EFFECTS OF CORPORATE SOCIAL INVESTMENT ON FIRM PERFORMANCE FOR PUBLIC LISTED FIRMS IN KENYA

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D61/P/8453/05

A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS UNIVERSITY OF NAIROBI

NOVEMBER, 2018

DECLARATION

STUDENT'S DECLARATION

This research report is my own original work and it has not been submitted anywhere for any award of a degree or diploma. Where other sources of information have been used, they have been acknowledged.

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ACKNOWLEDGEMENT

I wish to express my appreciation to my supervisors Ms. Hellen Kinyua and Dr. Lishenga for their useful insights, encouragement and scholarly suggestions which were vital from the start to the end of this project. I also wish to acknowledge my dear husband and children together with my loving parents for their immense love and support. Last but not least, to everyone who in any way directly or indirectly helped me in developing the research project without whom this study would have been impossible. Thank you and God bless you.

DEDICATION

To my dear husband and lovely children Totoo, Tich and Yegon for your love, care, sacrifices, support, understanding and encouragement during this long period of search for knowledge and study, this project is in your honour.

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LIST OF ACRONYMS AND ABBREVIATIONS

AIMS	Alternative Investments Markets Segment
CSI	Corporate Social Investment
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
MIMS	Main Investments Market Segment
MVA	Market Value
NSE	Nairobi Securities Exchange
NYSE	New York Securities Exchange
ROA	Return on Assets
ROE	Return on Equity
ROS	Return on Sales

ABSTRACT

In recent years, firms have greatly increased the amount of resources allocated to activities classified as Corporate Social Investment (CSI). While the CSI activities may be consistent with the firm value maximization, should managers maximize the present value of their firms' cash flow in making strategic decisions that favor the shareholders or sometimes choose to abandon wealth maximizing interests of firms' shareholders for the good of the other firm's stakeholders? The question was addressed through a research study that investigated whether the activities addressing the issues of other stakeholders will improve, have no impact or decrease the firm's financial performance. The researcher compiled data from companies listed at the Nairobi Stock Exchange (NSE) over a period of four years. According to the major findings of the study, CSI has a positive and significant relationship to the firms' financial performance based on Return on assets (ROA) of the firm. The study concluded that there is a positive relationship between CSI and financial performance of companies listed at the Nairobi Stock exchange and firms should focus more CSI in order to improve its financial performance and hence increasing the shareholders' wealth. As recommendations for improvement all stakeholders should embrace the importance of CSI in order to achieve the greater performance efficiency. The government through legislation should develop a CSI index for all companies and annually published in order to promote this emerging phenomenon.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Engagement in corporate social responsibility (CSR) implies extra cost for the company. The primary objective of management is quantity output; corporations need incredible growth in value that the introduction of CSR brings (Ghelli, 2013). Reich (2007) contends that, due to high market competition, companies should pay attention to projects which brings positive effects as well as making profits rather than undertaking CSR projects which destroy their market value. If the aim of business is to increase profits, what are the reasons that lead firms in engaging in corporate businesses yet they are not profit generating?

According to Ghelli (2013), the performance of a firm is one of the key things to the stakeholders. Hence, many efforts have been put in place by various companies to ensure that the performance of the company is always on the rise. Any activity targeted at by stakeholders is mainly aimed at improving the firm's performance. This is probably clarified by the view that CSR projects offer sustainability for company's long term profits; consequently, it can be a tool for profit maximization. Simon, (2014) argued that firms engage in CSR projects for profit making to increase the value of the organizations for the general public and government. CSR projects help organizations in differentiating themselves from other companies and this can have a positive impact on (Morsing & Schultz, 2006).

This study seeks to determine whether corporate social investment undertaken by public listed companies have an effect on their financial performance. Overtime scholars and other researchers have sought to determine whether there's an impact to their financial performance from the corporate activities it engages itself in. It seeks to determine whether the activities of corporate social investment have had an impact in its financial performance over time and whether it is likely to contribute to its future performance (Wafula, 2012).

1.1.1 Corporate Social Investment

Corporate social investment (CSI) is marginal to the regular commercial enterprise activities of a company and isn't always by and large undertaken for purposes of increasing company profit, nor is it pushed more often than marketing initiative, despite the fact that it can help a company increase its competitive advantage (www.csisolutions.co.za). CSI has been derived from CSR, it's important that the EU Commission as the highest legislative body in the EU also defined CSR. The commission defines CSR as actions through corporations over and above their legal responsibilities in the direction of society and the environment (European commission, 2011).

Companies in Kenya pursue CSI by a way of enhancing the staff wellbeing, executing community development programmes including building schools, colleges, dispensaries, drilling boreholes, funding sporting activities, and the establishment of order of scholarship funds for needy children rehabilitation and maintenance of roundabouts within Central Business District among others. These companies are under moral responsibility to act in fair, transparent and responsible way (Wafula,

2012). Organizations engage in CSI projects for various reasons ranging from pure philanthropy (actions taken for a better global and society without any direct payback) to bear with institutional pressures from the external environment which brings them benefits, economic gains and a good recognition (Lee & Shin, 2010).

As articulated by (Bhattacharya and Sen, 2004; Schuler and Cording, 2006), customer's unawareness about CSR projects denies them the capability to consider these projects due to lack of knowledge about the difference between Corporate Social Investment (CSI) and Corporate Social Responsibility (CSR). McWilliams and Siegel (2001) further argue that the customers who intend to purchase a product from an organization must be fully aware of CSI features for CSI diversity to achieve success; they should also be in a position to predict a positive correlation between advertising and marketing intensity and the provision availability of CSI. This effort also indicates that not all firms fully appreciate the importance of customers' awareness when evaluating CSI as a strategic investment.

1.1.2 Financial Performance

Financial overall performance refers to how well organizations are managed and satisfying the interest of their stakeholders. It also involves determining how effective an organization is in the application of its assets to generate revenue in its core business (Harber & Reichel, 2005). This performance can be measured both in financial values and in non-financial information (Hendriksen & Van Breda, 1999). Currently, there is the improvement in performance by non-financial indicators which has been accepted by many companies, particularly as a characteristic of the modern

concern regarding the social action of companies (Oliveira, De Luca, Ponte, & Pontes Junior, 2009).

McGuire, Sundgren, and Schneeweis (1988) posit that performance can be measured on accounting-based measures or market-based measures. But, accounting measures are prone to differential accounting practices and managerial manipulation while market-based measures can be insufficient based on the assessment of an investor. Market-based measures are good since they can estimate the value of companies adopting better strategies to be socially responsible, conditional on the existing information (Goukasian & Whitney, 2008). Fiori *et al.,* (2009) opines that financial performance can be based on profitability, liquidity, solvency, financial efficiency and repayment capacity. According to Hull and Rothenberg (2008) and Griffin and Mahon (1997) return on assets (ROA) and return on equity (ROE) are the most common measures used. In this study, financial performance will be measured by return on assets based on the fact that it shows the firms' capacity to utilize its assets to create shareholder's wealth.

1.1.3 Corporate Social Investment and Financial Performance

Relationship between CSI and financial performance has remained unclear with literature showing contradiction information. Based on the firm and stakeholder theory, conceptual suggestions are derived from a positive, negative, and neutral relationship between financial and social performance. The proposal of a positive association is commonly originated on arguments from stakeholder idea, as (Bird, Hall, Moment'e, & Reggiani, 2007) explain. CSR will also be associated with consequent financial performance as to discover the degree financial performance is

enhanced, it may also be associated with past company's performance to discover if firms with high financial performance take on CSR actions (Theofanis, 2010).

Bird, Hall, Momente, and Reggiani (2007) found out that organizations which engaged in CSR projects would get great achievement in the marketplace but the same market would evaluate negatively performing companies which do not include CSR policy in their business activities. In comparison, undesirable relationship was found in the research carried out by Wood and Jones (2005).

In addition, Vance (1975) also found out that there is an inverse relationship between rankings of social responsibility and stock market performance. Wood and Jones (2005), found that negative effect on unexpected return after the announcement of CSR engagement in the market does not recognize CSR efforts. Many of the empirical studies found a positive connotation between CSI and firm performance (Benson & Davidson, 2010). However, the study by Meznar, Nigh, & Kwok (1994) found converse relationship while others did not find any relationship between the two variables (Bird, Hall, Momente & Reggiani*,* 2007).

1.1.4 Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) being the main bourse in Kenya with an automatic dais for listing and trading of numerous securities, was established in 1954 as Nairobi Stock Exchange, it was instituted as a volunteer alliance for stockbrokers in the European Congregation (NSE, 2016). The NSE is an avenue for investors to trade securities and realize returns through capital gains or by earning a return through dividend distributed.

The NSE (2013), report emphasize that the exchange has been one of the most investment markets in Kenya in the recent past due to its high returns. It has become an imperative part of the Kenya economy and any decline in this market affects the lives of individuals as well as corporate bodies. The NSE deals in both fixed income securities and the variable income securities. It consists of both the primary and secondary market. Currently, there are 65 listed companies grouped into Agricultural, Commercial, Telecommunication, Automobile, Finance and Investments, Manufacturing, Construction and Allied, Energy and petroleum and Growth Enterprise Market Segment (NSE, 2017).

Ponnue & Okoth, (2009) opined that companies registered at the NSE made voluntary CSR disclosures with an objective to recover their image and be seen as responsible corporations. The study findings by Ponnu and Okoth (2009) confirmed that the Kenyan government did not mandate disclosure of CSR initiatives and had no CSR reporting standards set for corporations doing business in Kenya. The authors confirmed that the corporations were reluctant to report their CSR initiatives because of the lack of government set standards and shared that mandating CSR disclosures in Kenya would force corporations to integrate business practices for both social and environmental preservation (Ponnu & Okoth, 2009). The CSR initiatives are evidence that the corporations conducting business in their communities are not only focused on making a profit but embrace the livelihood of the members in the society.

1.2 Research Problem

CSI is a planned achievement in which organizations undertake strategies aligning their operations to the interest of stakeholders. However, pursuing CSI is a voluntary decision for business even though society pressures have inspired many firms to corporate social and environmental concerns in their strategic plans (Nelling and Webb, 2009). Locally, Okwoma (2012) studied the impact of corporate social responsibility on the financial performance of commercial banks in Kenya where CSR was expected to have the positive effect on profitability for large and medium banks with a negative insignificant effect on small banks. Mwangi and Jerotich (2013) studied the relationship between corporate social responsibility practices and financial performance of firms in the manufacturing, construction and allied sector of the Nairobi Securities Exchange. The study found an insignificant positive relationship between corporate social responsibility practice and financial performance. Mwangi and Jerotich (2013) studied the correlation of corporate social responsibility practices and financial performance of companies in the industrial management and other related sector of the Nairobi Securities Exchange. The study found an insignificant excellent relationship between corporate social responsibility practice and financial performance.

Roshima (2002) globally carried out a study on the relationship between corporate social responsibility disclosure and corporate governance traits in Malaysian public listed companies with the aim of finding the relationship between corporate governance and the level of sustainability. The study found out that the government contribution and audit committee are positively and significantly related to the level

of corporate social responsibility. In comparison, a negative relationship was proved in the study of Wood and Jones (2005). Brammer & Pavelin (2006) found that the overall CSR measure has a significant but negative impact on stock returns.

The findings from the studies earlier carried out, the studies do not conclusively define the relationship between CSI and firm performance. The study by Okwoma (2012) and Mwangi and Jerotich (2013), though local cannot be used to infer a positive relationship between CSI and financial performance because the studies were done amongst commercial banks and other manufacturing industries respectively. Hence, they cannot be representative of the firms that are publicly listed at the NSE. The studies by Roshima (2002) in Malaysian public listed companies and Wood and Jones (2005) who carried out their studies in the developed countries cannot be used to make the conclusion also since the studies were done in more developed economies than Kenya. This study, therefore, sought to bridge this gap by determining the effect of CSI on the financial performance of public listed firms in Kenya.

1.3 Objectives of the Study

The main objective of this study was to determine the effect of corporate social investment on the performance of public companies listed at the Nairobi Securities Exchange.

1.4 Value of the Study

This study aimed at enabling various firms' stakeholders to establish if there is a positive correlation between engaging in CSI activities and the value of the firm. This would inform the level of investment to put into CSI.

The study would also assist those charged with managing these firms to gain a better understanding as to how they can turn CSI activities into a valuable investment that would increase the firm's value as well as improve and sustain its reputation.

The government and other government agencies stand to benefit from the study with regard to the various policies and regulations that they need to establish with regard to the governance of various firms' activities. In some instances, it can be a legislative guide to make it mandatory for the publicly listed companies to engage in a CSI activity.

Academicians and researchers would equally benefit from this study. This serves to contribute to the growing research into the impact of CSI activities on the firms' performance. It would also form a basis of further research in this area into how CSI activities can be utilized to increase the firms' value and to measure their contribution.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter studies various theories that provided explanations on connection between corporate social responsibility and financial performance. The theories discussed are stakeholder's theory and social contract theory. It similarly observes the previous empirical research done in this study area, followed by the descriptions of variables in the analysis model before the final observations.

2.2 Theoretical Framework

Many theoretical frameworks have been explored on the relationship among corporate social investment and financial performance of a firm and CSI and found to have a consequence on financial performance of such firms. The stakeholders' theory and the social contracts theory will be discussed in view of understanding the association among CSI and the financial performance of a company.

2.2.1 The Stakeholders Theory

In Freeman (2010), stakeholder theory was first described whereby he recommends that shareholders are simply one of many stakeholders in a company. The stakeholder environment; this theory says, comprises anyone invested and involved in or affected by, the company: employees, environmentalists near the company's plants, vendors, governmental organizations, and more. Freeman's theory suggests that a company's real success lies in sustaining all its stakeholders, not just those who might profit from its stock. According to Jones et al (2002), they summarised the two basic principles of the stakeholder concept

as performing well, that managers need to pay attention to a wide array of stakeholders, and that managers have obligations to stakeholders which include, but extend beyond, shareholders" (Jones et al., 2002).

In recent study on stakeholder theory, it claims that a firm manages relationships with its stakeholders will be more successful over time (Barnett & Salomon, 2012). Stakeholder theory offers a framework for studying the relationship among corporate social investment (CSI) and financial performance. Therefore, it is projected that firms would pay most attention to those legitimate stakeholder groups who have power and urgency. From a relatively business-driven perception, stakeholder theory interest lies in three premises: organizations have stakeholder groups that affect and are affected by them; these interactions impact on specific stakeholders and the organization; and perspectives of salient stakeholders affect the feasibility of strategic options (Haberberg & Rieple, 2001; Simmons, 2004).

Mansell, (2006) has critiqued the theory as lacking in proper explanation as to who the stakeholders are. One would expect any variant of the theory to include some reference to the claims of these groups, through which groups have legitimate claims may not be a matter of consensus. The attempts at defining the theory suggest a form of the conclusion that all writers under this approach either assume or try to prove: that a business corporation has the moral legitimacy to use the assets which belong to it as a legal entity to pursue an objective which is not reducible to realising the interests of shareholders. According to Argenti (1993), he believes that organisations which tend to be everything to all people or to help stakeholders are not only at a huge competitive disadvantage but they are also literally overwhelming.

2.2.2 The Social Contracts Theory

According to Hobbes (1946), Rousseau (1968), and Locke (1986), Donaldson (1982), Social contract thinking has its historical precedence opinions to the business and society relationship from the ethical idea. They argue that there is an implicit social contract among business and society and this pact implies that some leaning responsibilities of business towards society. Society is a chain of social contracts between members of society and society itself, Gray et al. (1996)

According to Rest (2009), Social contract thinking is clearly recognized as a form of post-conventional moral reasoning. The social contract theory is further explained by Donaldson and Dunfee et al. (1999) who in turn suggest an integrative social contract theory as a way for managers to make decisions in an ethical manner. Firms are responsible to society as a whole, of which they are an integral part, this is according to the societal approach. The main idea behind this view is that business organizations work by public consensus in order to serve constructively the needs of society to the fulfilment of society (Van Marrewijk, 2003).

2.2.3 Slack Resources Theory

The theory recommends a positive association between CSR and financial performance just like good management theory. However, the theory recommends a diverse temporal ordering, that CSR is related with consequent financial performance. High levels of CSR may provide the relaxed capitals necessary to participate in corporate social obligation and responsiveness (Waddock & Graves, 1997). According to McGuire *et al.,* 1988, CSR often represents an area of moderately high managerial option, the beginning or termination of voluntary social and

environmental strategies may, to a large extent, depend on the accessibility of excess funds. The theory implies bi-directional causation between corporate social performance and financial performance. Hence, CSR leads to high financial performance and also high-performance leads to more investment in CSR.

The assumption by this theory that there exists a positive relationship between financial performance and corporate social investment is an unqualified assumption which may be discredited by findings from Brammer & Pavelin (2006) who found an insignificant value on stock returns and also Vance (1975) who also found a negative relationship between social accountability and stock market presentation. The choice of CSR activities could also influence the performance of the company negatively possibly due to considerations by the beneficiaries of such engagements.

2.2.4 Good Management Theory

The theory was proposed by Waddock and Graves (1997) and predicts that CSR and financial performance has a general connection across a wide variety of enterprise and study contexts. In this concept, the fulfilment of diverse stakeholder groups is of incredible benefit to the organizational financial overall performance. According to Jones, (1995), the implicit and explicit negotiation and contracting techniques entailed by means of joint, bilateral stakeholder–management relationships feature as monitoring and implementation mechanisms assist managers to put all their attention on how to achieve organizational financial goals.

The theory implies that investment in CSR leads to increased financial performance because through balancing and addressing the entitlements of many stakeholders like managers can raise the output in their organization's variation to the external

demands. It's far regarded that high corporate performance isn't most effective on the isolated fulfillment of bilateral relationships, however from the instantaneous prioritization and coordination of multifaceted stakeholder interest. Those tactical and strategic stages may be essential to the organisation to assist lower the chances of the organisation's from being stuck in a high-density network (Hill & Jones, 1992). This concept has been carried out based on the assumption that corporate social investment has a direct relationship with the financial performance of companies but this might not be factual as indicated by the study of Meznar, Nigh, & Kwok (1994) who found an inverse relationship unlike others who did not find any connection between the two variables (Bird, Hall, Momente & Reggiani, 2007). Different companies have unique characteristics which might influence this relationship on the inverse.

The good management report though showing a relationship between CSI and financial performance (Hill & Jones, 1992), it has incomplete linkage of the managerial practices that lead to the satisfaction of various stakeholder groups and hence impacting the financial presentation of a firm.

2.3 Determinants of Financial Performance

Survey on the literature reveals that financial performance has been essentially measured in three forms that is market, accounting, and survey measurements this Orlitzky, Schmidt, and Rynes (2003. He also gave an explanation for the first technique demonstrating the level of approval of the shareholders; the second gave an idea of the competence within the company while the last provides a particular valuation of its financial presentation.

Several studies have attempted to measure financial performance using various parameters including capital structure, asset quality, management, liquidity, and profitability. The various determinants will be discussed individually.

2.3.1 Capital Structure

According to Sidra & Attiya, (2013), there should be a suitable capital structure that generates good profit for the company, as too less equity financing increases the control of the owners to a large extent. Dasuki (2016) examined the impact of capital structure on the financial performance of 180 manufacturing companies listed on Borsa Stock Exchange Istanbul Turkey over the period of 2004 to 2013 using two dependent variables ROA and ROE. The study concluded that the long-term debt and total debt have major negative effects on the financial performance measures by ROA, while those ratios were statistically insignificant on the financial performance measured by ROE (Dasuki, 2016).

Onaolapo and Kajola (2010) studied the effect of capital structure on firm's financial presentation by means of a sample of 30 non-financial firms on the Nigerian Stock Exchange through the seven-year period, 2001-2007 and found out that the capital structure of a firm surrogated by Debt Ratio had significant negative effects on the firm's financial measures (ROA & ROE) (Onaolapo & Kajola, 2010). Sidra and Attiya (2013) examined determining factor of financial overall presentation by the usage of corporate governance, ownership structure, capital structure, economic indicators and danger management as impartial variables. The research used 60 Pakistani corporate firms indexed in Karachi stock exchange between 2007 and 2011 by fixed effects panel regression and resolved that the debt to impartiality ratio has a

positive impact on overall presentation, while the long-term debt to total assets and short-term period debt to general assets have a negative impact on firm presentation.

2.3.2 Asset Quality

In Ombaba (2013), asset quality is loan value of the overall risk connected to the numerous assets held by an individual or organization. The term is frequently used by banks to regulate how many of their assets are at financial threat and how much allowance for potential losses they must make. A foremost risk to the banking sector is the prevalence of Non-Performing Assets (NPAs). NPA represents bad loans, the borrowers of which failed to satisfy their repayment obligations. Michael et al (2006), emphasized that NPA in loan portfolio have a consequence on operational overall performance which in turn affects profitability, liquidity and solvency function of banks (Ombaba, 2013).

According to Yin (1999) one of the main reasons for the Asian financial predicament was asset quality weakening originating from a huge neglect towards credit-giving criterion. Tsai (1999) indicated that, in accordance to Standard recent research the banking device of sixty-one countries all over the world, Taiwan's banking system was delicate and that the extra delicate a country's banking system is, the more it needs to contemplate on the asset quality management as a way to ensure the development of the banking sector. The importance of a financial institution's stability in a developing economic system is notable as any agony impacts on the improvement plans. (Rajaraman and Vasishtha, 2002) thereby the financial performance (Thiagarajan, et al, 2011). The stability of banking thus is a pre-requisite for economic development and flexibility against financial crisis.

2.3.3 Firm Size

According to Commission of the European Communities (2003), an enterprise size set by the European Union splits businesses into micro, small, and medium-sized organizations known as. The primary measure in this definition is employees' headcount, but balance sheet, or annual turnover is likewise used to classify an organisation to one of the classes. The dialogue at the feature of enterprise size in explaining business enterprise profitability and price has been ongoing within the discipline of corporate finance. In Niresh and velnampy (2014) he emphasised on consequence of economies of scale and other competences in large companies. The benefits of larger companies stem from their market energy and greater get right of entry to capital markets this is according to Velnampy (2013)

A research done by Wu (2006) found out that the size of a firm will affect its overall presentation undoubtedly thus concluding that bigger firms have tougher competitive competence than minor ones making them have greater entry to resources and higher overall performance. Shen and Rin (2012) established that firm size had a tremendous association with performance in Europe suggesting that bigger firms are likely to gain higher performance. But, in the case of United Kingdom firms, size had a terrible and substantial consequence at the performance of UK companies. This means that small corporations from time to time suffer much less from agency problems and stretchy structure to suit the alternate. The similar bad relations are discovered through Yang and Chen (2009).

2.3.4 Liquidity

According to International Financial Reporting Standards (2006) liquidity as the obtainable cash for the near destiny, after considering economic obligations similar to that length. Liargovas and Skandalis, (2008) argue that a company can use liquid assets to finance its activities and investments when external finances are not available. Still, higher liquidity can permit company to deal with surprising eventualities and to address its obligations at some point of intervals of low income.

In Veronika, Tarnóczi, and Vörös (2014), effective liquidity management enables organizations to attain better profitability with the aid of reducing their input needs and offers strategic advantages in economically tough times. Ana & Ghiorghe (2014) analysed the elements of the financial performance in the Romanian coverage market throughout the durationof 2008–2012 using 21 insurance companies' financial statements from the Insurance Supervisory Commission. The outcomes indicated that the determinants were the Financial leverage, enterprise size, the growth of gross written premiums, underwriting threat, risk retention ratio and solvency brim (Burca & Ghiorghe, 2014).

Amal, Sameer and Yahya (2012) considered factors that have an effect on the financial act of Jordanian Insurance Companies, based on the data from Amman Stock Exchange from 2002 to 2007 for 25 insurance companies. It was revealed that the Leverage, liquidity, size and management capability index had terrific statistical effects at the monetary overall performance of the Insurance Companies.

2.3.5 Profitability

In Tulsian (2014), profitability may be defined as the capacity of a given venture to earn a return from its use. Profitability approach, the functionality to make a profit of all of the business activities of an organization, agency, firm, or an employer. It suggests how efficiently the management could make sales by way of the use of all the sources available within the market. The use of profitability and market as key measures of firms' overall performance and efficiency are the commonly used methods (Tangen, 2003). Theoretically, a number of variables that may have an effect on company performance as the survival or business success mostly depends on the profitability and market value of the firm.

Greater than any other accounting degree, earnings show how well management is accountable for investment and financing choices. Profitability ratios measure how efficiently a firm's control is making earnings on income, general assets, and, most significantly, stockholders' investment. Consequently, anybody whose financial pursuits are tied to the lengthy-run survival of a company can be interested by profitability ratios (Moyer, James & William, 2006).

2.4 Empirical Literature Review

This study focuses on the influence of corporate social investment on the performance of companies that are listed at the Nairobi Securities Exchange. This section examines the studies that have been conducted both globally and at the local level.

2.4.1 International Evidence

Leonardo, Stefania, and Damiano (2008) studied corporate social duty and company overall performance using evidence from a panel of United States Indexed companies. The study discloses that CSR is meant to readdress the point of interest of company activity from the maximization of shareholders to that of stakeholders' interest and examines in fact that employees in CSR corporations produce total income in line with employee but a smaller portion of earning goes to shareholders through returns on equity. The penalty that social responsibility enforces on shareholders was found to be compensated by using extended income through returns on assets. The study also established that negative effects arise when a CSR stance is deserted.

A study carried out with the aid of Fauzi (2009) on corporations indexed at New York Securities Exchange (NYSE) to set up the connection amongst corporate economic performance, wherein he used sample of one hundred and one businesses on the NYSE and a regression model with monetary overall performance as the based variable and CSR index because the independent variable, he determined that CSR has no impact on financial overall performance. But, he determined out that a manipulate variable inside the version has an effect at the touch between economic overall performance and CSR.

Ghelli (2013) studied corporate social obligation and economic performance in United Kingdom, Canada, Australia and New Zealand using fortune 500 data. The study determined that within the manufacturing sector the association among CSR and overall performance turned into effective guidelines, at the same time within the

retail enterprise the association was in some cases even bad and never vast. The research concluded that relying on the world wherein the evaluation is conducted the outcomes could be distinct. The manufacturing and retail alternate industries are two extraordinary sectors: the way in which the companies are run, the variations in the surroundings and context in which they perform, and the exceptional desires that the stakeholders have, must offer cause of the distinction of the effects.

2.4.2 Local Evidence

Cheruiyot (2010) carried out a study to show the association among corporate social investment and financial performance of companies that are at Nairobi stock exchange. This was a cross-sectional study of all the 47 listed companies in the NSE's main segment as at 31 December 2009. Using regression analysis, he sought to establish the connection between the CSR index and financial performance measured in terms of the return on assets, return on equity and return on sales. Cheruiyot (2010) concluded that there was a statistically significant relationship between CSI and financial performance.

The research accomplished with the aid of Mwangi and Jerotich (2013) at the affiliation amongst corporate social responsibility practices and economic overall performance of firms within the manufacturing, creation and comparable quarter used regression analysis to set up the connection. Capital intensity and efficiency of the firms were also contained within as manipulating variables inside the version. The studies concluded that there has been a robust connection between the impartial variables CSR exercise, efficiency and capital depth used in the version and the established variable (ROA). However, CSR score was found to have a positive

relationship correlation coefficient of 0.7407 with a financial performance which was not significant.

Wafula (2012) examined corporate social responsibility from a Kenyan firms' perspective. The study analyzed the activities of the selected companies in Kenya to help in understanding the impact of CSR on their performance. The study found that many organizations are recording both tangible and intangible benefits due to incorporating social responsibilities in their business strategies. The notion that CSR is a voluntary activity is gradually changing as institutions work hard to achieve viable growth and development through social programs. The study concluded that the assumption that organizations will always act on the interest of the wider society to bring social change is inappropriate because these entities are formed basically to look after the interest of their owners; CSR is used as a tool for advancing organization's objectives not necessarily related to social responsibility.

In studying the outcome of corporate social accountability on the financial performance of commercial banks in Kenya, Okwoma (2012), used a longitudinal research design and covered the year 2007 to 2011 both years inclusive. Financial performance was measured by use of accounting ratios that included ROA and ROE. The data was collected from the supervisory reports compiled by Central Bank of Kenya. CSR was restrained using financial expenditure on CSR activities. The study found CSR to be having a positive and substantial consequence on ROA and ROE and that CSR significantly contributed to the financial performance of large and medium-size commercial banks but did not have any significant effect on the ROA of small commercial banks.

2.5 Conceptual Framework

According to Rocco & Plakhotnik, (2009), a conceptual framework is summarizing the study in the relevant information based on the foundation for the status of the problem statement and research questions. It relates observations, empirical research, and appropriate theories to advance and systemize knowledge about associated principles or issues.

Independent variable CSI will be measured using corporate social performance, environmental performance and risk while the dependent variable financial performance will be measured using a return on assets (ROA) as indicated in Figure 2.1 below.

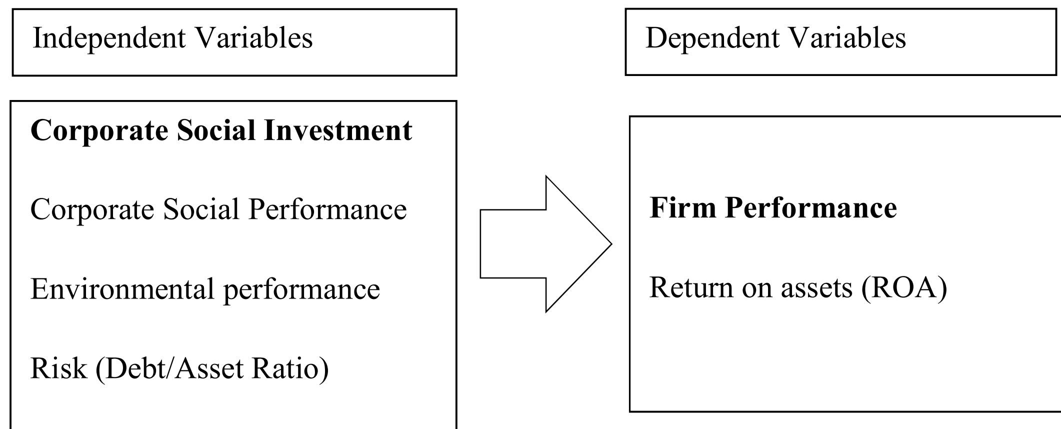

Figure 2.1: Conceptual Framework

Source: Researcher (2018)

2.6 Summary of Literature Review

Although there are several empirical kinds of literature on CSI, most of the studies have focused on context, for instance, Okwoma (2012) focused on commercial banks in Kenya and found a positive relationship, whereas Mwangi and Jerotich (2013) concentrated on firms listed at NSE but the manufacturing, construction and allied sector and found an encouraging connection among financial performance and CSR. Further, some studies were conducted in developed economies, for example, Roshima (2002) who did the study among the Malaysian listed companies and concluded that there is a positive relationship and Leonardo, Stephania and Damiano (2008) who studied listed companies in the US and found that there was a negative relationship. The findings of these studies may not be replicated in Kenya given different levels of economic development as well as the time at which these studies were done.

Based on the literature review, there are conflicting findings on CSI and financial presentation which are encouraging, negative, or no relationship at all. This, therefore, provide a contextual gap for further research into the effects of CSI on firm performance. The current study hence seeks to fill alongside the methodological and content gap identified from the other local studies that gap and establish if we have association among financial performance and CSI.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section presents the procedures that the researcher followed in carrying out the research for the study. This chapter examined the research design, the population and the sample size used in the study. It further explained the data collection method and data analysis techniques used in the study.

3.2 Research Design

A descriptive research design was adopted for the study. This design was implemented to gather information on the topic and extensively describe the variable available at the Nairobi Securities Exchange. This facilitated quick and easier data and information acquiring. The variable of the topic and hypothesis constructs also needed to be identified to enhance testing of theories. This research design enabled gathering of data and information that was presented in table forms for easier understanding of the data. It uses description as a tool to organize data in patterns that emerge during analysis. This method is considered appropriate because the study involves interacting with the population of interest for them to describe the January effects on the stock markets trend anomalies for companies listed in Nairobi Securities Exchange.

The research employed the causal design to determine the relationship between corporate social investment and financial performance of all the 65 companies listed

at the NSE. Mugenda and Mugenda (2003) argue that causal studies explore relationships between variables and this is consistent with this study which sort to establish the nature of the relationship. This research analysed data on all the 65 listed companies at the NSE within a period of time.

3.3 Population

Polit and Hungler (1999) refer to the population as a collection of all the objects, subjects or members that conform to a set of specifications. All the 66 companies listed at the Nairobi Stock Exchange operational as at 31st December 2017 made up the population (Appendix 1). The study utilized a sample from the census of the listed firms.

3.4 Data and Data Collection Procedure

Antonius (2003) succinctly states that the word data points to information that is collected in a systematic manner, organized and recorded to enable the reader to interpret the information appropriately. Whereas, data collection procedure refers to the process of gathering and measuring information on focused variables in an established system, which then permits one to answer applicable questions and examine outcomes.

The study utilized secondary data. Secondary data relating to the public listed companies was explored which included the financial results as well as the use of websites to disseminate company information will be utilised in the research. Data in relation to dependent variable included total assets value and net income whereas independent variable was debt, expenses on environmental awareness, CSR expenses

and the budget allocation for CSR as presented in the data collection sheet (Appendix II).

3.5 Data Analysis and Presentation

Marshall and Rossman (1999) describe data analysis as the process of bringing order, structure, and meaning to the mass of collected data. The research adopted both quantitative and qualitative approaches to data analysis. To determine the effects of corporate social investment on the organizations financial performance, the researcher used descriptive statistics which included the measures of central tendency. In order to determine the relationship between corporate social investment and firm performance, correlation and regression analysis was undertaken.

Quantitative research method was employed in the analysis of data together with a qualitative research model. Quantitative research made use of the numerical data to analyze the data. Qualitative research model mainly aims to understand the underlying reasons, opinions, and motivations in the relationship between CSI and the firm's performance.

3.5.1 Research Model

The study employed the model below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where Y – Firm performance proxied as on return on assets measured as the ratio of net income after tax to total assets of the firm.

X_1 – Corporate social performance measured as the expenditure on CSR activities and the budget allocation to CSR activities by the corporate

X_2 – Environmental performance measured as the investment value by the company in environmental awareness

X_3 – Risk measured as the level of debt to equity in the company's books

β_0 – y-intercept (value of performance when the CSI variables equal zero)

β_1 – Amount of change in performance when CSP changes by 1 unit

β_2 - Amount of change in performance when Firm size changes by 1 unit

β_3 - Amount of change in performance when Firm size changes by 1 unit

ε – The Error term

3.6 Tests of Significance

A test of significance is a formal guideline for comparing observed data with a claim (also called a hypothesis), to show the result of the assessment. The results of a significance test are expressed in terms of a probability that measures how well the data and the claim agree (Mindrila & Balentyne, 2013). The significance level of the study was evaluated at alpha $\alpha >= 0.05$.

3.7 Diagnostic Tests

The researcher ensured that the data set did not violate any of the regression assumption by carrying out diagnostic tests. These included multi-co linearity, Heteroskedasticity Test, Normality and Autocorrelation test.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the analysis on the collected data. The chapter is divided into sections. Section 4.2 presents the findings on the response rate. Section 4.3 gives information on descriptive analysis. Section 4.4 gives the inferential statistics. Section 4.5 presents a discussion on the findings.

4.2 Response Rate

The researcher sought to collect data from 66 firms listed on the Nairobi Securities Exchange (NSE) (Appendix I). However, complete data was readily available and collected from 34 firms. This gave a response rate of 51.5%. The response rate was in line with Mugenda and Mugenda (2003) that a response rate of 50% is good for analysis.

4.3 Descriptive Analysis

The researcher used means and standard deviations to describe how corporate social investments influence performance of listed firms. The findings are indicated in Table 4.1.

Table 4.1: Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Dev
Return on Assets	136	-.29	.33	.0485	.09891
Corporate Social Performance	136	5.10	8.51	6.8075	.83812
Environmental Performance	136	4.52	8.22	6.5802	.82668
Risk	136	.01	33.72	2.2766	5.22307

From Table 4.1, firms listed on NSE on average spent more on corporate social activities as compared to environmental activities. In undertaking all these corporate social and environmental activities, firms listed on NSE go through several risks.

4.4 Diagnostic Tests

Diagnostic tests were carried out to determine whether the data set was suitable for carrying out inferential analysis. Specifically, the study carried out multicollinearity, Autocorrelation test, Normality test and Heteroskedasticity.

4.4.1 Multicollinearity Test

To test for multicollinearity, the researcher used the Variance of Inflation Factor as shown in Table 4.2.

Table 4.2: Multicollinearity Test

	Collinearity Statistics	
	Tolerance	VIF
Corporate Social Performance	.485	2.061
Environmental Performance	.452	2.211
Risk	.903	1.107

a. Dependent Variable: Return on Assets

From Table 4.2, all the values of the VIF were between 1 and 10. This shows that there was no multicollinearity in the data set.

4.4.2 Autocorrelation Test

This test sought to determine whether there was serial correlation in the data set. It was tested using Durbin Watson Statistic as shown in Table 4.3.

Table 4.3: Autocorrelation Test

Model	Durbin-Watson
1	2.097[a]

a. Predictors: (Constant), Risk, Corporate Social Performance, Environmental Performance

b. Dependent Variable: Return on Assets

As shown in Table 4.3, the value of Durbin Watson Statistics was 2.097. Since this value is roughly equal to 2 when rounded off, it can be inferred that there was no serial correlation in the data set.

4.4.3 Normality Test

Normality test sought to determine whether the data set was normally distributed. It was carried out using a Normal PP plot shown in Figure 4.1.

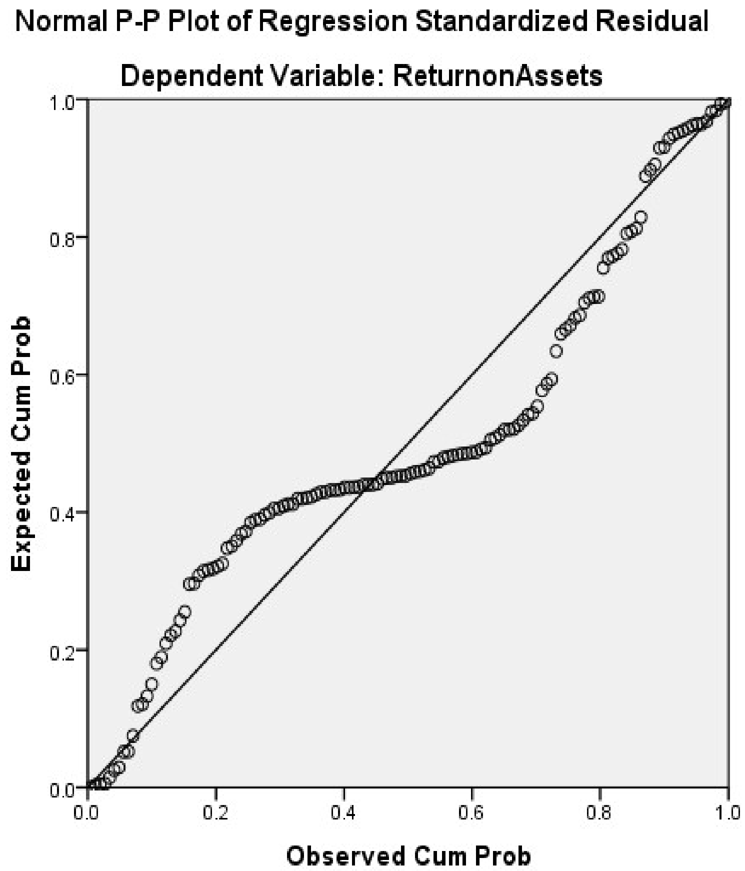

Figure 4.1: Normal PP Plot

As indicated in Figure 4.1, most of the data points fall along the normal PP plot line. This could be an indicator that the data set had a normal distribution.

4.4.4 Heteroskedasticity Test

The findings on Heteroskedasticity test are indicated in Figure 4.2.

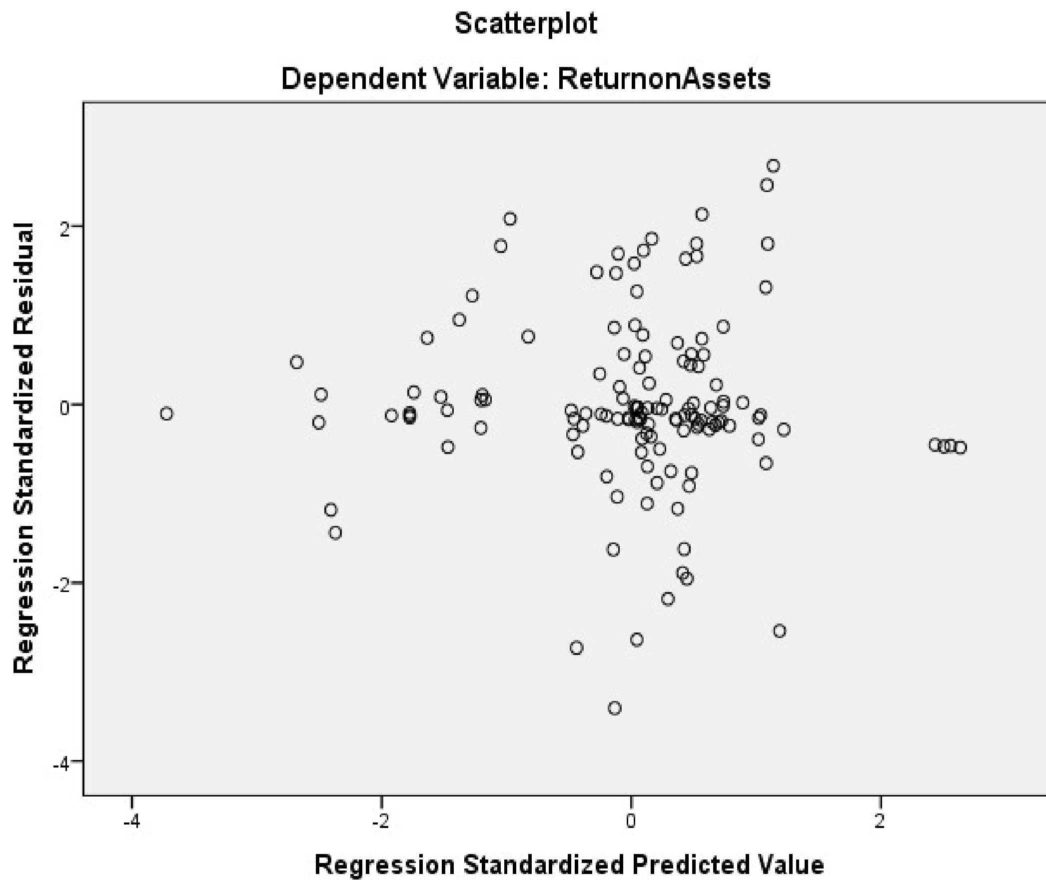

Figure 4.2: Scatterplot

From the findings, the data points are widely spread with no clearly predetermined pattern. This could be interpreted to mean that there was no Heteroskedasticity in the data. In other words, there was Homoskedasticity Test which is desirable.

4.5 Inferential Analysis

In order to determine the relationship and effect of corporate social investment on firm performance, the researcher carried out both correlation and regression analysis. The findings are indicated in subsequent sections.

4.5.1 Correlation Analysis

The researcher carried out correlation analysis to determine how corporate social investment and firm performance were correlated. Table 4.4 presents the findings of the analysis.

Table 4.4: Correlation Analysis

		Return on Assets	**Corporate Social Performance**	**Environmental Performance**	**Risk**
Return on Assets	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	136			
Corporate Social Performance	Pearson Correlation	.218	1		
	Sig. (2-tailed)	.000			
	N	136	136		
Environmental Performance	Pearson Correlation	.478	.315**	1	
	Sig. (2-tailed)	.000	.000		
	N	136	136	136	
Risk	Pearson Correlation	-.366	-.155	-.300**	1
	Sig. (2-tailed)	.000	.072	.000	
	N	136	136	136	136

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

As indicated in Table 4.4, corporate social performance had the Pearson correlation $r=0.218$ and $p=0.000<0.05$, environmental performance had $r=0.478$ and $p=0.000<0.05$ while risk had $r=-0.366$ and $p=0.000<005$.

Several inferences can be drawn from the findings above. First, it can be deduced that corporate social performance has a positive and significant correlation with firm performance. This shows that an increase in corporate social performance would definitely result into an increase in firm performance. This finding is in line with Okwoma (2012) who established that CSR to be having a positive and substantial consequence on ROA and ROE and that CSR significantly contributed to the financial performance of large and medium-size commercial banks but did not have any significant effect on the ROA of small commercial banks

Secondly, it can be inferred that environmental performance has a positive and significant relationship with firm performance. It can further be deduced that risk has an inverse and significant relationship with firm performance. The finding is inconsistent with Fauzi (2009) who established that CSR has no impact on financial overall performance.

4.4.2 Regression Analysis

Regression analysis was carried out to determine the effect of corporate social investment on firm performance. Table 4.5 shows the findings of the Model Summary.

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.910[a]	.829	.818	2.64703

a) Predictors: (Constant), Risk, Corporate Social Performance, Environmental Performance

From Table 4.5, the coefficient of determination R square was 0.829. This shows that 82.9% change in firm performance is explained by their corporate social investments.

An ANOVA was conducted at 5% level of significance. The findings are shown in Table 4.6.

Table 4.6: Analysis of Variance (ANOVA)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	2037.348	3	679.116	213.223	.000[b]
Residual	420.406	132	3.185		
Total	**2457.754**	**135**			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), Risk, Corporate Social Performance, Environmental Performance

From Table 4.6, the value of F calculated is 213.223 while F critical is 2.345. Since the value of F calculated is greater than F critical, it can be inferred that the overall regression model was significant.

Table 4.7 shows the findings of the regression beta coefficients with their respective p values.

Table 4.7: Regression Coefficients

	Un-standardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	.764	.340		2.247	.000
Risk	-.853	.182	-.407	-4.699	.000
Corporate Social Performance	.263	.087	.303	3.030	.004
Environmental Performance	.518	.219	.152	2.364	.021

a. Dependent Variable: Return on Assets

$$\mathbf{Y = 0.764 + 0.853X_1 + 0.263X_2 + 0.518X_3}$$

Where: Y = Return on Assets

X_1= Risk

X_2= Corporate Social Performance

X_3= Environmental Performance

Thus, at 5% level of significance, risk (β=-0.853 and p=0.000<0.05) had a negative and significant effect on firm performance. Corporate social performance (β=0.263 and p=0.000<0.05) had a positive and significant effect on firm performance. Environmental performance (β=0.518 and p=0.021<0.05) had a positive and significant effect on firm performance. It can therefore be deduced from this finding that corporate social investment had a positive and significant effect on firm performance. This finding however contradicts Mwangi and Jerotich (2013) who found an insignificant excellent relationship between corporate social responsibility practice and financial performance.

4.6 Discussion of Findings

The study established that risk has a negative and significant effect and relationship with firm performance. This shows that an increase in the level of risk would adversely affect firm performance. This adverse effect of risk on performance is supported by Brammer and Pavelin (2006) who found that the overall CSR measure has a significant but negative impact on stock returns.

The study further established that corporate social responsibility and environmental performance had a positive and significant effect on firm performance. These are forms of corporate social investments. It therefore indicates that corporate social investment has a positive and significant effect and relationship with firm performance. The finding is in line with Cheruiyot (2010) who concluded that there was a statistically significant relationship between CSI and financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter is structured in sections where section 5.2 summarizes the findings from the analysis, section 5.3 presents the conclusion of the study, whereas section 5.4 presents the recommendations of the study. In section 5.5, the researcher presents the limitations of the study and in section 5.6, the researcher presents the areas for further studies.

5.2 Summary of the Findings

The objective of the study was to determine the effect of corporate social investment on the performance of public companies listed at the Nairobi Securities Exchange. The study was anchored on stakeholders' theory and the social contracts theory. The study adopted a descriptive design. The population of the study was 66 firms listed at the NSE. A census was adopted on all these firms. The study collected secondary data using a data collection sheet.

The study findings from descriptive analysis indicated that firms listed on NSE on average spent more on corporate social activities as compared to environmental activities. In undertaking all these corporate social and environmental activities, firms listed on NSE go through several risks. The researcher carried out diagnostic tests including multicollinearity, normality, autocorrelation and Heteroskedasticity test. All the values from these tests were within the prescribed thresholds showing the data set was suitable for inferential analysis.

Correlation analysis was conducted to assess how corporate social investment and firm performance were related. From the findings, corporate social performance had the Pearson correlation $r=0.218$ and $p=0.000<0.05$, environmental performance had $r=0.478$ and $p=0.000<0.05$ while risk had $r=-0.366$ and $p=0.000<005$.

The researcher carried out regression analysis to how corporate social investment affected firm performance. From the findings, the coefficient of determination R square was 0.829. This shows that 82.9% change in firm performance is explained by their corporate social investments. An Analysis of Variance findings indicated that the value of F calculated is 213.223 while F critical is 2.345. At 5% level of significance, risk ($\beta=-0.853$ and $p=0.000<0.05$) had a negative and significant effect on firm performance. Corporate social performance ($\beta=0.263$ and $p=0.000<0.05$) had a positive and significant effect on firm performance. Environmental performance ($\beta=0.518$ and $p=0.021<0.05$) had a positive and significant effect on firm performance.

5.3 Conclusion

The study concludes that risk has a negative and significant effect and relationship with firm performance. The study further concludes that corporate social has a positive and significant effect and relationship with firm performance. Environmental performance has a positive and significant effect and relationship with firm performance. The study concludes that corporate social investment has a significant effect and relationship with firm performance.

5.4 Recommendations of the Study

The study recommends that the management t team of all firms listed on the NSE should increase their investment in corporate and environmental performance. This would positively influence their performance. In deciding on their investment in social and environmental performance, the management of all listed firms should consider the level of risks.

The study further recommends that the Capital Market Authority CMA should formulate sound policies and regulations that encourage listed firms to invest in social and environmental performance. This would result into positive performance of these firms.

5.5 Limitations of the Study

The study was limited to 66 firms listed at the NSE. The census was employed on all these listed firms at the NSE. The study relied solely on secondary data that was collected using data collection sheets. The period of consideration in collection of this secondary data was 2014 to 2017 (4 years).

The study had only the independent and the dependent variables. The independent variables included environment, corporate social investment and risk. The dependent variable on the other hand was firm performance. To measure firm performance, return on assets was used.

5.6 Suggestions for Further Studies

Since the current study focused only on 66 firms listed at the NSE, future studies should extend this and cover firms that have cross listed their shares at the East Africa Security Exchange. The current study was limited to include environmental performance, corporate social investment and risk and how they influenced firm performance. The value of R square was 82.9%, which shows that there exist other factors influencing firm performance that the current study did not focus on and which future studies should concentrate on.

Firm performance was measured using ROA. Future studies should use other measures including Return on Investment, Return on Equity or even share returns. Future studies should also consider introducing the moderating, controlling or intervening variables.

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APPENDICES

Appendix I: Companies listed at the Nairobi Securities Exchange

AGRICULTURE

EAAGADS Ltd

Kakuzi Ltd

Kapchorua Tea Company Ltd

Limuru Tea Company Ltd

Rea Vipigo Plantation Ltd

Sasini Ltd

Williamson Tea Kenya Ltd

AUTOMOBILES AND ACCESSORIES

Car and General (K) Ltd

CMC Holdings Ltd

Marshalls E.A Ltd

Sameer Africa Ltd

BANKING

Barclays Bank of Kenya

CFC Stanbic of Kenya Holdings

Diamond Trust Bank Kenya Ltd

Equity Bank Ltd

Housing and Finance Kenya Ltd

I &M Holding Ltd

Kenya Commercial bank

National Bank of Kenya

NIC Bank LTD

Standard Charted bank Kenya Ltd

The Co-operative Bank of Kenya

COMMERCIAL AND SERVICES

Express Kenya Ltd

Hutching Biemer Ltd

Atlas Development and Support Services

Kenya Airways Ltd

Long Horn Kenya Ltd

Nation Media group Ltd

Scan Group Ltd

Standard Group Ltd

TPS Serena Eastern Africa

Uchumi Supermarket Ltd

CONSTRUCTION AND ALLIED

ARM Cement Ltd

Bamburi Cement Ltd

Crown Berger Kenya Ltd

EA Cables Ltd

E.A Portland Cement Company Ltd

ENERGY AND PETROLEUM

KENGEN Company Ltd

Kenol Kobil Ltd

K.P.L.C Ltd

Total Kenya Ltd

Umeme Ltd

INSURANCE

British American Investment

CIC Insurance Group

Jubilee Holdings Ltd

Kenya Re Insurance Corporation Ltd

Liberty Kenya Holding Ltd

Pan African Insurance Holding Ltd

INVESTMENTS

Centum Investment Company Ltd

Olympia Capital Holdings Limited

Trans Century Limited

Home Africa Limited

Kurwitu Ventures

INVESTMENTS AND SERVICE

Nairobi Securities Exchange

MANUFACTURING AND ALLIED

A. Bauman and Company Ltd

BOC Kenya Ltd

British American Tobacco Kenya

Carbacid Investment Kenya Ltd

East African Breweries Ltd

Ever ready East African Ltd

Kenya Orchards Ltd

Mumias Sugar Company Ltd

Unga Group Ltd

TELECOMMUNICATION AND TECHNOLOGY

Access Kenya Group Ltd

Safaricom Limited

GROWTH ENTERPRICE MARKET SEGMENTS

Home Africa Ltd

Source: Capital Markets Authority

Appendix II: Data Collection Sheet

Year	Expenses on CSR	Expenses on Environmental Awareness	Net Income (Profit After Tax, PAT)	Total Assets
	Kes	Kes	Kes	Kes
2014				
2015				
2016				
2017				