression and correlation analysis. Data presentation was in form of tables (Cooper & Schindler, 2006).

Correlation analysis was done to establish the degree or extent of association between the variables, correlation analyses is the statistical application, which can be applied to establish the extent of relationship of two variables. Correlation analysis helps to notice any chance of multi-collinearity among the variables of the study. Correlation value of 0 points out that there is no relationship between the dependent and the independent variables. Conversely, a correlation of ±1.0 implies that there is a perfect positive or negative association. The values were be interpreted between 0, which means no relationship and 1.0, which means perfect relationship.

A multivariate regression model was used to establish the relative significance of each of the four study variables. This is an endeavor to determine the degree to which the independent variables influence the dependent variables as exhibited by the size of the beta coefficients.

3.5.1 Model Specification

The research used return on Assets and Return on Equity as the two dependent variables, and measures of financial performance. Though there exists is no distinctive measurement of financial performance in the literature, return on Assets and Return on Equity are selected as they are essential accounting-based and extensively acknowledged measures of financial performance. Return on Assets was perceived as a measure of efficiency of management in exploiting the entire assets under its control, irrespective of the financing source.

$Y= f(X)$

Where Y is the dependent variable and X_1-X_4 are independent variable.

An analytical model of a multivariate regression model will be developed as below:

$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + ẹ$

$\alpha + \beta 1X1 + \beta 2X2 +$ ẹ Where: Y- Financial performance (will be measured by Return on Asset and Return on Equity,α- Constant ,X1- CSR expenditure, X2-Operating costs,X3 -Firm size,X4-Cash flow , α- a constant , β– is the coefficient of various elements,e- the error term.

3.5.2 Test of Significance

The researcher adopted the use of an F- test as a means of determining the significance of the independent variables (share price, profit before tax, operating costs and interest income) against the dependent variable, which was financial performance. The significance of variables were shown to be 95% confidence level, in which variables with a 'p' value of 0.05

and below were considered significant whereas those with 'p' values above 0.05 were considered insignificant.

According to IBM Base (2010) a paired samples t-test equates the means of two variables for a single group. The study also applied paired samples t-test of significance to test if the change in the independent variables is statistically significant. The t-test of significance is employed to test if the change in the independent variables is statistically significant. The statistical tests were carried out through the application of Statistical Package for Social Science version 21.0.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

This section describes the analysis and the study findings as outlined in the objective and methodology of the research. The broad objective of the study was to determine the imapct of CSR on the financial performance in the telecommunication industry. Data were collected entirely from the secondary source that comprised of the records at firms audited financial report. Data were collected from the three major companies in the telecommunication industry firms.

4.2 Descriptive Statistics

Descriptive statistics refers to the measures which describe the overall nature of the study data. They define the nature of response from primary data and/or secondary data. Descriptive statistics for this research included the standard deviation, mean, minimum and maximum. Descriptive data analysis was conducted on the ROA, ROE, CSR expenditure, operating costs, firm size (total assets) and cash flow. The descriptive statistics results are tabulated below

Table 4.1: ROA

	Minimum	Maximum	Mean	Std. Deviation
2006	2.21	2.56	2.3367	.19399
2007	2.33	2.67	2.4833	.17243
2008	2.06	2.78	2.4600	.36661
2009	2.56	2.79	2.6733	.11504
2010	2.81	2.96	2.8700	.07937
2011	3.12	3.38	3.2400	.13115
2012	3.32	3.96	3.7333	.35852
2013	4.16	4.64	4.4167	.24173
2014	4.02	4.44	4.2800	.22716
2015	4.26	4.76	4.5533	.26102

Source: Author 2016

The findings as shown in Table 4.1 above show the trend of the values of return on assets over a period of 10years. The least value for return on assets was a mean of 2.3367 in year 2006 while the highest value for return on assets was a mean of 4.5533 in year 2015. This represented a positive change in the return on assets mean values of 2.2 over the 10 year period. The steady rise in return on assets values over the period of 10 year shows that the financial performance of the telecommunications companies has been on the rise over the last 10 years. On the other hand, low scores of standard deviation show low variation in the financial performance for the a number of telecommunications companies, statistically.

Table 4.2: ROE

	Minimum	Maximum	Mean	Std. Deviation
2006	1.91	2.21	2.0200	.16523
2007	2.01	2.31	2.1467	.15177
2008	1.78	2.40	2.1233	.31533
2009	2.21	2.41	2.3100	.10000
2010	2.43	2.56	2.4800	.07000
2011	2.70	2.92	2.8000	.11136
2012	2.87	3.42	3.2267	.30925
2013	3.59	4.01	3.8133	.21127
2014	3.47	3.83	3.6933	.19502
2015	3.68	4.11	3.9333	.22502

Source: Author 2016

The study findings above show the trend of return on equity values over the 10 year period. The lowest value for return on equity (ROE) was a mean of 2.02 in year 2006 while the highest value for return on equity was a mean of 4.933in year 2015. This represented a positive change in the return on equity over the 10year period. The steady increase in return on equity values over the 10year period shows that the financial performance of the telecommunications companies has been on the rise over the last 10 years. Conversely, low scores of standard deviation show low variation in the financial performance for the various telecommunications firms, statistically.

Table 4.3: CSR Expenditure

	Minimum	Maximum	Mean	Std. Deviation
2006	6965.00	209863.00	77617.6667	114617.37234
2007	9498.00	208574.00	78205.3333	112957.52948
2008	8548.00	168762.00	63217.0000	91424.32379
2009	7266.00	272429.00	96113.3333	152695.40315
2010	8356.00	278815.00	98641.6667	156034.81065
2011	12397.00	216536.00	81046.0000	117341.26423
2012	9944.00	416762.00	148119.6667	232683.01316
2013	7103.00	324813.00	117558.3333	179617.63339
2014	12006.00	282676.00	102650.0667	155908.30892
2015	11775.00	354365.00	126985.0000	196922.72266

Source: Author 2016

Table 4.3 presents the findings on the descriptive statistics for CSR expenditure for the years 2006-2015. The means exhibit a steady rise in the CSR expenditure for all the telecommunication firms with the lowest being 63,217,000 in the year 2008 and the highest being 126,985,000 in 2015. Moreover, the standard deviation numbers are high for CSR expenditure, showing that the data points are distributed out over a large variety of values, meaning that there is high level of variability in the data. There is a narrow gap between the maximum and minimum CSR expenditure, which means that there is low variability of CSR expenditure change in the firms.

Table 4.4: Operating Costs

	Minimum	Maximum	Mean	Std. Deviation
2006	9765432.00	17698000.00	12439889.3333	4553883.74674
2007	10234150.00	22263000.00	14871270.3333	6470255.98528
2008	11234520.00	42681000.00	23130476.6667	17063545.03726
2009	8612383.00	23010750.00	18056523.0000	8182159.38047
2010	12940990.00	27252287.00	20883425.6667	7284257.51827
2011	16998101.00	31591693.00	26423598.0000	8175410.43054
2012	14579608.00	36849114.00	22653240.6667	12332643.57129
2013	15096679.00	43680363.00	25037347.3333	16157192.96739
2014	2741627.00	27669589.00	15788777.0000	12504842.28673
2015	3413216.00	43371158.00	21529370.6667	20237824.39626

Source: Author 2016

Table 4.4 present the findings on the descriptive statistics for operating costs for the years 2006-2015. The means portray an irregular pattern in the operating costs for all the three telecommunication firms with the lowest being 12,439,889,333 in the year 2006 and the highest being 26,423,598,000 in 2011. Additionally the standard deviation figures are high for operating costs, exhibiting that the data points are distributed out over a large range of values, meaning that there is high level of variability in the data. There is a wide gap between the maximum and minimum operating costs, which means that there is high variability of operating costs change in the firms.

Table 4.5: Total Assets

	Minimum	**Maximum**	**Mean**	**Std. Deviation**
2006	21235400.00	63717000.00	42965782.3333	21257719.94414
2007	21986500.00	56408239.00	42808579.6667	18312196.63365
2008	24265400.00	74366313.00	45862904.3333	25754494.88641
2009	25386156.00	91682324.00	52954826.6667	34528032.55767
2010	21062496.00	104376043.00	57641846.3333	42574962.78883
2011	31186935.00	113634798.00	63045911.0000	44300335.24554
2012	28351717.00	122575845.00	64880854.0000	50552364.98921
2013	26459001.00	128856157.00	65777719.3333	55178687.79086
2014	28337189.00	134600946.00	67249045.0000	58562988.59041
2015	21235400.00	63717000.00	67965782.3333	21257719.94414

Source: Author 2016

Table 4.5 presents the findings on the descriptive statistics for total assets for the years 2006-2015. The means portray a steady increase in the total assets with the lowest being 42,808,579,666 in the year 2007 and the highest being 67,965,782,333 in 2015. Additionally the standard deviation figures are high for total assets, demonstrating that the data points are distributed out over a large range of values, connoting that there is high level of variability in the data. There is a narrow gap between the maximum and minimum total assets, which means that there is low variability of total assets change in the firms.

Table 4.6: Cash Flow

	Minimum	Maximum	Mean	Std. Deviation
2006	299992.00	4132206.00	2097878.6667	1927016.91147
2007	308000.00	6112314.00	2975205.0000	2930549.87665
2008	-208000.00	5534509.00	2458332.3333	2893109.34583
2009	1282000.00	4310830.00	2922926.6667	1530185.73959
2010	1311486.00	10723415.00	5149967.0000	4940008.57728
2011	1284000.00	5261046.00	2628898.6667	2279688.70000
2012	1372508.00	8808058.00	4576188.6667	3822921.64467
2013	1404076.00	14996922.00	6559999.3333	7366483.76527
2014	1746000.00	17618884.00	7940961.3333	8490310.73380
2015	3543000.00	14030309.00	7153436.3333	5958029.64537

Source: Author 2016

The findings of the study as shown in Table 4.6 above show the trend of cash flow values over the 10 years period. The smalest value for cash flow was a mean of 2, 097,878,667 in years 2006 while the highest value for cash flow was a mean of 7,940,961,333 in year 2014. This represented a positive change in the cash flow mean values of around 78% for the last 10year period. The steady increase in cash flow values over the 10 years period shows that the operations of the telecommunications firms have been on the rise over the last 10 years.

4.3 Inferential Statistics

The study used general Linear Model as a means of establishing the predictive power of the association between financial performance and CSR in the telecommunication industry. This encompassed regression analysis, the Model, Analysis of Variance and coefficient of determination.

4.3.1 Regression Analysis

The study used a multiple regression analysis as a means of testing association among independent variables on the relationship between CSR and financial performance in the telecommunication industry. The researcher used the statistical package for social sciences Version 21.0 to code, enter and compute the measurements of the multiple regressions for the study.

Coefficient of determination describes the degree to which changes in the variable that is dependent can be explained by the change in the variables that are independent or the percentage of variation in the dependent variable (ROA and ROE) which is described by all the four independent variables (CSR expenditure, operating costs, size of the firm and cash flow).

4.3.2 Model Summary

Table 4.7: Model Summary-ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.866	0.749	0.731	0.116

Source: Author 2016

The four independent variables, which were investigated, describe only 74.9% on the connection between CSR and ROA denoted by the R^2. To this end, this consequently means that other factors not investigated/determined in this study contribute 19.3% of the association between CSR and ROA. Against this backdrop, more research should be carried out as a means of investigating the other influences (25.1%) which affect return on assets.

Table 4.8: Model Summary-ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.925[a]	.856	.801	.04131

Source: Author 2016

Table 4.8 illustrates that the strength of the relationship between financial performance and independent variables. From the determination coefficients, it can be illustrated that there exist a strong association between dependent and independent variables given an R^2 values of 0.856 and adjusted to 0.801. This shows that the independent variables (CSR expenditure, operating costs, firm size and the flow of cash) accounts for 80.1% of the variations in financial performance as measured by ROE.

4.3.3 ANOVA Results

Table 4.9 ANOVA of the Regression-ROA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	80.375	4	20.094	8.635	.002[a]
	Residual	11.635	5	2.327		
	Total	92.01	9			

Source: Author 2016

The significance value is 0.002, which is lower than 0.05 which means that the model is statistically significant in predicting how the independent variables (CSR expenditure, operating costs, size of the firm and cash flow) affect ROA. The F critical at 5% level of significance was 2.25. Since F calculated is greater than the F critical (value = 8.635), this demonstrates that the whole model was significant.

Table 4.10 ANOVA of the Regression-ROE

	Sum of Squares	df	Mean Square	F	Sig.
Regression	74.553	4	18.638	6.731	.008[b]
Residual	13.845	5	2.769		
Total	88.398	9			

Source: Author 2016

a. Dependent Variable: ROE
b. Predictors: (Constant), CSR expenditure, operating costs, size of the firm and cash flow

The ANOVA results presented in Table 4.10 indicates that the regression model has a margin of error of p = .008. This shows that the model has a probability of 0.8% of giving incorrect prediction. This point to the significance of the model

4.3.4 Coefficient of Correlation

Table 4.11: Coefficient of Correlation-ROA

	Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig.**
	B	Std. Error	Beta		
(Constant)	1.103	4.653		5.132	0.000
CSR expenditure	0.852	7.710	0.1032	6.569	.001
Operating cost	-0.231	17.177	0.1178	3.968	.002
Firm size	0.654	6.295	0.1425	4.117	.004
Cash flow	0.463	5.319	.694	2.463	.021
a. Dependent Variable: ROE					

Source: Author (2016)

The study used a multiple regression analysis as a means of establishing the association between ROA and the independent variables. As per the SPSS generated table below, regression equation

(ROA= β_0+ $\beta_1 X_1$+$\beta_2 X_2$+ $\beta_3 X_3$ + $\beta_4 X_4$ +Є) becomes:

(ROA= 1.103+ 0.852 X_1- 0.231 X_2 + 0.654 X_3+ 0.463X_4)

According to the regression equation established, considering all factors (CSR expenditure, operating cost, firm size and cash flow) constant at zero, ROA will be 1.103. The data findings analyzed also indicates that taking all other independent variables at zero, a unit rise in CSR expenditure will lead to a 0.852 rise in ROA; a unit rise in firm size will lead to a 0.654 rise in ROA, unit rise in operating cost will lead to a 0.231 decrease in ROA, while a unit increase in cash flow will lead to a 0.463 increase in ROA.

This point out that CSR expenditure contributes highest to the ROA followed by firm size. At 5% level of significance and 95% level of confidence, CSR expenditure, firm size, operating cost and cash flow was all significant in ROA.

Table 4.12: Coefficient of Correlation-ROE

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	4.478	.826		3.61	.000
CSR expenditure	0.802	.864	0.359	8.41	.0008
Operating cost	-0.312	.0312	0.218	.181	.022
Firm size	0.765	.238	0.044	3.34	0.003
Cash flow	0.238	.68	0.142	4.56	.012
a. Dependent Variable: ROE					

Source: Author 2016

Further, the study conducted multiple regression analysis as a means of establishing the association between the ROE and the independent variables. As per the SPSS generated table below, regression equation

($ROE= \beta_0+ \beta_1X_1+\beta_2X_2+ \beta_3X_3 + \beta_4X_4 +€$) becomes:

($ROE= 4.478+ 0.802 X_1 - 0.312X_2 + 0.765X_3+ 0.238X_4$)

According to the regression equation established, taking all factors into account (CSR expenditure, operating cost, firm size and cash flow) constant at zero, ROE will be 4.478. The data findings analyzed also indicates that taking all other independent variables at zero, a unit increase in CSR expenditure will lead to a 0.802 increase in ROE; a unit increase in firm size will lead to a 0.765 rise in ROE, unit rise in operating cost will lead to a 0.312 reduction in ROE, while a unit rise in cash flow will translate to a 0.238 rise in ROE

This point out that CSR expenditure contributes most to the ROE followed by firm size. At 5% level of significance and 95% level of confidence, CSR expenditure, firm size, operating cost and cash flow was all significant in ROE.

4.4 Interpretation of Research Findings

The study objective was to establish the impact of CSR on financial performance in the telecommunication industry. The assessment of the objective was conducted through secondary data and the ensuing analysis based on the variables of the study.

From the study findings, financial performance of the three telecommunication companies under the study rose over the 10 year period. The mean growth in the return on assets (ROA) from 2.3367 in the year 2006 to 4.5533 in year 2015, and the mean rise in the return on equity from 2.02 in year 2006 to 4.933 in year 2015 show a steady growth in the telecommunication companies' financial performance over the 10 year period. Thus, corporate social responsibility enhanced the financial performance of the telecommunication companies in Kenya. These findings are consistent with Margolis and Walsh's (2003) review who conducted 127 studies and found that CSR has been used as a dependent variable and is influenced by the financial performance. In 22 out of 127 studies researches, 22 studies, 16 studies reported a positive association between CSR and financial performance. In 109 of 127 studies, CSR was treated as an independent variable able to affect the financial performance. Almost 54 studies out of 127 studies reported a positive relationship and only seven showed a negative relationship. The remaining studies out of the 127 studies, 28 found a non-significant relation and 20 reported mixed results. Margolis and Walsh (2003) suggested the relation and the effects between the CSR and financial performance should be analyzed in details in order to have a more complete vision of the topic.

CSR expenditure contribute most to the ROA and ROE followed by the size of the firm and that at 5% level of significance and 95% level of confidence, CSR expenditure, firm size, operating cost and cash flow was all significant in ROA and ROE. Contrary to the findings, Gichana (2004) did a survey on CSR practices by Kenyan Companies: A case for firms listed in the Nairobi Securities Exchange (NSE). In his research, the study objective was to identify the CSR practices of companies listed on the Nairobi Securities Exchange and to determine the factors that explain the kind of corporate social responsibility practices. From the findings, CSR practices in Kenyan companies were established to be mostly generous and did not influence the financial performance of firms listed in the NSE.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this section, the study findings are summarized and discussed in relation to the study. Also in the section are the limitations, conclusion and recommendations used for policy and practice and suggestions for more research in the area CSR.

5.2 Summary of Findings

The objective of the study was to determine the effects of corporate social responsibility on financial performance of telecommunication firms. Secondary Data was collected from the corporate annual reports for the period and data collection sheet. The study employed descriptive design, which made it possible for the researcher to explain the pertinent aspects of the phenomena under consideration and provide detailed information about each relevant variable. Multiple regression model was employed to find out if there is an association between the variables to be measured and to establish whether the association is significant or not.

The study established that there is steady rise in return on assets and return on equity values over the 10 year period which shows that the financial performance of the telecommunications companies has been on the rise over the last 10 years. The study further revealed a steady increase in the CSR expenditure for all the telecommunication firms with the lowest being 63,217,000 in the year 2008 and the highest being 126,985,000 in 2014. An irregular pattern in the operating costs was also noted for all the three telecommunication firms with the lowest being 12,439,889,333 in the year 2006 and the highest being 26,423,598,000 in 2013. It was established that there was a steady increase in the total assets with the lowest being 42,808,579,666 in the year 2007 and the highest being 67,965,782,333 in 2015.

The study found out that taking all factors into account (CSR expenditure, operating cost, firm size and cash flow) constant at zero, ROA will be 1.103. The data findings analyzed also indicate that taking all other independent variables at zero, a unit rise in CSR expenditure will lead to a 0.852 increase in ROA; a unit rise in firm size will lead to a 0.654 increase in ROA, unit increase in operating cost will lead to a 0.231 reduction in ROA, while a unit rise in cash flow will translate to a 0.463 rise in ROA. In addition it was also revealed that taking all factors into account (CSR expenditure, operating cost, firm size and cash flow) constant at zero, ROE will be 4.478. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in CSR expenditure will lead to a 0.802 increase in ROE; a unit increase in firm size will lead to a 0.765 increase in ROE, unit rise in operating cost will lead to a 0.312 decline in return on assets, while a unit rise in cash flow will lead to a 0.238 increase in return on assets

5.3 Conclusions

The study concludes that taking all factors into account (CSR expenditure, operating cost, firm size and cash flow constant at zero, return on assets will be 1.103. The data findings analyzed also indicate that taking all other independent variables at zero, a unit rise in CSR expenditure will translate to a 0.852 rise in return on assets; a unit rise in the size of the firm will translate to a 0.654 increase in return on assets, unit rise in operating cost will translate to a 0.231 fall in ROA, while a unit increase in cash flow will lead to a 0.463 increase in ROA. In addition the study concludes that taking all factors into account (CSR expenditure, operating cost, firm size and cash flow) constant at zero, ROE will be 4.478. The data findings analyzed also indicates that taking all other independent variables at zero, a unit rise in CSR expenditure will translate to a 0.802 rise in ROE; a unit increase in firm size will lead to a 0.765 increase in ROE, unit increase in operating cost will lead to a 0.312 decrease in ROE, while a unit increase in cash flow will translate to a 0.238 rise in ROE

The study concluded that there is a significant relationship between the corporate and financial performance (ROA and ROE) for all aggregated telecommunication companies in Kenya. The Regression analysis on telecommunication companies based on the market size concluded that CSR influenced the ROE and ROA on all the three major telecommunication companies.

5.4 Policy Recommendations

Telecommunication companies should engage in very many CSR activities as this increases their customer base which will eventually increase the amounts of profits hence the company's financial performance also improves. Moreover, CSR increases a firm's visibility and publicity. By engaging in CSR, firms are in a position to contribute to the community at large.

The positive relationship between CSR and FP suggests that telecommunication managers can use CSR to enhance customer trust, lessen reputational risks, and as such create long-term shareholder value. Although CSR is optional in Kenya, telecommunication chief executives and Boards of Directors ought to be be aware of the strategic importance, which telecommunication companies may realize from undertaking in corporate social responsibility activities

5.5 Limitations of the Study

During the research, a number of limitations may have influenced the study findings. For example, the research depended on secondary data sources. Secondary data can be undependable if they were planned for other purposes like pleasing the shareholders and the government, which will lead to the telecommunication companies to modify their financials or give wrong information to the researchers. This could be done in order to convince external stakeholders and shareholders that the telecommunication companies are performing well.

Determining how financial performances and CSR are related is complex due to the lack of consensus of measurement approaches as it associates to corporate social responsibility. Subjective indicators are used during the data analysis process that is unclear exactly how these indicators give the accurate results. Accordingly, information concerning corporate social responsibility is available to interrogations vis-a-vis impression management and partiality. Sometimes an organization can over report or others under report.

The way CSR policies as stipulated in the firms may have target, which are aimed at to influence political will hence not necessarily to give back to the society. This may not have any impact on the financial performance of companies. The firms, by undertaking CSR intend to achieve credit on their performance from the political perspective. The politicians, on the other hand feel good when a firm undertakes CSR in the area of their jurisdiction.

Further, the financial performances of the telecommunication companies in Kenya are influenced by other factors other than contributions to the CSR activities. Consequently, forming the association between the two variables, in which CSR and financial performance could be flawed. There are other factors that can be measured on the firm's financial performance other than the CSR such as the skills of management.

CSR can have effects on other areas of the firm other than financial performance of the firm. The effects of CSR can be attributed to the growth of a firm, the number of depositors in case of a bank, to the amount deposited, and transactions. This growth can be attributed to CSR or other factors that may have similar effects as CSR. The number of transactions can be attributed to various effects other than CSR, which affects financial performance of a firm.

Last but not least, the study is restricted to telecommunication industry that practice CSR. It is a fact that CSR is not restricted to this industry as there are many other non-telecommunication firms, which practice CSR such as banks, manufacturing and farming industry. This study being restricted to one industry is not a reflection of the effects on CSR on financial performance on those other industries that are not covered in the study.

5.6 Suggestions for Further Study

Not so many studies have been done on this area of research here in Kenya, therefore it's still a raw field and there are so many gaps which further studies can bridge it. Therefore, further Studies could be carried out on the same topic, which may include studies on the effects the CSR on financial performance of Kenyan listed firms.

On or after the conceptual limitation realized, the study could have been conducted on other aspects of corporate social responsibility. Other aspects that could be studied in the future in the same field include stakeholders perception of CSR, the relationship between CSR and profitability and the link between CSR and strategy, case study on whether CSR is an outlet for corruption, where managers use funds for their personal gain in telecommunication companies. This could portray the ancient, contemporary and ensuing financial performance related to both corporate social responsibility performance and profitability.

Further studies on the effects of CSR can be undertaken in other areas such as banks, farming and manufacturing industry. This may bring out the CSR effects that will support or argue against the CSR concept. Such further studies will help firms to make decisions that are appropriate to the operations on relation to CSR expenditure.

The effects of CSR on the growth and number of transactions of firms require further studies. This will help establish the effects of CSR on growth performance of the firm. The effects of CSR on the number of transactions can be studied to establish the relation between them.

The effect of CSR on amounts deposited in banks is another area that requires further studies. This should establish the number of depositors in the banks in relation to the CSR expenditure of such a firm. This further study will bring whether CSR has a direct effect on increase of the number of depositors with the bank.

REFERENCES

Adebesi, A. &Taiwo, A. (2014). *Building winning strategy for competitive performance through corporate social responsibility: An X-Ray of MTN Nigeria.* Retrieved 15th January 2015 from http://www.strategiimangeriale.ro/papers/140204.pdf.

Alexander, C. (2010). *Risk Management and Analysis: Measuring and modelling financial risk*. Michigan: Wiley press.

Birley,G.A.& Wiersema, M.F. (2002). New CEOs and the Corporate Strategic Refocusing: *How Experience and Heir Apparent Influences the Use of Power. Administrative Science Quarterly*.47 (4), 56-59.

Bromley J. (2002). Abbots Bromley Parish Council Newsletter Summer 2002 Number 18.

Communications Commission of Kenya (CCK) (201a). Quarterly Sector Statistics Report: 4th Quarter 2011/2012, Nairobi.

Cooper, D. R., & Schindler, P. S. (2006). *Business Research Methods* (9th edition). USA: McGraw-Hill.

Copeland, T. E., Weston, J. F &Shastri, K. (2005). *Financial Theory and Capital Policy*", Boston, MA, Addison-Wesley.

Cleevely D., & Walsham M, (1980). Interim Report on Modeling the Role of Telecommunications within Regions of Kenya. Working Paper, Department of Electrical Engineering, University of Cambridge, England.

Damodaran, A. (2012). *Investment Valuation: Tools and Techniques for Determining the Value of any Asset.* Canada: John Wiley and Sons Inc.

Dehradun, S. (2010).The impact of perceived CSR initiatives on consumer’s buying behavior: An empirical study, Institute of Management Studies.

Dollinger, M. (1984). Environmental boundary spanning and information processing effects on organizational performance.*Academy of Management Journal*, 27(5): 351-368.

Dowling, G. R (2004). Journalists' evaluation of corporate reputations', *Corporate Reputation Review*, . 7 (2), 196-205.

Epstein, M. J. & Roy, M.-J. (2001). *Sustainability in action: Identifying and measuring the key performance drivers*. Long Range Planning 34 (5), 585–604.

Fayol, Henri (1925). *Administration industrielleetgénérale; prévoyance, organisation, commandment, coordination, controle (in French), Paris, H. Dunod et E. Pinat, OCLC 40224931*.

Filho, J. S. (2010). Strategic corporate social responsibility management for competitive Advantage, *BAR*, *Curitiba* 7 (3).

Freedman, R.(1984). Strategic *Management: A Stakeholder Approach*, Marshall, and Pitman. 26.

Friedman, R.,(1993). Strategic Management: A stakeholder approach, *Advances in Strategic Management*.

Husted B.W. & Salazar J.J. (2006*).* Is it ethical to use ethics as strategy*? Journal of Business Ethics, 27(1-2).*

Idemudia, U. (2011). Corporate social responsibility and developing countries: Moving the critical CSR research agenda in Africa forward. *Progress in Development Studies 11:1*.

Jatana, R. A., (2007). Corporate social responsibility and the empowerment of women: An Indian perspective. *Social Responsibility Journal* (3), 40-48.

Kamau, A. (2001). *Managers Attitude and Response Towards Social Responsibility; The case of large scale manufacturing firms in Nairobi*, Unpublished MBA Project University of Nairobi.

Kapoor, S., & Sandhu, H.S., (2010). Does it pay to be socially responsible? An empirical examination of impact of Corporate social responsibility on financial performance, *Global Business Review (11) 185*.

Kiarie, E. (1997). *Social Responsibility: Attitude And Awareness of Executives of Medium Scale Manufacturing Firms in Nairobi*, Unpublished MBA Project, University of Nairobi.

Kotler, P. & Armstrong G., (2008).*Principles of marketing*, (12th edition), New Jersey, Pearson Prentice Hall.

Kubai, M. G. & Waiganjo, W. E. (2014). Relationship between strategic corporate social responsibility and competitive advantage of commercial Banks in Kenya: A Case Study of Equity Banks' Wings to fly Program. *European Journal of Business Management,* 2 (1), 336-341.

Kweyu (1993).*A survey on managerial attitude towards CSR in financial Institutions*, Unpublished Kenyatta University MBA Project.

Lindgreen, A., Swaen, V. & Johnston, W. J. (2009). Corporate social responsibility: An empirical investigation of U.S. organizations', *Journal of Business Ethics*, 85.

Logsdon, M., Wood, J. (2002). Global corporate citizenship: From domestic to global Level of Analysis. *Business Ethics Quarterly*, 12 (2).

Maignan,M. & Ferrell, F, (2000). Categorized Corporate Citizenship as a Marketing Instrument: Concepts, Evidence, and Research Directions? *'European Journal of Marketing* 35 (3/4): 457-484.

MacMillan, K., Money, K., Downing, S. & Hillenbrand, C. (2005). Giving your organisation SPIRIT: An overview and call to action for directors on issues of corporate governance, corporate reputation and corporate responsibility', *Journal of General Management*, 30 (2), 15–42.

Margolis, D. & Walsh, P. (2003). Misery loves companies: Rethinking social initiatives by business. *Administrative Science Quarterly*, 48.

Mbogo, E. (2014).*Challenges of implementing corporate social responsibility strategies by commercial banks in Kenya.* Unpublished MBA Project University of Nairobi.

McWilliams, A. & Siegel D.S. (2002). Corporate social responsibility and financial performance: correlation or misspecification? *Strategic Management Journal*, 21(5): 603-609.

Mugenda, O. M. & Mugenda, A. G. (1999). *Research Methods: Quantitative and Qualitative Approaches.* Nairobi: Acts Press.

Moser, T. & Miller, D., (2001). Multinational corporation impacts on the environment and communities in the developing world: A synthesis of the contemporary debate. *Business Society 37.*

Mulwa, N. N. (2001). Corporate social responsibility: empirical Investigation of U.S. organizations. *Journal of Business Ethics*, 85, 303-323.

Mureithi, M., (2002).*Telecommunication policy in transition: Mainstream Kenya in the global information economy,* Nairobi: Institute of Economic Affairs: 42.

Murila, S. (2013).*Corporate social responsibility: A case study of East African Portland Cement Company Kenya Limited*, Unpublished MBA Project, American World University.

Muriuki, T. N. (2010). *Corporate Social Responsibility link to StrategyAmong Mobile Telephone Service Providers in Kenya,* (Unpublished MBA Project), University of Nairobi, Kenya

Onlaor, W. & Rotchanakitumnuai, S. (2010). Enhancing customer loyalty towards corporate social responsibility of Thai mobile service providers', *World Academy of Science, Engineering and Technology,* Available online athttp://citeseerz.ist.psu.edu.

Patton, M. Q. (2002). *Qualitative research & evaluation methods* (3rd ed.). Thousand Oaks, CA: Sage.

Pegels, C.C. & Yang, B. (2000). The impact of managerial characteristics on strategic assets management capability. Team performance Management: An international Journal. 6 (5/6) 97 –106.

Ramasamy, B. & Chumptaz, M. (2008). Chinese consumers' perception of corporate social responsibility (CSR).*Journal of Business Ethics,* 88, 119-132.

Schwartz, D.L., (1999). 'A theory of cultural values and some implications for work', Values & work: A Special Issue of the *Journal Applied Psychology*, 48(1).

Secchi's, D, (2007).*Utilitarian, managerial and relational theories of corporate social responsibility, 9*(4).

Siltaoja, M. (2006). Value priorities as combining core factors between CSR and reputation-a qualitative study, *Journal of Business Ethics*68 (1).

Soch, H. & H.S. Sandhu., (2008). Does customer relationship management activity affect firm performance? *Global Business Review*, 9(2):189-206.

Sorsa V., (2008). How to explain socially responsible corporate actions institutionally: Theoretical and methodological critique, electronic. *Journal of Business Ethics and Organizational Studies,* (13).

Turban D. B., Greening D.W. (1997). Corporate social performance and organizational attractiveness to prospective employees.*Academy of Management Journal 40.*

Turker, D., *Journal of Business Ethics* 85(4) (2009) 411-427.

Waddock, S. A., and Samuel B. Graves (1997). The corporate social performance-financial performance link.*Strategic Management Journal*, 18 (4): 303-319.

Wando, S. M. (2010). *Effect of CSR of sugar companies in Western Kenya on growth of SMEs in the region*, unpublished MBA project, MasindeMuliro University of Science and Technology.

APPENDICES

Appendix I: Return On Assets (ROA)

	Firm One	Firm Two	Firm Three
2006	2.56	2.21	2.24
2007	2.67	2.33	2.45
2008	2.78	2.54	2.06
2009	2.79	2.67	2.56
2010	2.81	2.96	2.84
2011	3.22	3.12	3.38
2012	3.96	3.32	3.92
2013	4.64	4.16	4.45
2014	4.38	4.02	4.44
2015	4.64	4.26	4.76

Appendix II: Return On Equity (ROE)

2006	2.21	1.91	1.94
2007	2.31	2.01	2.12
2008	2.40	2.19	1.78
2009	2.41	2.31	2.21
2010	2.43	2.56	2.45
2011	2.78	2.70	2.92
2012	3.42	2.87	3.39
2013	4.01	3.59	3.84
2014	3.78	3.47	3.83
2015	4.01	3.68	4.11

Appendix III: CSR Expenditure

	Firm One	Firm Two	Firm Three
	Ksh. (000)	Ksh. (000)	Ksh. (000)
2006	209,863	6,965	16,025
2007	208,574	9,498	16,544
2008	168,762	8,548	12,341
2009	272,429	7,266	8,645
2010	278,815	8,356	8,754
2011	216,536	14,205	12,397
2012	416,762	9,944	17,653
2013	324,813	7,103	20,759
2014	282,676	13,268.20	12,006
2015	354,365	11,775	14,815

Appendix IV: Operating Costs

	Firm One	Firm Two	Firm Three
	Ksh. (000)	Ksh. (000)	Ksh. (000)
2006	9,856,236	9,765,432	17,698,000
2007	12,116,661	10,234,150	22,263,000
2008	15,475,910	11,234,520	42,681,000
2009	22,546,436	8,612,383	23,010,750
2010	27,252,287	12,940,990	22,457,000
2011	31,591,693	16,998,101	30,681,000
2012	36,849,114	14,579,608	16,531,000
2013	43,680,363	15,096,679	16,335,000
2014	27,669,589	16,955,115	2,741,627
2015	43,371,158	17,803,738	3,413,216

Appendix V: Firm Size (Total assets)

	Firm One	Firm Two	Firm Three
	Ksh. (000)	Ksh. (000)	Ksh. (000)
2006	43,944,947	21,235,400	63,717,000
2007	56,408,239	21,986,500	50,031,000
2008	74,366,313	24,265,400	38,957,000
2009	91,682,324	25,386,156	41,796,000
2010	104,376,043	21,062,496	47,487,000
2011	113,634,798	31,186,935	44,316,000
2012	122,575,845	28,351,717	43,715,000
2013	128,856,157	26,459,001	42,018,000
2014	134,600,946	28,337,189	38,809,000
2015	43,944,947	31,235,400	63,717,000

Appendix VI: Cash Flow

	Firm One	Firm Two	Firm Three
	Ksh. (000)	Ksh. (000)	Ksh. (000)
2006	4,132,206	1,861,438	299,992
2007	6,112,314	2,505,301	308,000
2008	5,534,509	2,048,488	-208,000
2009	4,310,830	3,175,950	1,282,000
2010	10,723,415	3,415,000	1,311,486
2011	5,261,046	1,284,000	1,341,650
2012	8,808,058	3,548,000	1,372,508
2013	14,996,922	3,279,000	1,404,076
2014	17,618,884	4,458,000	1,746,000
2015	14,030,309	3,887,000	3,543,000