INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY ON FIRM PERFORMANCE AMONG COMPANIES LISTED ON THE NAIROBI SECURITIES EXCHANGE

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A RESEARCH PROJECT REPORT SUBMITTED TO THE DEPARTMENT OF BUSINESS AND ENTREPRENEURSHIP IN THE SCHOOL OF BUSINESS AND ECONOMICS IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF SOUTH EASTERN KENYA UNIVERSITY

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Declaration

This project report is my original work and has not been presented for a degree in any other University.

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Dedication

This research work is lovingly dedicated to my Mum Teresia who never failed to teach and guide me; my children who supported me; to my siblings who helped me finish this project and most of all to the Almighty God who gave me strength and good health.

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Abstract

Numerous studies and literature with varied results have been conducted in the subject of CSR. Several questions about CSR still remain, for example there is no evident answer if CSR activities affect the financial performance, why companies engage in CSR and how they apply to it. There are several different definition of CSR and companies choose to apply it in different ways therefore it is a rather complex subject. A peculiar paradox of Kenyan economic history is that the large firms listed at the NSE have been the symbol of economic progress and yet a clear relation between the progress and involvement in community outreach programs has never been clear. This study therefore sought to investigate the relationship between CSR and performance of firms listed in the Nairobi Securities Exchange. The study specifically sought to examine the relationship between ethical CSR, environmental CSR and philanthropic CSR on the performance of firms listed in the NSE. The study focused on the CSR activities done and documented by the firms listed in the NSE. Moreover, the study focused on the CSR activities for the five year period 2010-2014 because the trading at the NSE before then was affected by the post election violence that occurred in 2007 in Kenya. The study was anchored on the open systems theory. The nature of this study was document analysis. The population for the purpose of this study was the NSE listed firms in Nairobi County. The total population of firms listed in the NSE stands at 61. The study was a census because of the small population size. The study adopted a data collection form to gather data which was analyzed using both content analysis and SPSS. Frequency tables, percentages and means were used to present the findings. Out of the sixty one (61) firms targeted with the data collection forms, only fifty four (54) data forms were fully filled with relevant information that could be entered and analyzed. The result reveals that ethical CSR, environmental CSR and philanthropic CSR can be held responsible for the fluctuations in EBIT of firms listed at the NSE, Kenya. From the findings, it can be concluded that ethical CSR, philanthropic CSR and environmental CSR indeed affect the performance (EBIT) of firms listed at the NSE. Environmental CSR had the major influence on performance of firms listed at the NSE while philanthropic CSR had the least influence on performance of firms listed at the NSE. Moreover, the study findings show that ethical CSR has a positive relationship with performance; environmental CSR has a positive effect on performance and philanthropic CSR has a positive influence on performance of firms listed at the NSE.The study recommends that the firms listed at the NSE should come up with strategies to strengthen and align their CSR activities to fast track and build the CSR programs so as to improve performance.

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Acronyms

CC	Corporate Citizenship
CMA	Capital Markets Authority
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
EBIT	Earnings Before Interest and Tax
EPS	Earnings per share
GoK	Government of Kenya
IPO	Initial Public Offer
IT	Information Technology
NACOSTI	National Commission for Science Technology and Innovation
NGO	Non-Governmental Organization
NSE	Nairobi Securities Exchange
SME	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences

Definition of Terms

Corporate social responsibility	charitable activities undertaken by a company to operate in an economic, social and environmentally sustainable manner
Environmental CSR	ecological voluntary activities undertaken by a company
Ethical CSR	moral obligations voluntary undertaken by a company
Nairobi Securities Exchange	an organized market where stock and shares are issued, bought and sold in Kenya
Performance	accomplishing a target by a firm
Philanthropic CSR	generous voluntary contributions undertaken by a company

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Corporate Social Responsibility is an increasingly important part of the business environment. The past twenty years have seen a radical change in the relationship between business and society (Omboto, 2014). Key drivers of this change have been the globalization of trade, the increased size and influence of companies, the repositioning of government and the rise in strategic importance of stakeholder relationships, knowledge and brand reputation (Turker, 2008). The relationship between companies and civil society organizations has moved on from paternalistic philanthropy to a re-examination of the roles, rights and responsibilities of business in society (Omboto, 2014). Corporate Social Responsibility (CSR) is a management concept whereby companies integrate ethical and environmental concerns in their business operations and interactions with their stakeholders (Omboto, 2014).

Corporate Social Responsibility (CSR), defined in terms of the responsiveness of businesses to stakeholders' legal, ethical, social and environmental expectations, is one outcome of these developments (Omboto, 2014). Corporate social responsibility (CSR) is an essential topic that is receiving increasing attention from organizations. One of the reasons is that, according to corporate governance principles issued by OECD (Udayasankar, 2008), CSR is highly associated with good corporate governance. In addition, if properly used, CSR projects have a positive influence on consumer's behavior (Mohr, 2001). Besides performance and earnings performance, stakeholders have recently developed interests in CSR projects that organizations engage in. In other words, organizations are also measured by their concerns about the society in which they operate (Quintin, 2004).

Organizations have a large, positive or negative, direct or indirect influence on every party in society (Kitchen, 2010). In general, in the literature, any action taken for society as a whole or for a particular party within society is considered as CSR (Comfort, Hiller & Jones, 2007). The need for CSR projects has increased in accordance with the changing understanding of organizations on each party affected by an organization's actions. Organizations are socially responsible to each party related with the organization (Turker, 2008). However, this responsibility does not necessarily mean that organizations' main goal is to satisfy all parties they contract with. The benefits expected by each party from an organization vary (O'Riordan & Fairbrass, 2008). For an organization, the aim is to create economic and social value to their organization, for a shareholder, it might be to increase wealth, or for the government to decrease unemployment and increase Gross Domestic Product by high volume production of organization (Ocran, 2011). Thus, the role of organizations in balancing the interacting benefits or expectations of each party is crucial for both society and the business environment.

Firm performance relates to business practices that do not diminish the prospects of future persons to enjoy levels of consumption, wealth, utility, or welfare comparable to those enjoyed in the present (Jerkee, 2008). This means companies' operational practices reduce environmental damage and resource depletion. Efforts to influence business practices toward economic sustainability include pricing mechanisms, such as carbon taxes, that pass on the cost of environmental impact to the users of those resources (Jerkee, 2008). Tracking sustainability measures can be performed using sustainability accounting, in which a corporation discloses its performance with respect to activities that have a direct impact on the societal, environmental, and economic performance of an organization (Owiti, 2013).

According to common definitions, sustainability has three key dimensions: environmental, social, and economic. Companies are for example starting to take more concern to the environmental, ethical and philanthropic issues (Jenkins, 2014). However, other companies have resisted spending in CSR as they believe that it contradicts their aim to maximize firm performance or profits (Jenkins, 2014; McWilliams & Siegel, 2000). Idowu and Papasolomou (2007) states that there are five key drivers influencing the increasing focus on CSR which are, greater stakeholder awareness of corporate ethical, philanthropic and environmental behaviour, direct stakeholder pressures, investor pressures, peer pressures as well as an increased sense of social responsibility.

The firms listed at the NSE are classified into different sectors based on the nature of their activities and operations including agricultural, commercial and services, Banking, Insurance, Investment and the manufacturing, Construction and allied sector among others. The firms listed at the NSE in Kenya are affected by various concerns about CSR practice. Some of the issues include the need to save energy considering energy consumed by these firms during their production process, avoiding of waste and recycling. The sector is also affected by labour intensive processes with short term contracts for staff (casual labour), high accident rates and occupational health and safety. Also facing this sector are concerns about health effects of processes on residents and quality of products. These concerns are all part of the component of CSR practices which include responsibility to environment, human resource, community involvement, consumers and products.

In a country where the financial sector is dominated by commercial banks, any failure in the Nairobi Securities Exchange has an immense implication on the economic growth of the country. This is due to the fact that any bankruptcy that could happen in the sector has a contagion effect that can lead to bank runs, crises and bring overall financial crisis and economic tribulations. Despite the good overall financial performance of NSE listed firms in Kenya, their involvement in ethical, environmental or philanthropic CSR and its relation to their performance is not known (Tomecko & Dondo, 2012).

A study done in Ghana by Ocran (2011) also revealed that even though Nestle Ghana was doing a lot of environmental and philanthropic community based social intervention programmes, the customers or the people in the community were not aware of such programmes.Ocran (2011) further asserted that that the concept of philanthropic CSR had become more and more common in business practices and customers almost expect companies to be socially responsible. He then concluded that even though philanthropic CSR is very important for companies, it has historically not been a very lucrative approach for them to involve in such activities. A study done in Kenya on ethical CSR in SMEs by Sarbutts (2013) found out that if spending in CSR affected a company's reputation it was also very likely that it will affect the company's financial performance.

1.2 Statement of the Problem

Some studies have been advanced on the influence of CSR on firm performance (Vance, 2010; Njoroge, 2009). Vance (2010) analyzed the relation between reputational indexes of corporate social involvement derived from ratings of forty five corporations by corporate staffers and fifty corporations by concerned business students and the percentage change in the price per share. Vance (2010) concluded that corporate social responsibility is inversely linked with performance in the short run. However his study failed to specifically highlight the effect of environmental and ethical CSR on profitability, a gap this current study seeks to fill. Njoroge (2009) found a positive influence of corporate social responsibility on rate of growth in Kenyan mobile phone companies. However, Njoroge (2009) reports the regression coefficients but do not report the correlation coefficients and therefore the strength of the negative association are thus not known. Moreover, the study fails to show the specific effects of ethical CSR and philanthropic CSR on rate of growth in Kenyan mobile phone companies. Moreover, other measures of performance, such as EBIT were not considered in Vance (2010) report; gaps this current study sought to fill.

Several questions about CSR still remain, for example there is no evident answer if CSR activities affect the financial performance, why companies engage in CSR and how they apply to it. A peculiar paradox of Kenyan economic history is that the large firms listed at the NSE have been the symbol of economic progress and yet a clear relation between the progress and involvement in community outreach programs has never been clear. So does involvement in corporate social programs affect performance of a firm? These are the gaps this study sought to fill by investigating the relationship between CSR and performance of firms listed in the Nairobi Securities Exchange.

1.3 General objective

To investigate the relationship between CSR and performance of firms listed in the Nairobi Securities Exchange.

1.3.1 Specific Objectives

The study was guided by the following objectives:

i. To examine the relationship between ethical CSR and performance of firms listed in Nairobi Securities Exchange.
ii. To find out the effect of environmental CSR on performance of firms listed in Nairobi Securities Exchange.
iii. To investigate the influence philanthropic CSR has on performance of firms listed in Nairobi Securities Exchange.

1.4 Research Questions

i. What is the relationship between ethical CSR and performance of firms listed in Nairobi Securities Exchange?
ii. What is the effect of environmental CSR on performance of firms listed in Nairobi Securities Exchange?
iii. What is the influence of philanthropic CSR on performance of firms listed in Nairobi Securities Exchange?

1.5 Justification of the Study

This study is important because it can not only contribute to theory building on the concept of corporate social responsibility but also act as a theoretical reference point for business scholars and investment experts in different countries. Students and academicians who wish to carry out further research in this area can review the study literature and establish gaps for further studies. The study can add knowledge on the concept of CSR from aspects of strategy to those of execution.

The study is crucial since it helps in building the existing policy frameworks for corporate social responsibility in Kenya. Public participation policy and social value-addition policy in the field of business management can be advanced from the findings of this study. This study can also help improve corporate outreach policy reforms, specifically the art of giving back to the society in the Kenyan context.

The findings of this study can help the senior business managers tasked with the planning and management of the CSR projects to better their service delivery through emphasis on unique areas that offer more value and high quality in order to fast track the delivery process. The entire NSE sector can gain from the findings of this study especially the influence CSR has on firm performance. The findings of the study could also be co-opted by managers of public companies and NGOs in enhancing community outreach programs.

1.6 Scope of the Study

The subject of CSR and its elements is a unique field with very scanty empirical evidence. However, the research avenues available can be readily explored. The study focused on the CSR activities done and documented by the firms listed in the NSE. Evidence of past CSR activities were portrayed through pictures and reports detailing the same. The study focused on the CSR activities for the five year period 2010-2014 because the trading at the NSE before then was affected by the post election violence that occurred in 2007 in Kenya. Moreover, the period 2010-2014 has seen a notable growth in the performance of most firms listed at the NSE. The study also focused on three aspects of CSR: ethical, environmental and philanthropic because of the ease of detection and measurability.

1.7 Limitations of the Study

Certain firms declined to give documentation concerning how CSR influences their performance due to fear of bad publicity. Some managers tasked with accounting and auditing within the firms also declined to give the actual information on CSR citing secrecy penalties. Time was also a limiting factor since the firms operate on their own tight schedules.

1.8 Assumptions of the Study

The study assumed that all the firms fully document their CSR activities and that all the availed records on performance were valid. The study further assumed that there was no single entity which would be delisted from NSE within the time stipulated for the research work.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter deals with the available literature related to the study. Some of the areas covered include the theoretical anchorage of the study, Corporate Social Responsibility and the conceptual framework. This review is very important since it highlights the scope of this study and further relates to other studies done in different parts of the world.

2.2 Theoretical Review

The signaling theory asserts that the most profitable companies signal their competitive strength by communicating more and better information to the market than their competitors who are less profitable (Bini et al., 2011). This theory was founded at the beginning of the 1970 and was originally founded for the labor market. But according to Clark & Master (2012), signaling is a general phenomenon and therefore applicable in any market with information asymmetry. It is used for describing behavior when two parties (individuals or organizations) have access to different information (Connelly, 2011).

The legitimacy theory by Deegan (2002) states that organizations continually seek to ensure that they are operating within the bounds and norms of their respective societies. In other words, they attempt to ensure that their activities are perceived by outside parties as being legitimate' (Deegan & Unerman, 2011). According to Deegan (2002), entities assumed to be influenced by, and in turn to have influence upon, the society in which it operates. Society, politics and economics are inseparable and economic issues cannot meaningfully be investigated in the absence of considerations about the political, social and institutional framework in which the economic activity takes place (Deegan, 2002). However, during the years the bounds and norms of this framework can change and thereby organizations need to be responsive to the ethical environment in which they operate. It is a relative concept within a socially system of norms, values, beliefs and definition within a specific time and place (Deegan & Unerman, 2011).

In the last decades, legitimacy theory has been subject to numerous empirical studies. One of the more recent studies is that by Haji and Ghazali (2012). They examined whether the 2007/08 financial crisis had impact on corporate voluntary disclosure of 85 Malaysian companies listed on Bursa Malaysia. The study showed, in line with legitimacy theory, that the sample companies significantly increased their corporate voluntary disclosure in the annual reports following the global financial crisis. Moreover, the companies increased their involvement in corporate sustainability programs to reduce the possibility of a legitimacy gap. However, according to structural functions systems theory by Gonzalez-Herrero and Pratt (1995) (as cited in Iqbal, Ahmad, Basheer & Nadeem, 2013), communication plays a pivotal role in management of CSR programs.

Correct flow of information across all hierarchies is essential. Management must effectively communicate with employees and provide them the necessary information for any CSR program to be carried out. Leaders must take charge and ask the employees to give their best. Providing information to an organization in a time of

CSR planning is also critical to effectively manage CSR programs. Structural-functional systems theory addresses the intricacies of information networks and levels of command making up successful organizational CSR. The structural-functional theory identifies information flow in organizations as "networks" made up of members and "links". Information in organizations flow in patterns called networks (Iqbal et. al., 2013). Structural approach is based on modelling the underlying dynamics and firm characteristics that can lead to a default CSR event. However, a clear disadvantage of this approach is its limited applicability to public firms because it requires specific information (Iqbal et. al., 2013).

The theory of multi-dimensional performance by Borman and Motowidlo (1997) distinguishes between task and contextual performance. Task performance refers to an individual’s proficiency with which he or she performs activities which contribute to the organization’s ‘technical core’. This contribution can be either direct or indirect. Contextual performance refers to activities which do not contribute to the technical core but which support the organizational, social, and psychological environment in which organizational goals are pursued. Contextual performance includes not only behaviors such as helping co-workers or being a reliable member of the organization, but also making suggestions about how to improve work procedures (Haji & Ghazali, 2012).

Three basic assumptions are associated with the differentiation between task and contextual performance: Activities relevant for task performance vary between jobs whereas contextual performance activities are relatively similar across jobs; task performance is related to ability, whereas contextual performance is related to personality and motivation; task performance is more prescribed and constitutes in-role behaviour, whereas contextual performance is more discretionary and extra-role (Motowidlo & Schmit, 1997). This theory will go in to support the variable on firm performance.

The CSR originated in 1953 with the publication of Bowen's book Social Responsibilities of Businessmen (Deegan & Unerman, 2011). At this time, the emphasis was placed on business people's social conscience, rather than on the company itself. The managerial “revolution” and the growing hostility of the public, after experiencing increasing social problems, demanded changes in business and this led to a shift in the focus (Iqbal et. al., 2013). Most of the responsibilities mentioned in the literature were incorporated into regulation, giving rise to a new approach: the public policy approach (Fernandez, 2001). The concept then became clear: companies have to abide by the law. However, the debate about CSR continued. Complying with the legal requirements did not seem enough, partly because not all the public's demands were protected by laws, and partly because CSR was favored as it was believed to overcome the inefficiencies derived from regulation (Wilson, 2008).

CSR positioned itself as a challenge to the neoclassical business model that, at that time, began becoming a paradigm (Branco & Rodrigues, 2008). Two theories were used in the 1970s: corporate social responsiveness and corporate social performance theories. The first emphasized the proactive approach required from companies and was used to link CSR with strategic management (Wilson, 2008); the second was an attempt to offer a managerial framework to deal with the CSR (Vance, 2010) and simultaneously, an attempt to measure CSR (Kitchen, 2010).

In the 1980s, the stakeholder's theory of CSR was coined (Branco & Rodrigues, 2007). Although older references to the same concept have been found, it was Freeman's landmark book that triggered the thinking around stakeholders. Originally defined in a Stanford Research Institute Internal Report (1963) as those groups without whose support an organization would cease to exist, Freeman extended the scope by proposing a different definition (Boatright, 2013). Freeman defined stakeholders as any group or individual who can affect or is affected by the achievement of the organization's objectives (Vance, 2010). CSR and the concept of stakeholders complement and reinforce each other. In the late 1990s, practitioners coined a new term: corporate citizenship (CC) (O'Riordan & Fairbrass, 2008).

The term CC is used to connect business activity to broader social accountability and service for mutual benefit, reinforcing the view that a corporation is an entity with status equivalent to a person (Iqbal et. al., 2013). The CC also coexists with and draws on existing literature on stakeholders. Therefore, CSR has been used as an umbrella concept to introduce a large number of theories, concepts, and techniques (Iqbal et. al., 2013). Nonetheless, the principle that companies must not only be concerned about profits and economic performance underlies all of them.

2.3 Empirical Literature

Sarbutts (2013) established that there are various arguments about the relationship between a company's CSR engagement and their financial performance. Sarbutts (2013) argues that if CSR affect a company's reputation it is also very likely that this will affect the company's financial performance. A company's first responsibility is its economic responsibility -- that is to say, a company needs to be primarily concerned with turning a profit (Jerkee, 2008). This is for the simple fact that if a company does not make money, it won't last, employees will lose jobs and the company won't even be able to think about taking care of its social responsibilities (Owiti, 2013). The three pillars; also known as the "triple bottom line" have served as a common ground for numerous sustainability standards and certification systems in recent years, though a universally accepted definition of sustainability remains elusive (Jerkee, 2008).

Simpson & Kohers (2002) have on the basis of previous research been able to sort the relationship between CSR usage and financial performance into three main viewpoints. In the first viewpoint, it is argued that CSR investments put these companies into an economic disadvantage compared to less responsible companies. The second viewpoint is that explicit CSR investment costs are minimal and that companies investing in CSR actually gain benefits from this in terms of employee morale and productivity (Simpson & Kohers, 2002). In the third viewpoint, costs from CSR investments are significant; they are however offset by the reduction in other company costs. It is also suggested that companies should satisfy all stakeholders not just the shareholders of a company. Branco and Rodrigues (2007) states that those who distinguished a negative correlation, between CSR and financial performance, argue that this is due to the high investment costs of CSR. However, Carroll. (1999) also points out that the added costs that CSR investments bring might place a company in an economic disadvantage compared to companies that have not made these CSR investments. Sarbutts (2013) also points out that, CSR activities that address human issues such as employment or equal opportunities are more likely to increase financial performance compared to more abstract concerns, such as philanthropic activities. Previous research regarding the correlation between CSR and financial performance has as seen above, resulted in mixed views.

Given the importance of the phenomenon, the economic literature has begun to deal with it, developing extensive lines of research on issues concerning the theme of sustainability and CSR. The economic debate has mainly focused on three aspects: first, the very definition of CSR and its measurement (Jamali & Mirshak, 2008); secondly, the main reasons that lead companies to adopt sustainable behaviours and then to obtain certification (Udayasankar, 2008); and thirdly the effect of CSR on the economic and financial system (Iqbal et. al., 2013). Moreover, due to the fact that CSR is not a variable and therefore it is not measurable, the economic literature has introduced the concept of Corporate Social Performance (CSP), which is a way of making CSR applicable and putting it into practice (Iqbal et. al., 2013). Even if CSP is difficult to measure, it can be transformed into measurable variables. Vance (2010) describe CSP as "a concept of three categories": CSP1: social disclosure about social concern; CSP2: corporate action, such as social programs and pollution control; CSP3: corporate reputation ratings or social indices that may be provided by social rating institutions, or ad hoc indices drawn up by the researchers themselves.

Regarding the impact of CSR on the economic system, several works (Omboto, 2014) have analyzed this relationship, focusing primarily on the link between CSR and the financial performance of the certified firms. However, the effect of CSR is reflected on the whole economic system, in line with the stakeholder theory. Therefore, there are different effects of CSR to be classified according to different variables. Research shows that there is a difference in the prediction of financial performance between measures of market-based accounting and CFP-based measures of CFP (Tomecko & Dondo, 2012). Most recently the concept has spread to Europe and Sweden and it has even become trendy for companies in Sweden to engage in CSR (Jenkins, 2014). Before a company thinks about being a good corporate citizen, it first needs to make sure that it can be profitable (Jerkee, 2008).

Firms engage in CSR activities to signal their orientation towards higher quality products (Boatright, 2013). Consumers realize that only firms that care about product quality are willing to invest in CSR activities because profit-oriented firms find these investments too expensive (Owiti, 2013). Therefore, such firms that engage in CSR activities end up growing and expanding faster than the profit oriented ones (Iqbal et. al., 2013). Moreover, senior management in such firms keeps searching for new, hard-to-imitate, less tangible sources of competitive advantage. These 'soft sources' may include the benefits achieved through the successful implementation of corporate social initiatives (Boatright, 2013). Better corporate image and reputation are arguably the most important of these benefits.

2.3.1 Review on Ethical CSR

Carroll's (1999) four-part definition of CSR identifies four categories of responsibilities: economic, legal, ethical and discretionary/philanthropic. These responsibilities are the expectations placed on the corporation by corporate stakeholders and society as a whole. One of the major advantages of Carroll's (1999) definition is its expansion of the categories of CSR.

McWilliams and Siegel (2000) argued: ‘The idea of social responsibilities supposes that the corporation has not only economic and legal obligations, but also certain responsibilities to society which extend beyond these obligations.’ By identifying and distinguishing the ethical and discretionary categories, Carroll (1999) explicitly spelled out what Friedman (1970) referred to as the responsibilities that extend beyond the economic and legal responsibilities. Carroll (1999) then made the notion of CSR more explicit when he contended that the economic and legal responsibilities are ‘required’, the ethical responsibilities are ‘expected’, and the discretionary/philanthropic responsibilities are ‘desired’. By doing so, he made a distinction between the traditional and the new responsibilities of the corporation. The classical responsibilities of the corporation which are embodied in its economic and legal responsibilities reflect the old social contract between business and society (Haji & Ghazali., 2012).

Alternatively, the new responsibilities of the corporation which are embodied in the ethical and discretionary responsibilities reflect the new, broader, social contract between business and society (Haji & Ghazali., 2012). Since what is debated in the subject of CSR are the nature and extent of corporate obligations that extend beyond the economic and legal responsibilities of the firm, it may be understood that the essence of CSR and what it really refers to are the ethical obligations of the corporation towards society. Kotler and Lee (2005) essentially see CSR in the same way. Kotler and Lee (2005) define CSR as ‘a commitment to improve community well-being through discretionary business practices and contributions of corporate resources’. Ethical responsibilities could include being environmentally friendly, paying fair wages or refusing to do business with oppressive countries (Owiti, 2013). The influence of morality in markets is enhanced through disclosure and dissemination of information (Lathan, 2002).

Increasingly, pressure is building on firms to provide information on the social impact of all of their activities regardless of whether or not the firm is undertaking significant community involvement programs. This pressure results from the recent revival of the social reporting movement (Owiti, 2013). The recent “Millennium Poll” of over 25,000 persons in 23 countries conducted by Environics International Ltd. showed that in almost all countries, and strongly in the United States and Great Britain, the public believes corporations should go beyond simply making a profit and creating jobs and should “help build a better society for all (Kitchen, 2010).”

Moral pressures in the market place may be enhanced through credible reporting of social activities by firms and may be directly influenced by peer pressure. This explains why certain firms record an impressive rise in market share right after successful and well marketed corporate social responsibility (Kitchen, 2010). In both the United States and Europe, corporate social auditing, accounting, and reporting (SAAR) is gaining increasing attention. SAAR is a means of measuring a firm’s social performance, communicating its performance to stakeholders, and taking into account feedback from stakeholders (Owiti, 2013).

2.3.2 Review on Environmental CSR

The primary resources on which businesses rely for energy are finite (Birmingham, 2011). They will run out. At the current rate of consumption, statisticians have calculated that the world has approximately 15,637 days worth of oil, 152,234 days of coal and 61,064 days of gas remaining (Birmingham, 2011). As primary resources are depleted so too is their performance. Of course, once these resources are exhausted, the current cycle of industry will stall. If business cannot be conducted one way, something needs to change. However, if this process is carelessly abused, accountability for environmental devastation will not exist (Connelly, 2011).

CSR is a commitment by businesses to consider, not just the shareholders of an enterprise, but the interests of all stakeholders impacted by its activities (Mobil, 2012). These include the employees, the consumers and suppliers of the business, the community in which it operates, and the environment. Mobil (2012) particularly focuses on the environmental implications of adopting CSR. CSR contemplates more than pure legal obligations imposed by statute. The commitment is a holistic approach to business that, in light of the state of the environment, attempts to address more than the financial bottom-line (Connelly, 2011). CSR is predicated on the belief that going about 'business as usual' is simply not sustainable.

The global environmental movement, recognizing this risk, highlights the rapid rate at which industry is depleting the environment and thus threatening the prosperity of business in the long-term, in an attempt to encourage companies to amend their current business practices and incorporate CSR (Birmingham, 2011). The implications of carrying on ‘business as usual’ and failing to incorporate CSR might include the development of a second market place, where the environmental repercussions of our industries are traded. In effect, this would create a carbon economy in which industries’ harmful environmental practices are tolerated, for a price (Birmingham, 2011).

CSR can be implemented by a business without government intervention, yet it often is undertaken through consumer pressure (Clark & Master, 2012). This self-motivated approach can often be less unsettling than changes imposed by legislation. Here, CSR is proposed as a part of the core business operations of a company, rather than a separate ‘add on’, distinguishing it from corporate philanthropy, which may be funded out of operations that are damaging to the communities in which business is conducted (Birmingham, 2011). However, governments are increasingly regulating the impacts that businesses have on the environment themselves, while simultaneously enacting legislation that directly or indirectly mandates minimum CSR standards required for businesses to operate (Mobil, 2012). Instead of waiting for such government action, businesses should consider adopting CSR by considering their product’s entire life cycle (Vance, 2010).

This means taking into account not only how to get the product into the consumers’ hands and the related environmental impact, but also how the product will be used, and, ultimately, disposed of (Omboto, 2014). By considering how the product will end its life, the business can then implement more sustainable means of production as well as developing a method of minimizing their carbon footprint (Vance, 2010). This is done by counteracting any damaging impact the production process may have with a system that helps to nullify it (Connelly, 2011). By incorporating CSR to this extent, a business will take responsibility for its impact on the environment and the future. If every business did the same, the exhaustion of the non-renewable resources would be thwarted (Birmingham, 2011).

2.3.3 Review on Philanthropic CSR

A company that practices corporate social responsibility (CSR) embraces responsibility for its actions and, through its activities, positively affects the environment, society, consumers, employees, communities, and other stakeholders (Clark & Master, 2012). One type of CSR is philanthropic giving (Lathan, 2002). The roots of corporate philanthropy date back to the rise of industry in the 19th and early 20th century, when pioneering businessmen like Henry Ford and John D. Rockefeller established a number of philanthropic foundations. Today, corporate philanthropy can involve donating funds, goods, or services to another organization or cause (Mobil, 2012). For example, the local branch of a bank might donate money to fund the purchase of uniforms for a school sports team, or a health care company might donate to the city opera (Clark & Master, 2012).

While individual philanthropists use their own resources to change the world for the better according to their interests, corporate philanthropy directs organizational resources to support a worthy cause or address a societal need (Ocran, 2011). The practice is not without its critics; some complain that philanthropic CSR is not directly related to an organization's core business. For instance, many large arts organizations receive funding from corporations in completely different industries simply because their executives happen to love music and wish to support a local symphony (Owiti, 2013). Although philanthropic CSR may provide public relations or branding advantages to a business, these benefits are difficult to measure and track.

A business's philanthropic activity does not occur without oversight (Clark & Master, 2012). Since the early 2000's, corporations have sought to hold charities accountable for how they use donations. As a result, many nonprofit groups have adopted business practices for measuring their own performance. In this way, these beneficiaries of philanthropy demonstrate both a responsible use of the funds they have received and evidence of their performance relative to their mission. Companies engaging in philanthropic CSR can then use those results to measure the impact of their own efforts to support social causes (Kitchen, 2010). If a company is able to meet all of its other responsibilities, it can begin meeting philanthropic responsibilities (Kitchen, 2010). Philanthropic responsibilities are responsibilities that go above and beyond what is simply required or what the company believes is right. They involve making an effort to benefit society for example, by donating services to community organizations, engaging in projects to aid the environment or donating money to charitable causes.

Security markets are efficient with respect to information set, if and only if, revealing to all agents would change neither equilibrium prices nor portfolios (Lathan, 2002). Efficiency in CSR philanthropy is usually discussed and tested in various forms. The different forms are based on the definition of the information set used in the tests. Some researchers have the view that securities markets in developing countries are not efficient in CSR philanthropy because of their operating characteristics such as size, market regulation, trading costs and the nature of the investors (Drake, 2003; Samuels, 2006; Kitchen, 2010).

Examination of the literature on emerging markets indicates that a major emphasis has been placed on forging a theoretical link between economics and CSR efficiency (Drake, 2003; Samuels, 2006). Samuels (2006) asserts that the nature of emerging markets is such that CSR s thus philanthropy levels cannot be assumed to fully reflect all available information. A company that practices corporate social responsibility (CSR) embraces responsibility for its actions and, through its activities, positively affects the environment, society, consumers, employees, communities, and other stakeholders (Branco & Rodrigues, 2008). One type of CSR is philanthropic giving (Kitchen, 2010).

The roots of corporate philanthropy in the United States date back to the rise of industry in the 19th and early 20th century, when pioneering businessmen like Henry Ford and John D. Rockefeller established a number of philanthropic foundations (Branco & Rodrigues, 2008). Today, corporate philanthropy can involve donating funds, goods, or services to another organization or cause. For example, the local branch of a bank might donate money to fund the purchase of uniforms for a school sports team, or a health care company might donate to the city opera (Branco & Rodrigues, 2008). While individual philanthropists use their own resources to change the world for the better according to their interests, corporate philanthropy directs organizational resources to support a worthy cause or address a societal need (Clark & Master, 2012).

The practice is not without its critics; some complain that philanthropic CSR is not directly related to an organization's core business. For instance, many large arts organizations receive funding from corporations in completely different industries simply because their executives happen to love music and wish to support a local symphony (Kitchen, 2010). Although philanthropic CSR may provide public relations or branding advantages to a business, these benefits are difficult to measure and track (Branco & Rodrigues, 2008).

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2.4 Literature Overview and Research Gaps

There are various arguments what the relationship between a company's CSR engagement and their financial performance. Today's more than ever challenging business environments requires corporations to make high quality sustainability disclosures and being accountable to internal and external stakeholders. By doing so, the corporate financial reporting becomes more transparent within the definition of CSR resulting. If we only take into account the studies that propose a positive relationship between CSR reporting and the financial performance, we can state that there is indeed a significant positive relation, but not very strong. However, the current empirical studies are not without limitations.

Previous discussed and other current samples are containing only corporations from well-developed countries. A second limitation is that the empirical studies discussed earlier ignore the firm's long run and short-run earnings performance in analysing the financial performance effects (for example cost of equity). Most studies reviewed argue that if CSR affect a company's reputation it is also very likely that this will affect the company's financial performance.

The economic debate has mainly focused on the very definition of CSR and its measurement; the main reasons that lead companies to adopt sustainable behaviours and the effect of CSR on the economic and financial systems. However, most of the empirical studies reviewed fail to focus on companies listed in any stock market. Moreover, the empirical studies reviewed adopt descriptive research designs or mixed methods. These are the gaps the current study sought to bridge.

2.5 Conceptual Framework

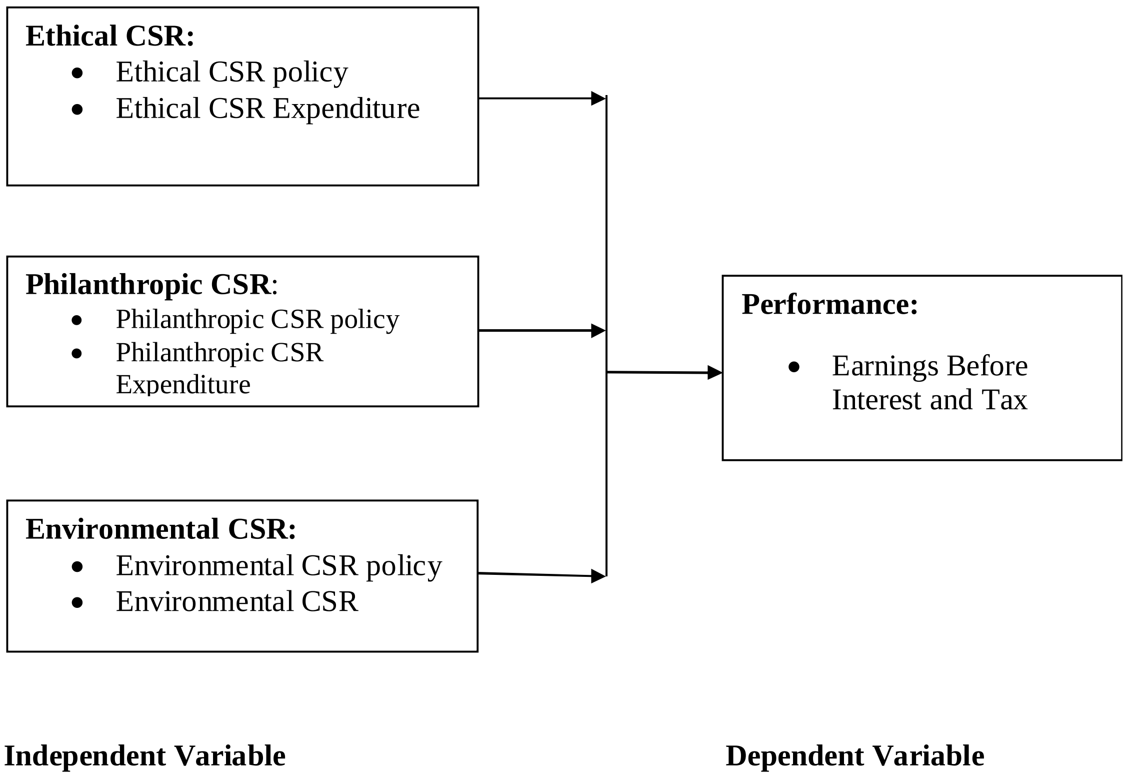

Figure 2.1: Conceptual Framework

Source: Author (2016)

According to the conceptual framework, firm performance of companies listed in the NSE is thought to be influenced by CSR. Firm performance is the dependent variable and is thought to be influenced by the independent variables which include ethical CSR, environmental CSR and philanthropic CSR. Firm performance is indicated by the earnings before interest and tax (EBIT). The components of CSR include ethical CSR, environmental CSR and philanthropic CSR as shown in figure 2.1.

CHAPTER 3

METHODOLOGY

3.1 Research Design

The nature of this study was historical research. This design was suitable for this study because it involved collection and analysis of secondary data that was gathered in the past five years; between 2010-2014. Experimental research was not appropriate for this study since it tends to test a hypothesis by doing some type of experiments, and it is always in the domain of science. Moreover, survey was not appropriate since it is used when the author needs the representative views in a particular type of population.

3.2 Target Population

A population refers to an entire group of individuals, events or objects that have a common observable characteristic (Orodho, 2003). A population describes the parameters whose characteristics the research will attempt to describe. The population for the purpose of this study was the NSE listed firms in Nairobi County. The total population of firms listed in the NSE stands at 61(NSE, 2014). Table 3.1 displays the sectoral distribution of firms listed at the NSE.

Table 3.1: NSE listed Firms

SECTOR	NUMBER OF COMPANIES
Agriculture	5
Commercial and services	12
Finance and investment	16
Industrial and allied	20
Alternative market segment	8
Total	**61**

Source: Author (2016)

3.3 Sampling Frame

The population of firms listed at the NSE is 61; due to the small population size of the listed firms, sampling was not done but a complete census was carried out.

3.4 Instrument

The study adopted a data collection form to gather empirical data covering a period of five years; 2010 to 2014.

3.5 Data Collection Procedure

Before actual data collection process the researcher obtained a reference letter from the university which acted as an introduction. A permit from NACOSTI was also presented. The study relied on secondary data. Data on EBIT was collected from the heads of finance while data on the expenditure for each CSR activity was collected from the public relation managers; covering a period of five years, 2010 to 2014. Additional information was obtained through naturalistic observation which involved observing the behavior under study as it occurred in its natural setting without any manipulation by the researcher.

3.6 Data Processing and Analysis

Secondary data was analyzed using content analysis. The data obtained using data collection form was checked for any errors and omissions. Some of the data obtained using data collection form was tabulated, coded and processed by use of a computer Statistical Package for Social Science (SPSS) program. Frequency tables, percentages and means were used to present the findings. The relationship between the independent variables and the dependent variable was tested using multiple linear regression model of the form: $Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \varepsilon$ where:

Y = Firm performance measured by EBIT

x_1 = Ethical CSR

x_2 = Environmental CSR

x_3 = Philanthropic CSR

β_0 = Constant

$\beta_{1,}\ \beta_{2\ldots}B_N$ = Coefficients of variations

ε = Error term

3.7 Ethical Considerations

Researchers whose subjects are people or animals must consider the conduct of their research and give attention to ethical issues associated with carrying out their research (Kombo & Tromp, 2006). Only people conducting the survey knew the identity of the participants. The researcher obtained informed consent from any subject used in the study and ensured that all subjects participated voluntarily. The researcher fully explained the research in advance and debriefed the subjects afterwards. Researcher accepted individual responsibility for the conduct and consequences of this research and maintained openness and honesty in dealing with research subjects.

3.8 Operational Definition of Study Variables

Table 3.2 displays the operational definition of the variables used in the study.

Table 3.2: Operational definition of Variables

Types of Variables	Indicators	Measurement	Scale	Type of analysis	Tools of analysis
Independent – Ethical CSR	Ethical CSR Policy	Existence of the policy	Ordinal	Descriptive	Percentage
	Amount spent on Ethical CSR	Amount	Ordinal	Descriptive	Mean
Dependent- Performance	EBIT	Amount	Ordinal	Descriptive	Mean
Independent- Environmental CSR	Environmental CSR Policy	Existence of the policy	Ordinal	Descriptive	Percentage
	Amount spent on environmental	Amount	Ordinal	Descriptive	Mean
Independent- Philanthropic CSR	Philanthropic CSR Policy	Existence of the policy	Ordinal	Descriptive	Percentage
	Amount spent on Philanthropic	Amount	Ordinal	Descriptive	Mean

Source: Author (2016)

CHAPTER 4

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the results based on the study objectives and discusses its interpretation. The chapter presents the findings highlighting the influence of other variables on performance of firms listed in the Nairobi Securities Exchange. This is presented and discussed in line with the objectives of this study which were to investigate the relationship between ethical CSR and performance of firms listed at the Nairobi Securities Exchange; the effect of environmental CSR on performance of firms listed in Nairobi Securities Exchange; and influence of philanthropic CSR on performance of firms listed in Nairobi Securities Exchange.

4.2 Response Rate

Out of the sixty one (61) firms targeted with the data collection forms, fifty four (54) data forms were fully filled with relevant information that could be entered and analyzed. This represents a response rate of 88.52%.According to Cooper and Schindler (2003), a response rate of between 30%-80% is representative of a study population.

4.3 Characteristics of the Firms Studied

The study obtained data from fifty four firms out of the possible sixty one firms targeted. Three firms declined to give details of their expenditure on CSR, two firms failed to provide details of their profit scores and two firms completely refused to take part in the survey. In general, a total of seven firms failed to take part in the study.

Table 4.1 shows the firms that were not studied and the reasons for the exclusion.

Table 4.1: Firms not studied

NAME	**CATEGORY**	**REASON FOR NON-INCLUSION**
Kenol/Kobil	Energy and petroleum	Expenditure on CSR programs not given
TPS Africa (Serena hotels)	Commercial and services	Profit scores not revealed
Boc Kenya Limited	Manufacturing and Allied	Declined to take part in the study
Eveready East Africa	Manufacturing and Allied	Declined to take part in the study
Kapchorua Tea Ltd.	Agriculture	Expenditure on CSR programs not given
Williamson Tea Kenya	Agriculture	Profit scores not revealed
Marshalls East Africa limited	Automobiles and accessories	Expenditure on CSR programs not given

Source: Author (2016)

The study sought to examine the characteristics of firms listed at the Nairobi Securities Exchange. All the firms targeted in the finance and investment cluster and the insurance cluster fully participated in the study. Under the commercial and services industry, Kenya airways has been recording the highest share transaction recently. Kenya Airways was founded in 1977 and is the flag carrier (national airline) of Kenya. It is currently a public-private partnership and was listed at NSE in 1996. The company's profitability has fluctuated over the years with losses recorded in some years.

Under the energy and petroleum sector, Kengen leads in terms of share trade. Kenya Electricity Generating Company (Kengen) was founded in 1998 as a state owned firm and is the largest power producing company in Kenya accounting for 80% of the electricity consumed in the country. It was listed in NSE in 2006.

Another company with remarkable share trade is Safaricom. Safaricom Limited started operations in 1993 as a department of Kenya Posts and Telecommunications Corporation (KPTC), the former monopoly operator, and was incorporated as a private limited company in 1997 and converted into a public company with limited liability in 2002. It is one of the leading integrated communications companies in Africa with over 19.1 million subscribers and provides a comprehensive range of services namely mobile and fixed voice as well as data services on a variety of platforms while locally it has the biggest market share in terms of subscribers, voice traffic, mobile data and SMS.

Under the insurance sector, CIC insurance takes the lead. CIC insurance Corporation Limited (Kenya Re) was established in 1990. It was mandated to undertake and transact in any manner reinsurance and insurance business in and out of Kenya. It offers reinsurance services to over 159 companies in Africa, Middle East and Asia.

Under the automobile and accessory sector, Sameer Africa takes a lead. Sameer Africa Limited (formerly Firestone East Africa 1969 Limited) was established in Kenya in 1969 and deals in tyres and tyre accessories such as tubes. It got listed in NSE in 1995 and operates through six subsidiaries; Sameer Africa Limited Uganda, Sameer Africa Limited Tanzania, Yana Tyre Centre Limited, Sameer Industrial Park, Export Processing Zone (EPZ) and Sameer Business Park. It is one of the biggest tyre suppliers to the Common Market for Eastern and Southern Africa (COMESA).

Under the banking sector, Equity bank and KCB bank are leading in terms of share trade. Equity Bank commenced business on registration in 1984. It has evolved from a

Building Society, a Microfinance Institution, to now the all inclusive NSE and Uganda Securities Exchange (USE) public listed commercial bank. With over 5.7 million accounts, accounting for over 57% of all bank accounts in Kenya, Equity Bank is the largest bank in the region in terms of customer base and operates in Kenya, Uganda and Southern Sudan. KCB Bank Kenya roots trace back to July 1896 when its parent company, KCB Group, was formed.KCB has assets of 607.3 billion shillings ($5.96 billion) and operates in Uganda, Tanzania, Rwanda, South Sudan and Burundi.

4.4 Empirical Findings

This section presents the findings and discussions in line with the study objectives which were to investigate the relationship between ethical CSR and performance of firms listed at the Nairobi Securities Exchange; the effect of environmental CSR on performance of firms listed in Nairobi Securities Exchange; and influence of philanthropic CSR on performance of firms listed in Nairobi Securities Exchange.

4.4.1 Ethical CSR and Firm Performance

The study sought to examine the relationship between ethical CSR and performance of firms listed at the Nairobi Securities Exchange. Table 4.2 displays the feedback from the content analysis of data collection forms regarding how ethical CSR affects performance of firms listed at the NSE.

Table 4.2: Ethical CSR and Performance

Year	**2010**	**2011**	**2012**	**2013**	**2014**
EBIT(Ksh-BILLIONS)	41.19	58.32	78.44	89.45	101.51
EXPENDITURE-	1.82	2.22	3.15	5.17	7.21
ETHICAL CSR POLICY	41/54	50/54	51/54	53/54	54/54

Source: Author (2016)

The results indicate a consistent increase in the expenditure in ethical CSR activities as the years go by from 2010 to 2014. Moreover, the findings indicate a steady increase in performance (EBIT) with the year 2014 recording the highest performance. The findings further indicate that in 2010 only forty one out of the fifty four firms had ethical CSR policies; but the number of firms having the policy kept on increasing each year such that in 2014 all the firms had the ethical CSR policy in place.

To critically assess the relationship between ethical CSR and Performance of firms listed at the NSE, expenditure on ethical CSR was regressed against EBIT (performance). The findings are presented in table 4.2.1.

The following table displays the regression model summary.

Table 4.2.1: Regression Model Summary-Ethical CSR

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.615(a)	0.378	0.279	11.858

Source: Author (2016)

From the findings, the value of R was 0.615 and R square was 0.279 (27.9%). The adjusted R square, also called the coefficient of multiple determinations, is the percent of the variance in the dependent variable (performance) explained uniquely by the independent variable (ethical CSR). This basically means that 27.9% of the changes in the EBIT (performance) could be attributed to the effect of ethical CSR.

The following table presents the ANOVA results.

Table 4.2.2: ANOVA Results-Ethical CSR

Model		**Sum of Squares**	**df**	**Mean Square**		
1	Regression	42.759	11	10.69	32.501	0.001
	Residual	13.164	156	0.169		
	Total	55.923	167			

Source: Author (2016)

The probability value of 0.001 indicates that the regression model was highly significant in predicting how ethical CSR influenced firm performance. The F calculated at 5% level of significance was 32.501 since F calculated is greater than the F critical (value = 2.5252), this shows that the overall model was significant. The following table displays the results from the regression analysis.

__Table 4.2.3: Partial regression coefficients-Ethical CSR__

Model		**Unstandardized Coefficients**		**Standardized Coefficients**		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	4.714	0.371		9.28	.068
	Ethical CSR	0.581	0.193	0.154	3.01	.046

Source: Author (2016)

The beta coefficients give the rate of standard deviations change on the dependent variable (firm performance) that was produced by a change on the independent variables (ethical CSR). Here, ethical CSR causes a 0.154 deviation on firm performance. The researcher thus concluded that ethical CSR indeed affects performance of firms listed at NSE. Therefore, the findings reveal that existence of ethical CSR relate to EBIT of firms listed at the NSE. The study sought to answer the research question: what is the relationship between ethical CSR and performance of firms listed at the NSE? Since the deviation caused by ethical CSR is not negative, it can therefore be concluded that ethical CSR indeed has a positive relation to performance of firms listed at the NSE.

The study findings are similar to those of Wiegel (2013) who found a relationship between ethical CSR and performance of companies while studying the relationship between CSR reporting and financial performance of companies in America. Wiegel (2013) concluded that ethical CSR was the most influential type of CSR affecting company performance. However, another study by Jiao and Xie (2013) contradicts the above findings. Jiao and Xie (2013) focused on firm performance in relation to CSR programs and the CSR-profitability relationship in a case study of Sandvik

Engineering Company in the United Kingdom (UK) and found no relationship between ethical CSR and financial performance of Sandvik Engineering Company. Nevertheless, the study took financial performance to a broader range of financial perspectives such as working capital, leverage, earnings, operating and free cash flow, asset backing, capital expenditure and turnover.

4.4.2 Environmental CSR and Firm Performance

The study sought to find out the effect of environmental CSR on performance of firms listed at the Nairobi Securities Exchange. Table 4.3 displays the feedback from analysis of data collection forms regarding how environmental CSR affects performance of firms listed at the NSE.

Table 4.3: Environmental CSR and Performance

Year	**2010**	**2011**	**2012**	**2013**	**2014**
EBIT(Ksh-BILLIONS)	41.19	58.32	78.44	89.45	101.51
EXPENDITURE-Environmental CSR	1.54	1.77	2.79	4.32	8.11
Environmental CSR Policy	50/54	50/54	53/54	54/54	54/54

Source: Author (2016)

The results indicate a consistent increase in the expenditure in environmental CSR activities as the years go by from 2010 to 2014. Moreover, the findings indicate a steady increase in performance with the year 2014 recording the highest performance. The findings further indicate that in 2010 only fifty out of the fifty four firms had ethical CSR policies; but the number of firms having the policy kept on increasing each year such that in 2014 all the firms had the environmental CSR policy in place.

To critically assess the effect of environmental CSR on performance of firms listed at the NSE, expenditure on environmental CSR was regressed against EBIT (performance). The findings are presented in the table 4.3.1.

The following table displays the regression model summary.

Table 4.3.1: Regression Model Summary-Environmental CSR

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.772(a)	0.597	0.572	0.1858

Source: Author (2016)

From the findings, the value of R was 0.772 and R square was 0.572 (57.2%). The adjusted R square, also called the coefficient of multiple determinations, is the percent of the variance in the dependent variable explained uniquely by the independent variables. This basically means that 57.2% of the changes in firm performance could be attributed to the effect of environmental CSR.

Table 4.3.2: ANOVA Results-Environmental CSR

Model		**Sum of Squares**	**df**	**Mean Square**		
1	Regression	45.944	11	11.47	26.304	0.003
	Residual	11.872	156	0.235		
	Total	57.816	167			

Source: Author (2016)

The probability value of 0.003 indicates that the regression model was highly significant in predicting how environmental CSR influenced performance of firms listed at the NSE. The F calculated at 5% level of significance was 26.304 since F calculated is greater than the F critical (value = 2.5252), this shows that the overall model was significant.

The following table displays the results from the regression analysis.

Table 4.3.3: Partial regression coefficients-Environmental CSR

Model		**Unstandardized Coefficients**		**Standardized Coefficients**		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	4.469	0.534		9.28	.043
	Focus strategy	0.628	0.231	0.241	2.719	.037

Source: Author (2016)

The beta coefficients give the rate of standard deviations change on the dependent variable (firm performance) that was produced by a change on the independent variable (environmental CSR). Here, environmental CSR causes a 0.241 deviation on firm performance. The researcher thus concluded that environmental CSR indeed affects performance of firms listed at the NSE.

Therefore, the findings reveal that environmental CSR affects EBIT of firms listed at the NSE. The study sought to answer the research question: what is the effect of environmental CSR on performance of firms listed at the NSE? Since environmental CSR does not cause a negative deviation on firm performance, it can be concluded that environmental CSR positively affects performance of firms listed at the NSE.

The study findings are similar to those of Jiao and Xie (2013) who found a positive relationship between environmental CSR and performance of companies while studying firm performance in relation to CSR programs and the CSR-profitability relationship in a case study of Sandvik Engineering Company. The study concluded that environmental CSR affected performance of Sandvik Company. However, the study found that the CSR-profitability relationship could not be clearly defined due to the complex mediating process and direct or indirect effects from tangible and intangible mediating factors.

The study findings do not relate to those of Wiegel (2013) who examined the relationship between CSR reporting and financial performance of companies in America. The study found a null relationship between environmental CSR programs and economic performance of the firms and further reported that the firms only participated in environmental CSR programs as a sign of good gesture. However, the study used two environmental performance indices representing different corporate environmental strategy orientations of firms studied.

4.4.3 Philanthropic CSR and Firm Performance

The study sought to investigate the influence philanthropic CSR had on performance of firms listed at the Nairobi Securities Exchange. Table 4.4 displays the feedback from analysis of data collection forms regarding how philanthropic CSR affects performance of firms listed at the NSE.

Table 4.4: Philanthropic CSR and Performance

Year	**2010**	**2011**	**2012**	**2013**	**2014**
EBIT(Billions)	41.19	58.32	78.44	89.45	101.51
EXPENDITURE- Philanthropic CSR	5.47	7.65	8.81	11.15	21.03
Philanthropic CSR Policy	41/54	45/54	47/54	50/54	51/54

Source: Author (2016)

The results indicate a consistent increase in the expenditure in philanthropic CSR activities as the years go by from 2010 to 2014. Moreover, the findings indicate a steady increase in performance with the year 2014 recording the highest performance. The findings further indicate that in 2010 only forty one out of the fifty four firms had ethical CSR policies; but the number of firms having the policy kept on increasing each year such that in 2014, fifty one out of fifty four firms had the philanthropic CSR policy in place.

To critically assess the influence of philanthropic CSR on performance of firms listed at the NSE, expenditure on philanthropic CSR was regressed against EBIT (performance). The findings are presented in the table 4.4.1.

The following table displays the regression model summary.

Table 4.4.1: Regression Model Summary-Philanthropic CSR

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.389(a)	0.152	0.157	0.1563

Source: Author (2016)

From the findings, the value of R was 0.389 and R square was 0.157 (15.7%). The adjusted R square, also called the coefficient of multiple determinations, is the percent of the variance in the dependent variable (performance) explained uniquely by the independent variable (philanthropic CSR). This basically means that 15.7% of the changes in the firm performance (EBIT) could be attributed to the effect of philanthropic CSR. The following table presents the ANOVA results.

Table 4.4.2: ANOVA Results-Philanthropic CSR

Model		**Sum of Squares**	**df**	**Mean Square**		
1	Regression	49.844	11	11.56	32.117	0.001
	Residual	10.671	156	0.343		
	Total	60.515	167			

Source: Author (2016)

The probability value of 0.001 indicates that the regression model was highly significant in predicting how philanthropic CSR influenced performance of firms listed at the NSE. The F calculated at 5% level of significance was 32.117 since F calculated is greater than the F critical (value = 2.5252), this shows that the overall model was significant.

The following table displays the results from the regression analysis.

Table 4.4.3: Partial regression coefficients-Philanthropic CSR

Model		**Unstandardized Coefficients**		**Standardized Coefficients**		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	4.835	0.521		8.17	.052
	Philanthropic CSR	0.361	0.203	0.142	1.778	.021

Source: Author (2016)

The beta coefficients give the rate of standard deviations change on the dependent variable (firm performance) that was produced by a change on the independent variable (philanthropic CSR). Here, philanthropic CSR causes a 0.142 deviation on firm performance. Therefore, the findings reveal that philanthropic CSR influences performance of firms listed at the NSE. The study sought to answer the research question: what is the influence of philanthropic CSR on performance of firms listed at the NSE? Since philanthropic CSR does not cause a negative deviation on firm performance, it can be concluded that philanthropic CSR positively influences performance of firms listed at the NSE.

The study findings are similar to those of Wiegel (2013) who found that philanthropic CSR positively influences performance of companies in America. The study concluded that philanthropic CSR largely influences performance of the companies in America. Moreover, the findings are similar to those of Jiao and Xie (2013) who also found out that indeed philanthropic CSR influences the profitability of Sandvik Engineering Company.

4.4.4 Influence of CSR on Performance of Firms listed at the NSE

To evaluate the general objective of whether there is a relationship between CSR and performance of firms listed at the NSE, the expenditures on CSR programs were regressed against EBIT (performance) data. The findings are presented in Table 4.5.

The following table displays the results for the regression model summary.

Table 4.5: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.587(a)	.346	.379	1.858

Source: Author (2016)

The value of R was 0.587 and R square was 0.379 (37.9%) as shown in table 4.5. The adjusted R square, also called the coefficient of multiple determinations, is the percent of the variance in the dependent variable explained uniquely by the independent variables. This basically means that 37.9% of the changes in the EBIT (performance) could be attributed to the effect of the independent variables. Therefore, there exists a relationship between CSR and performance of firms listed at the NSE. This finding is similar to that of Wiegel (2013) who found out that ethical CSR, philanthropic CSR and environmental CSR were the main factors affecting performance of companies in America.

The following table displays the results for the ANOVA.

Table 4.6: ANOVA Results

Model		**Sum of Squares**	**df**	**Mean Square**		
1	Regression	42.759	11	10.69	54.407	0.001
	Residual	13.164	156	0.169		
	Total	55.923	167			

Source: Author (2016)

The probability value of 0.0001 indicates that the regression model was highly significant in predicting the relationship between CSR and performance of firms listed at the NSE. The F calculated at 5% level of significance was 54.407 since F calculated is greater than the F critical (value = 2.5252), this shows that the overall model was significant.

The following table displays the results from the regression analysis.

Table 4.7: Partial regression coefficients

Model		**Unstandardized Coefficients**		**Standardized Coefficients**		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	4.722	8.169		0.209	.078
	Ethical CSR	3.944	0.438	0.293	5.984	.046
	Environmental CSR	7.667	0.395	0. 587	6.587	.045
	Philanthropic CSR	4.667	0.295	0.251	4.421	.041

Source: Author (2016)

From the findings, the beta coefficients give the rate of standard deviations change on the dependent variable (firm performance) that was produced by a change on the independent variables (CSR). Here, environmental CSR takes a lead with 0.587 deviations on firm performance followed by ethical CSR at 0.293 deviations on firm performance, and then philanthropic CSR at 0.251 deviations on firm performance. Therefore, there exists a relationship between CSR (ethical, environmental and philanthropic) and performance of firms listed at the NSE. Moreover, environmental CSR had the major influence on performance of firms listed at the NSE while philanthropic CSR had the least influence on performance of firms listed at the NSE. Moreover, from the findings, all the deviations on the dependent variable (firm performance) caused by the independent variables (ethical CSR, environmental CSR and philanthropic CSR) were not negative. Therefore, it can be concluded that generally CSR has a positive relationship with performance of firms listed at the NSE

The results relate to those of Jiao and Xie (2013) who found out that all variables demonstrated average variance extracted between 0.420 and 0.775. However in their study, ethical CSR was higher than the benchmark of 0.5. Moreover, all the variables in their study displayed a higher composite reliability than 0.60.

4.5 Discussion

The study sought to answer the research question: what is the relationship between ethical CSR and performance of firms listed at the NSE? Since the deviations for ethical CSR is not negative, it can be concluded that ethical CSR has a positive relationship with performance of firms listed at the NSE. The study also sought to answer the research question: what is the effect of environmental CSR on performance of firms listed at the NSE? Since the deviations for environmental CSR is not negative, it can be concluded that environmental CSR has a positive effect on performance of firms listed at the NSE. Furthermore, the study sought to answer the research question: what is the influence of philanthropic CSR on performance of firms listed at the NSE? Since the deviations for philanthropic CSR is not negative, it can be concluded that philanthropic CSR has a positive influence on performance of firms listed at the NSE.

From the findings, environmental CSR took a lead with 0.587 deviations on firm performance, ethical CSR had 0.293 deviations on firm performance while philanthropic CSR had 0.251 deviations on firm performance. Therefore, environmental CSR had the major influence on performance of firms listed at the NSE while philanthropic CSR had the least influence on performance of firms listed at the NSE. Moreover, this was proof that a relationship exists between CSR (ethical, environmental and philanthropic) and performance of firms listed at the NSE.

From the findings, all the deviations on the dependent variable (firm performance) caused by the independent variables (ethical CSR, environmental CSR and philanthropic CSR) were not negative. Therefore, it can be concluded that CSR has a positive relationship with performance of firms listed at the NSE. The study findings are similar to those of Wiegel (2013) who found that philanthropic CSR and ethical CSR positively influence performance of companies in America. The study concluded that philanthropic and ethical CSR largely influenced performance of the companies in America. Moreover, the findings are similar to those of Jiao and Xie (2013) who found out that indeed environmental CSR, philanthropic CSR and ethical CSR positively influenced the profitability of Sandvik Engineering Company.

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the findings and an analysis of the results and findings focusing on the objectives, research questions, recommendations and the various areas to focus on for further research.

5.2 Summary of Findings

The study sought to answer the research question: what is the relationship between ethical CSR and performance of firms listed at the NSE? Since expenditure in ethical CSR and existence of ethical CSR policy are elements of ethical CSR, it can be concluded that ethical CSR indeed has a relation to performance of firms listed at the NSE. The study sought to answer the research question: what is the effect of environmental CSR on performance of firms listed at the NSE? The study also sought to answer the research question: what is the influence of philanthropic CSR on performance of firms listed at the NSE? From the findings, all the deviations on the dependent variable (firm performance) caused by the independent variables (ethical CSR, environmental CSR and philanthropic CSR) were not negative. Therefore, it can be concluded that environmental CSR has a positive effect on performance of firms listed at the NSE; philanthropic CSR has a positive influence on performance of firms listed at the NSE; and ethical CSR has a positive relationship with performance of firms listed at the NSE.

From the findings, environmental CSR took a lead with 0.587 deviations on firm performance, ethical CSR had 0.293 deviations on firm performance while philanthropic CSR had 0.251 deviations on firm performance. Therefore, environmental CSR had the major influence on performance of firms listed at the NSE while philanthropic CSR had the least influence on performance of firms listed at the NSE. This was proof that a relationship exists between CSR (ethical, environmental and philanthropic) and performance of firms listed at the NSE.

5.3 Conclusions

This research attempts to determine how CSR influence performance of firms in listed at the Nairobi Securities Exchange. An important finding is that the variables in the model result in the direct influence on the performance of firms listed at the NSE. The paper also provides preliminary evidence regarding the relative influence of ethical CSR, environmental CSR and philanthropic CSR on EBIT. Specifically, the findings show that environmental CSR had the major influence on performance of firms listed at the NSE while philanthropic CSR had the least influence on performance of firms listed at the NSE. Moreover, CSR recorded a positive relationship with performance of the firms listed at the NSE..

Conclusively, government and firms in Kenya should implement policies that will check on CSR quality, expenditure and effectiveness through system surveillance and improved standards. Also, expenditure in CSR activities should be in the open in order to prevent hidden tactics and to enhance faster corrective measures. The tight work schedule of firm staff and sensitivity of performance records posed a slight challenge to the study. This is because the respondents that were approached were reluctant in giving information demanding executive permission to participate or written permission to be interviewed.

5.4 Recommendations

From the study, it is evident that CSR positively influences performance of firms listed at the NSE. Therefore, the firms listed at the NSE should come up with strategies to strengthen and align their CSR activities to fast track and build the CSR programs so as to enable good performance. Moreover, the directors and managers of firms listed at the NSE should re-focus on their budget restrictions for CSR programs. The study findings shed light on the importance of environmental CSR as having the biggest influence on performance of firms listed at the NSE.

Therefore, a robust policy framework for environmental CSR programs should be adopted by the government of Kenya to help realize an effective and efficient CSR-performance relation. Theories on effective CSR, performance-CSR relationship and CSR policy for listed firms can be advanced by scholars; from the findings of this study. This is so because a good CSR strategy can contribute to profitability and sustainable competitive advantage. Therefore the findings shape the theories that link CSR to firm performance.

5.5 Suggested areas for Further Research

From the study and subsequent conclusions, the researcher recommends a further research on the impact of legal CSR on performance of firms listed at the NSE. This is because this study did not focus on legal CSR as an element of CSR programs. Furthermore, the study suggests that future studies should adopt longitudinal approaches. Longitudinal approaches should be adopted in order to analyze the effect of CSR on performance over several rounds.

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APPENDICES

Appendix I: Data Collection Form

YEAR	2010	2011	2012	2013	2014
EBIT					
[redacted]					
ETHICAL CSR					
ENVIRONMENTAL CSR					
PHILANTHROPIC CSR					
YEARLY TOTAL					

Appendix II: Letter of Introduction

The Managing Director,

………………….

Dear Sir/Madam

RE: PERMISSION TO CARRY OUT RESEARCH IN YOUR FIRM.

I am an MBA student. I am required to submit as part of my course work assessment a research project report on "THE INFLUENCE OF CSR ON FIRM PERFOMANCE" To achieve these objectives of the study, your firm has been selected to participate in this study. The information will be used purely for academic purpose and your firm will not be mentioned in the report. Findings of the study shall upon request, be availed to you.

Thank you in advance,

Yours faithfully,

………………..

Kinya Mwanja

Appendix III: UNIVERSITY LETTER OF INTRODUCTION

SOUTH EASTERN KENYA UNIVERSITY
OFFICE OF THE DIRECTOR
BOARD OF POST GRADUATE STUDIES

P.O. BOX 170-90200
KITUI, KENYA
Email: info@seku.ac.ke

TEL: 020-2413859 (KITUI)
020-2531395 (NAIROBI)
E-mail: directorbps@seku.ac.ke

Our Ref: D61/MAC/20080/2011

Date: Tuesday, November 17, 2015

Kinya Sisimonda Mwanja
Reg. No D61/MAC/20080/2011
Master of Business Administration
C/O Dean, School of Business and Economics

Dear Mwanja,

RE: PERMISSION TO PROCEED FOR DATA COLLECTION

This is to acknowledge receipt of your Master in Business Administration Proposal document entitled, ***"Influence of corporate social responsibility on firm performance among companies listed on the Nairobi securities exchange".***

Following a successful presentation of your Master Proposal, the School of Business and Economics in conjunction with the Directorate, Board of Post graduate Studies (BPS) have approved that you proceed on and carry out your research data collection in accordance with your approved proposal.

During your research work, you will be closely supervised by **Prof. Charles Ombuki** and **Dr. Jared Ariemba**. You should ensure that you liaise with your supervisors at all times. In addition, you are required to fill in a Progress Report ***(SEKU/ARSA/BPS/F-02)*** which can be downloaded from the University Website.

The Board of Postgraduate Studies wishes you well and a successful research data collection as a critical stage in your Master of Business administration.

Prof. Cornelius Wanjala
Director, Board of Postgraduate Studies

Copy to: Deputy Vice Chancellor, Academic, Research and Students Affairs
Dean, School of Business and Economics
Chairman, Department of Business & Entrepreneurship
Prof. Charles Ombuki
Dr. Jared Ariemba
Director, Machakos Campus
BPS Office- To file

ARIDO TO GREEN .... TRANSFORMING LIVES

Appendix IV: Characteristics of Firms Studied

NAME	CATEGORY	LOCATION	CHAIRMAN	SHARE CAPITAL	BRIEF
EAAGADS	Agriculture	Ruiru, Ngendu road	Luca Omariba	20,098	Grows and sells coffee
KAKUZI	Agriculture	Makuyu, punda milia road	Kenneth Tarplee	98,000	Grows and sells tea, forestry and macadamia
REA VIPINGO		Nairobi, Langata road	Oliver Fowler	300,000	Grows and sells sisal and products
SASINI		Nairobi, Loita street	James Boyd McFie	228,055	Grows and sells tea and coffee
Limuru Tea		Nairobi, Norfolk towers, Kijabe street	Eric de Foresta	24,000	Growing of green leaf tea
Car/General	Automobile and Accessories	Nairobi, Dunga/Lusaka Road	N. Nganga	167,097	Generators, earth moving equipment and light construction equipment
CMC HOLDINGS		Nairobi, Lusaka road	Kamau Kibe	291,355	sale and service of motor vehicles, and accessories
SAMEER AFRICA		Nairobi, Mombasa/Enterprise road junction	Erastus Mwongera	1,391,712	Produces tube type, tubeless tyres and flaps.
BARCLAYS	Banking	West end building,	Francis Okello	2,716	Banking services

BANK		Waiyaki way			
CFC STANBIC		Nairobi, Chiromo road	Fred Ojiambo	12345	Banking services
COOP BANK		Co-operative Bank House, Haile Sellassie Avenue	Stanley C. Muchiri	43567	Banking services
Diamond trust bank		DTB Head Office, 8th Floor, Nation Centre, Kimathi Street, Nairobi, Kenya	Abdul Samji	123448	Banking services
Equity bank		9th Floor, Equity Centre, Hospital Road, Upper Hill. Nairobi, Kenya	Peter K. Munga	7823456	Banking services
Housing finance		Rehani House, Kenyatta Avenue/Koinange Street	Steve Omenge	1,150	Banking services
KCB		Kencom House, Moi Avenue	Ngeny Biwott	330, 716	Banking services
National Bank		National Bank Building, 18 Harambee Avenue,	Mohamed A. Hassan	7, 075	Banking services

		Nairobi			
NIC bank		NIC House, Masaba Road, Upper Hill	James P. M. Ndegwa	296	Banking services
Stan chart		StandardChartered@Chiromo, 48 Westlands Road	Anne Mutahi	1,825	Banking services
Kenya airways	Services and Commercial	North Airport Road, Nairobi	Evanson Mwaniki	2, 308,000	Airline and cargo services
Longhorn Kenya		Funzi Road, Industrial Area, Nairobi	Francis T. Nyammo	58,500	Publication, printing of books
Nation Media		Nation Centre, Kimathi Street, Nairobi	Wilfred D. Kiboro	392,800	Publication, printing and distribution
SCANGROUP		The Chancery, 5th Floor, Valley Road, Upper Hill, Nairobi	David Hutchison	284,789	Integrated Marketing Communication
Standard group		Mombasa road	Robin Sewell	408,654	printing and distribution
Uchumi		Yarrow Road, Off Nanyuki Road (Industrial Area) Nairobi	Francis Okomo	1327133	Supermarket
ARM Cement	Construction and	Rhino House, Chiromo	Rick Ashley	492275	Sale of cement

	Allied	Road, Westlands			
Bamburi		Kenya-Re Towers, Upper Hill, Nairobi, Kenya	John Simba	369,959,275	
Crown paints		Mogadishu road, Industrial Area Nairobi	Mhumud Charania	118,635	Manufacture and sale of paints
East Africa cables		Industrial Area Addis Ababa Road, Nairobi	Zephaniah Mbugua	126653	Manufacture and sale of electrical cables
East African Portland cement		Namanga Road, Off Mombasa Road	Mark Ole Karbolo	4,976,194	Manufacture and sale of cement
KENGEN	Energy and Petroleum	Stima Plaza, Kolobot Road, Parklands, Nairobi	Titus Kitili Mbathi	5495904	generate and sell electricity
Kenya power		Stima Plaza, Kolobot Road, Parklands	Eliazar O. Ochola	195146045	transmission, distribution and retail of electricity
Total Kenya		Regal Plaza, Limuru Road, Nairobi	Jean Papee	9974771	Sale petroleum products
UMEME LTD.		Rwenzori House, Plot 1 Lumumba Avenue, Kampala	Patrick Bitature	27,748,000	electricity distribution and supply business in Uganda

Britam	Insurance	Britam Centre, Junction of Mara and Ragati Roads, Upperhill, Nairobi	Nicholas Ashford-Hodge	189145	Insurance services
CIC		Mara road	Japheth Anavila	2179655	Insurance services
Jubilee		Jubilee Insurance House, wabera Street, Nairobi	Nizar N Juma	299,475	Insurance services
Kenya Re		Reinsurance Plaza, Taifa Road, Nairobi	Nelius Kariuki	1,749,873	Insurance services
Liberty Kenya		CFC House, Mamlaka Road, Nairobi	Susan Mboya	515,270	Insurance services
Pan Africa		Pan Africa Life House, Kenyatta Avenue, Nairobi	John Peter Nyangeri	480000	Insurance services