

**THE RELATIONSHIP BETWEEN CORPORATE SOCIAL
RESPONSIBILITY AND FINANCIAL PERFORMANCE OF
COMPANIES LISTED IN THE NAIROBI SECURITIES EXCHANGE**

BY

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DECLARATION

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

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DR. J. ADUDA

DEDICATION

To my dear husband Ombiro Handson and my entire family and friends, you are all of great inspiration to me. Thank you for standing beside me during this entire study period.

ACKNOWLEDGEMENT

I acknowledge the Almighty God for giving me the opportunity to breathe every day and the strength to continue with my endeavours. Without Him, this far I could not have reached.

I thank my supervisor, Dr.J.Aduda, for his patience during this time and the guidance he gave me during the time of the study. His invaluable recommendations have seen me produce a report that I am proud to be part of. I also thank my moderator Mr.H.Ondigo for his contribution in this work.

I also acknowledge the defense panel supervisors under the chairmanship of Mr. Mirie Mwangi. Under their guidance, I learnt of what is expected of a quality in the research project.

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ABSTRACT

In recent years, firms have greatly increased the amount of resources allocated to CSR activities. This paper studies the empirical relation between corporate social responsibility (CSR) and financial performance in Kenya of companies listed at the Nairobi Securities Exchange continuously for a period of five years; from 2007 to 2011. Corporate social responsibility is measured by the amount spent on CSR programs while Financial performance is measured by Net profit.

According to the major findings of the study, CSR has positive relationship to the financial performance. The major significance is noted in the Net profit. The study found that there was a general upward trend in the amount invested in CSR activities between 2007 and 2011. The highest investment was seen in 2010 while the lowest in 2007. The study also found that there was an upward trend in the performance of firms listed in NSE. The year 2010 was marked with the highest expenditure on CSR followed by 2009 in most companies whereas 2007 and 2009 were the years that recorded the lowest expenditure on CSR among the companies. The best performing year was 2011 where most of the companies registered highest profit followed by 2010 whereas 2008 and 2007 were the years that recorded the lowest turnover. Along the years in all sectors the net profit has been increasing since 2007.

A recommendation for improvement of all stakeholders should embrace the importance of CSR in order to achieve the greater performance efficiency. The government should develop corporate social responsibility index for all companies and annually published in order to promote this emerging phenomenon.

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LIST OF ABBREVIATIONS

CSR-Corporate Social Responsibility
NSE-NairobiSecuritiesExchange

CHAPTER ONE:

INTRODUCTION

1.1 Background of the study

World Business Council for Sustainable Development defines social responsibility as the continuing commitment to behave ethically and contribute to economic development while also improving the quality of life of its workforce, their families, and the local community and the society at large. Corporate Responsibility Index claims that social responsibility is achieved when a company has effectively and sustainably built a lasting, meaningful relationship within its sector where it belonged and its immediate community Scott (2007). In other words, social responsibility concerns the social environment and the ever-changing social contract. Importantly, the underpinning is that a company should consider the societal impacts of its decisions and actions. Sims (2003) argued that companies must act to protect and improve the welfare of the general public. The businesses must aim not only on organizational effectiveness but on existence to address the needs of society. As social responsibility is intertwined with the issue of accountability, it can be considered as both critical and controversial because a for-profit company could be the largest and most innovative part of any free society's economy as it can drive social progress and affluence (Werther & Chandler, 2006).

Corporate Social Responsibility (CSR) is titled to aid an organization's mission as well as a guide to what the company stands for and will uphold to its consumers. Development business ethics is one of the forms of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. ISO 26000 is the recognized international standard for CSR. Public sector organizations for example, the United Nations, adhere to the line. It is widely accepted that CSR adheres to similar principles but with no formal act of legislation. The UN has developed the Principles for Responsible Investment as guidelines for investing entities.

Opposing opinions have emerged in the literature as to whether acting in an ethical and socially responsible manner adds any economic value to firms. According to Friedman

(1982), the primary objective of the management of a firm should be maximizing shareholder wealth. Others claim that companies should try to be socially responsible, and gain support for their operations from their customers, suppliers, employees, investors, and society, in general. The latter suggest that managers should maximize the well-being of stakeholders, in general. Some argue that to maintain profitable operations and to maximize shareholder wealth, socially responsible behavior may prove to be a path to it Clarkson (1995), Donaldson and Preston (1995), Freeman (1984) and Mitchell, Agle, and Wood (1997). A large body of literature has addressed the relationship between corporate social responsibility (CSR) and financial performance. However, researchers have differed in their findings about this relationship Chand (2006); Lee, Faff, & Langfield - smith (2009); Muise (2009). Because different industries differ in their views of CSR, studies involving such industries may be affected by different CSR requirements.

The study of CSR and its relation to corporate profits is growing. The most recent study on this subject by Manescu (2010) reveals that CSR activities do not generally have a negative effect on profitability, but that in the few cases where they have a positive effect, this effect is rather small. The Economics and Politics of Corporate Social Performance, by David P. Baron, Maretno A. Harjoto, and Hoje Jo (2009), found that, for consumer industries, greater corporate social performance is associated with better corporate financial performance, and the opposite is true for industrial industries. Empirical studies have examined the relation between CSR and corporate financial performance, and while the results *are* mixed, overall the research has found a positive but weak correlation."—

The concept of Corporate Social Responsibility is closely linked with the principle of Sustainable Development, which argues that corporations should make decisions based not only on financial factors such as profits or dividends, but also based on the immediate and long-term social and environmental consequences of their activities. The concept of Sustainable Development, first introduced by the World Commission on Environment and Development Report (1987), was defined as meeting "the human needs of the present without compromising the ability of future generations to meet their own needs". The debate on the role of corporations in society and on the extent to which their social

responsible behavior can be responsible for superior financial performance can be traced back to the beginning of the 1970s Moskowitz (1972), Vance (1975). Meanwhile, the perceived role of corporations, actors on a global scene, has become even more important while the willingness of investors to ensure compliance with their beliefs has grown even stronger. At present, firms are seen not only as responsible to their direct owners, i.e. shareholders and debt holders, but to stakeholders as a whole, an enormous step-ahead from the era when corporations were profit-maximization entities only e.g. "Public pensions leading the way on SRI", Financial Times weekly review of the fund management industry, May 21,2007.

On one hand, there are the views expressed in the traditional neoclassical economics Cohen et al. (1995) based on increased costs argument. Stringent environment regulation is believed to lead to higher compliance costs for companies within sensitive sectors of the economy such as; oil and gas, implying a competitive disadvantage. As the environment is one of the four main production factors, imposing limitations on it through investments in cutting edge technologies as a way to reduce pollution, for example, will necessarily increase the costs Palmer (1995), Siebert (1980). On the other hand, the revisionist economic view proponents Porter, van der Linde (1995) base their theory on cost savings and revenue increases argument. Stringent Corporate Social Responsibility regulation is assumed to generate a competitive advantage when it is complied with through innovative technology. The need- of complying with environmental regulation will stimulate new solutions in terms of new technology that improve resource productivity, production process efficiency and avoidance of waste. Also, better technology implies lower environmental risks as less environmental taxes or charges will be paid as well as fewer pollution rights will be purchased (Schaltegger and Muller 1998).

The connection between corporate social performance and firm financial profitability is based on equilibrium asset pricing models as well as on the efficient market hypothesis Guenster et al. (2005). It predicts three possible relations. One direction of reasoning postulates a neutral relation. It assumes that the risk associated with compliance with Corporate Social Responsibility is not priced, therefore all companies, CSR complying as

well as non-CSR complying, have the same rate of expected return and face the same cost of equity capital Hamilton et al. (1993). This reasoning is in line with standard financial theory (risk-return paradigm) where only risk factors are priced in the market. On the other hand, if the risk associated to Corporate Social Responsibility compliance is correctly priced by the market, the same risk-return paradigm would imply a negative relation between corporate social performance and financial performance.

Shareholders, investors and stakeholders at large make most of their investment decisions basing greatly on the financial performance Boron (2000). One construct that may predict Corporate Financial Performance is (CSR), it is the continuing commitment by a business to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large Moir (2001). However, there is a protracted debate about the legitimacy and value of corporate responses to CSR concerns. For example, Murphy (2005) described CSR as being 'little more than a cosmetic treatment,' and Santiago (2004) reports advantages of practicing CSR. On the other hand, Waddock and Graves (1997), Hillman and Keim (2001), Verschoor and Murphy (2002), find that increased CSR leads to enhanced financial performance.

Major corporate ethical disasters impacting the environment, human resources, and the community have heightened the demand for public firms to voluntarily disclose their CSR activities for stakeholders. As a result, CSR has become more than an important issue in the business world Waller & Lanis (2009). In addition, CSR disclosure is an extension of the financial disclosure system, which reflects the wider anticipation of society concerning the role of the business community in the economy. Furthermore, with the rapid collapse of cross-border economic barriers and the globalization of business, progressively the role of CSR is being debated in an international arena; van der Laan Smith, Adhikari & Tondkar (2005). May & Khare (2008) defined CSR as: "The continuing commitment by business to behave ethically and contribute to economic development, while improving that quality of life of the workforce and their families as of the local community at large".

1.1.1 Corporate social responsibility in Kenya

Corporate social responsibility is a relatively new topic in Kenya. Since government authorities alone are unable to combat poverty and ensure sustainable development, international organizations, local NGOs and national and international companies need to support them in their efforts. United Nations programs have been among the first to introduce the concept of CSR to Kenya. Kenyan companies, too, are actively engaged in social issues, they need to meet the expectations of their foreign trading partners in such areas as labor standards and environmental protection. Some companies are marketing innovative products to low-income consumers. For example; M-Pesa's mobile banking services, which allow people without a bank account to transfer money using their mobile telephones, and Equity Bank, which makes bank accounts available to the poor. Segera Conservancy, a German-owned private cattle and wildlife ranch, was the first company in Kenya to submit voluntarily to an audit by the Fair Labor Association.

1.1.2 The Nairobi Securities Exchange

The Nairobi Securities Exchange is licensed and regulated by the Capital Markets Authority. It has the mandate of providing a trading platform for listed securities and overseeing its Member Firms. In Kenya, dealing in shares and securities started in the 1920's when the country was still a British colony. However the market was not formal as there did not exist any rules and regulations to govern stock broking activities. The NSE marked the first day of automated trading in government bonds through the Automated Trading System in November 2009. The automated trading in government bonds marked a significant step in the efforts by the NSE and central bank towards creating depth in the capital markets by providing the necessary liquidity. NSE requires listed companies to publish their financial results as a statutory obligation. These firms are expected to be pace-setters in the disclosure of information regarding CSR and financial performance of firms.

Under the "Guidelines on Reporting and Disclosure in Kenya", companies are required to disclose CSR based on the themes of Environmental and Social Stewardship; Code of Ethics; Statement of Compliance and Assurance. There are only 60 listed Companies at the NSE. The companies are classified into various categories which include, Agricultural; Commercial and services; Telecommunication and Technology; Banking;

Insurance; Investment; Manufacturing and Allied; Construction and Allied; and Energy and Petroleum. Profile of all companies listed on the stock market is available in the NSE's annual directory.

1.2 Statement of the problem

The relationship between CSR and financial performance has been investigated for more than 3 decades, Park (2010). Studies have found positive, negative and no relationships. The general problem is that the literature presents inconsistent findings on the relationship between CSR and financial performance Lee & Park (2010). The specific focus of this study is the relationship between CSR and both previous and subsequent financial performance of companies listed in the NSE.

The argument for a negative relationship follows the thinking of those such as Friedman (1970). According to his view, socially responsible firms have a competitive disadvantage Aupperle et al. (1985), because they incur costs that fall directly upon the bottom line and reduce profits, while these costs could be avoided or borne by individuals or the government. On the other hand, many empirical results reveal no significant relationship between CSR and financial performance. According to this line of thinking Ullman (1985), there are so many variables that intervene between the two that a relationship should not be expected to exist.

The third view proposes that there is a positive linkage, since the actual costs of CSR are covered by the benefits. A firm that attempts to decrease its implicit costs by socially irresponsible behavior, for example, neglecting to take measures against pollution will eventually incur higher explicit costs. Socially responsible companies have less risk of negative events. It is less likely for these companies to pay heavy fines for excessive polluting, to have costly lawsuits against them, or to experience socially negative events that would be destructive to their reputation.

Companies perceived to have a strong CSR commitment often have an increased ability to attract and to retain employees Turban & Greening (1997), which leads to reduced

turnover, recruitment, and training costs. Employees, too, often evaluate their companies CSR performance to determine if their personal values conflict with those of the businesses at which they work. Companies that improve working conditions and labor practices also experience increased productivity and reduced error rates. Regular controls in the production facilities throughout the world ensure that all the employees work under good conditions and earn living wages. These practices are costly, but the increased productivity of the workers and improved quality of the products generate positive cash flows that cover the associated costs. Thus, firms may actually benefit from socially responsible actions in terms of employee morale and productivity (Moskowitz, 1972; Parket & Eibert, 1975; Soloman & Hansen, 1985).

In Kenya, Corporate managers from various organizations and companies benefited from CSR training organized by Ufadhili Trust (2011). The training was intended to help corporate managers gain a deeper understanding of this important concept and business practice. Participants were taken through the process of developing an effective community engagement strategy, how CSR can be used to embed responsible business values throughout the company/organizations, and how community engagement if done well, has the potential to improve a company's reputation and brand value. The training was facilitated by the leading CSR experts including; Paul Kasimu- Group HR Director, East African Breweries, Rehema Muniu of Synovate-Kenya, Maryjka Beckmann of AAR Beckmann Trust, Regina Gichuhi - Community Relations Manager at Barclays Bank and Rosemary Mutunkei of the Kenya Red Cross Society.

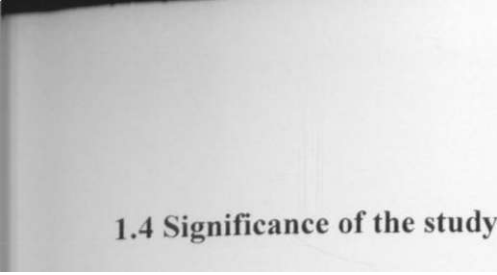
Wayne Visser (2007) on her study on reflections of CSR; Kenya is still mostly stuck in the public relations mode. However, there are inspiring examples of CSR practice, such as Salaricom's M-PESA scheme, which allows the unbanked to transfer money by mobile phone text. Similarly, Equity Bank, which has successfully targeted the poorest sectors of society, with 4.1 million accounts, makes up over 52% of all bank accounts in Kenya.

A study on CSR in Kenya's telecommunication sector: a case study of Safaricom (K) Ltd. According to Balabanis (1998), corporate social responsibility is a set of policies, practices and programs that are set in order to achieve commercial success in ways that honor ethical, commercial, economic and other expectations that the society has for business and making decisions that fairly balance the claims of all key stakeholders. Often companies support or sponsor community events such as medical camps, sports, school fees, festivals, scholarship and awards and environmental clean-up. Most organizations encourage their employees to get involved in their communities. It is not unusual to find business people holding key positions as community volunteers. Most organizations depend on such cadre of volunteers to accomplish their goals. Getting involved in such activities would repay the company in a thousand ways one never even knew existed (Fry and Keim: 94-106).

Although there has been much work in the field, the empirical data is scattered, and provides no definitive conclusions on the relationship between CSR and a firm's performance, whether it is positive or negative. Anecdotal evidence certainly suggests that investment in corporate ethics and social responsibility, as well as avoiding negative consequences, can often lead to positive payoffs Herremans (1993:601). It is also important to acknowledge that while positive or neutral correlations between social and environmental responsibility and superior financial performance have generally been supported by the evidence, conclusive causal links have not. Many studies are being undertaken, with varying conclusions.

1.3 Objective of the study

The objective of the study will be to determine the relationship between CSR and financial performance of companies listed at the NSE.



1.4 Significance of the study

The study will be important to the Finance profession and the standard setting bodies as it will show the present relationship of CSR and financial performance of companies listed in NSE as well as the extent of its adoption in companies in Kenya.

The study will also be important to the management of companies as they will be able to use the information as a base for making decisions, understand its importance and observe the trend of the impact of CSR on financial performance.

Finally, the study will be important to academics and scholars. The present study will make recommendations that will be of significance to those who may wish to carry out further studies in the area.

CHAPTER TWO:

LITERATURE REVIEW

2.1 Introduction

The precise nature of CSR is understood in different ways, with differences in understanding or representation of the concept relatable to different paradigms and concerns. Although there are several contested notions of what CSR should be and how it should work, there is some agreement upon what it broadly entails. A number of concepts and issues are subsumed under the heading of CSR, including human rights, environmental responsibility, diversity management, sustainability, and philanthropy Amaeshi & Adi (2006), meaning that it is a complex area with an interdisciplinary focus. This chapter brings up relevant literature required to find answers and connect to our research objective. First, a review of theories that guide this study will be presented to give the research a firm theoretical base. Then, empirical studies done on this research topic will be looked at which will make it easier to understand the research area.

2.2 Theoretical review

2.2.1 The Stakeholders Theory

The stakeholder theory which holds that business organization must play an active social role in the society in which it operates. Freeman (1984) one of the advocates of stakeholder theory, presented a more positive view of manager's support of CSR. He asserts that managers must satisfy a variety of constituents (e.g. investors and shareholders, employees, customers, suppliers, government and local community organizations) who can influence firm outcomes. According to this view, it is not sufficient for managers to focus exclusively on the needs of stockholders, or the owners of the corporation. Stakeholder theory implies that it can be beneficial for the firm to engage in certain CSR activities that non- financial stakeholders perceive to be important, otherwise, these groups might withdraw their support. Stakeholder's groups vary from firm to firm, as well as the importance of each of them. CSR should begin with identification of stakeholders and follow by finding the strategy how to satisfy and harmonize their expectations.

Emerging alongside the CSR and 'triple-bottom-line' theory, stakeholder theory stands in contrast to the neo-classical conception of managerial obligations where the social responsibility of business is to maximize business. More narrowly, a stakeholder is "any individual or group whose role-relationship with an organisation: a) helps to define the organisation, its mission, purpose or its goals, and/or b) is vital to the development, functioning, survival and success or wellbeing of the organisation and its services, or c) is affected by the organisation and its activities" (Werhane & Freeman, 1999).

A fundamental characteristic of stakeholder theory is therefore to attempt to identify individuals and groups that states, organisations and companies are accountable to, but that has also been part of the theory's challenge Anheier (2005); Anderson & Bieniaszewska (2005). The interaction between the corporation and its stakeholders is the essence of stakeholder theory, and in consequence terms like "participation", "inclusion", "voice", "involvement" and "partnership" is common in stakeholder literature. These terms have been put in the same basket named "stakeholder dialogue" to describe the involvement of stakeholders in decision-making processes that concern both social and environmental issues (Rahbek and Pedersen 2006).

2.2.2 Economic theory

Economic theory related to corporate social responsibility is mainly based on the environmental component. On one hand, there are the views expressed in the traditional neoclassical economics Cohen et al. (1995) based on increased costs argument. Stringent environment regulation is believed to lead to higher compliance costs for companies within sensitive sectors of the economy (eg. oil and gas), implying a competitive disadvantage. As the environment is one of the four main production factors, imposing limitations on it through investments in cutting edge technologies as a way to reduce pollution, for example will necessarily increase the costs Palmer (1995); Siebert (1980). On the other hand, the revisionist economic view proponents Porter, van der Linde (1995) base their theory on cost savings and revenue increases argument. Stringent Corporate Social Responsibility regulation is assumed to generate a competitive

advantage when it is complied with through innovative technology. The need of complying with environmental regulation will stimulate new solutions in terms of new technology that improve resource productivity, production process efficiency and avoidance of waste. Also, better technology implies lower environmental risks as less environmental taxes or charges will be paid as well as fewer pollution rights will be purchased (Schaltegger and Muller 1998).

2.2.3 Financial theory

Financial theories on the connection between corporate social performance and firm financial profitability are based on equilibrium asset pricing models as well as on the efficient market hypothesis Guenster et al (2005). It predicts three possible relations. One direction of reasoning postulates a neutral relation. It assumes that the risk associated with compliance with Corporate Social Responsibility is not priced, therefore all companies, CSR complying as well as non-CSR complying, have the same rate of expected return and face the same cost of equity capital, Hamilton et al. (1993). This reasoning is in line with standard financial theory (risk-return paradigm) where only risk factors are priced in the market.

On the other hand, if the risk associated to Corporate Social Responsibility compliance is (correctly) priced by the market, the same risk-return paradigm would imply a negative relation between •corporate social performance and financial performance. This is possibly due to the old governmental interest for policy implications, i.e. environmental regulation. According to Spicer (1983), firms which actively account for the CSR risk factor are seen as less risky investments relative to the firms that ignore it. Consequently, on a risk-adjusted basis, their expected returns are predicted to be lower. Finally, the third view postulates that the compliance with Corporate Social Responsibility principles is not efficiently priced by market participants. A positive or negative relation follows depending on the sign of the inefficiency. For example, Hamilton et al. (1993) argue that, if a sufficiently large number of investors underestimate or overestimate the probability that adverse events related to Corporate Social Responsibility issues might affect

companies not complying with the CSR principles, and their stocks will provide lower (higher) risk-adjusted return than socially responsible companies stocks.

Since the answer to the question whether the risk associated to Corporate Social Responsibility issues is correctly priced by the market cannot be given on theoretical grounds only, it is investors perception of the relevance of the Corporate Social Responsibility principles that counts in the end. If investors believed that companies implementing the Corporate Social Responsibility principles are resource wasteful, they would determine a negative return premium on these companies stocks. To the contrary, if CSR behavior of companies is in line with investors beliefs, they would determine a positive return premium for these companies stocks (Ullman, 1985).

2.2.4 Value theory

Value theory claims that although stakeholders are different in terms of their value priorities, the interest of a stakeholder's value relative importance that they place on these universally important value types Siltaoja (2006). Therefore, large firms have as many reputations as there are distinctive groups that take an interest in them Bromley (2002). In addition, MacMillan et al (2005) points out that stakeholders prefer coherence with a common concern for a reputation entity. Hence, in order to maintain these firms' reputations, they should improve the relationship with their stakeholders via CSR disclosure. •

Many studies set out the importance of stakeholder perceptions in order to understand the nature of a firm's reputation; Dowling (2004). In addition, Siltaoja (2006) suggests that value is an over arching matter, meaning a company with good reputation has values, which suit to individuals own values. Value theory was employed to explore the nature of CSR and corporate reputation using qualitative Siltaoja (2006). Schwartz (1999) 'study shows ten motivationally distinct types of values such as power, achievement, hedonism, stimulation, benevolence, and security that enable scholars to use them in culture worldwide. These motivations are included within CSR actions that are disclosed in annual reports of firms. Furthermore, Fombrun, Gardberg and Sever (2000) explain the

eight most common survey instruments to use in order to create values (measures) through corporate reputation.

2.3 Financial performance measures

Although measuring financial performance is considered a simpler task, it also has specific complications. Many researchers use market measures, Alexander and Buchholz (1978); Vance, S. C. (1975), others put forth accounting measures Waddock and Graves (1997); Cochran and Wood (1984) and some adopt both of these McGuire, J. B., Sundgren, A., Schneeweis, T., (1988). The two measures, which represent different perspectives of how to evaluate a firm's financial performance, have different theoretical implications Hillman and Keim (2001) and each is subject to particular biases McGuire, Schneeweis, & Hill (1986).

Accounting measures capture only historical aspects of firm performance McGuire, Schneeweis, & Hill (1986). They are subject, moreover, to bias from managerial manipulation and differences in accounting procedures, Branch (1983); Brilloff (1972). Market measures are forward looking and focus on market performance and hence they are less susceptible to different accounting procedures. The stock-market-based measures of performance also yields obstacles, McGuire, Schneeweis, & Branch (1986). According to Ullmann (1985), for example, the use of market measures suggests that an investor's valuation of firm's performance is a proper performance measure (McGuire, J. B., Sundgren, A., Schneeweis, T., 1988). _

Three measures of financial performance are commonly used: the Market-to-Book ratio, accounting profit ratios, such as Return on Assets; and stock market returns. We observe which financial performance measure is used in 68 empirical studies. In this study, to explain the relationship between financial performance and corporate social responsibility, we measure financial performance in terms of profit after tax for the period of 2007-2011. This will be attained from the financial statements of companies listed in the NSE.

2.4 Empirical review

In an attempt to understand the relationship between CSR and financial performance, there have been numerous empirical studies devoted to the relationship between corporate social performance and future financial performance. These studies have concluded that an overall positive relationship between CSR and performance exists, supporting the perspective of CSR. This positive association between CSR and future financial performance, however, has not consistently been the result of prior studies. Cochran and Wood (1984), find the relationship between CSR and financial performance to be positive.

Nelling and Webb (2006) study on the causal relation between corporate social responsibility and financial performance of firms using Granger causality models. They discovered that the relation between Corporate Social Responsibility and financial performance is much weaker than previously thought. They suggest that strong stock market performance results in more investment by firms to improve their CSR. However, CSR activities do not affect future financial performance of companies. Verschoor and Murphy (2002) use the top 100 Best Corporate Citizens of the Business Ethics magazine and conclude that socially responsible firms outperform the S&P500 index. McGuire, Sundgren and Schneeweis (1988) find that past financial performance has implications for the current measures of CSR; however, past measures of CSR have no impact on the future financial performance of companies.

According to Dodd (1932), Jarrell and Peltzman (1985), Hoffer et al. (1988); Preston and O'Bannon (1997); Waddock and Graves (1997); Griffin and Mahon (1997); McWilliams and Siegel (2000); and Simpson and Kohers (2002), the empirical study results on link have never been in agreement, as some studies determined negative correlation, some determined positive correlation, while others determined no correlation at all. The viewpoint for positive correlation between CSR and financial performance suggests that as a company's explicit costs are opposite of the hidden costs of stakeholders, therefore, this viewpoint is proposed from the perspectives of avoiding cost to major stakeholders and considering their satisfaction, Cornell and Shapiro (1987). This argument is

meaningful and reasonable, as good relationships with employees, suppliers, and customers are necessary for the survival of a company. Bowman and Haire (1975) pointed out that some shareholders regard CSR as a symbolic management skill, that is; as a symbol of reputation, and the company reputation will be improved by actions to support the community, resulting in positive influence on sales.

According to Margolis and Walsh (2002), one hundred twenty-two published studies between 1971 and 2001 empirically examined the relationship between corporate social responsibility and financial performance. The first study was published by Narver (1971). Empirical studies of the relationship between CSR and financial performance comprises essentially two types. The first uses the event study methodology to assess the short-run financial impact when firms engage in either socially responsible or irresponsible acts and the results of these studies have been mixed. Wright and Ferris (1997) discovered a negative relationship; Posnikoff (1997) reported a positive relationship, while Welch and Wazzan (1999) found no relationship between CSR and financial performance. Other studies, discussed in McWilliams and Siegel (1997), are similarly inconsistent concerning the relationship between CSR and short run financial returns.

The second type of study examines the relationship between some measure of corporate social performance and measures of long term financial performance, by using accounting or financial measures of profitability. The studies that explore the relationship between social responsibility and accounting-based performance measures have also produced mixed results. Cochran and Wood (1984) located a positive correlation between social responsibility and accounting performance after controlling for the age of assets. Aupperle, Carroll, and Hatfield (1985) detected no significant relation between CSR and a firm's risk adjusted return on assets. In contrast, Waddock and Graves (1997) found significant positive relationships between an index of corporate social performance and performance measures, such as ROA in the following year. Studies using measures of return based on the stock market also indicate diverse results. Vance (1975) refutes previous research by Moskowitz by extending the time period for analysis from 6 months

to 3 years, thereby producing results which contradict Moskowitz and which indicate a **negative** relationship.

Alexander and Buchholz (1978) improved on Vance's analysis by evaluating stock **market** performance of an identical group of stocks on a risk adjusted basis, yielding an **inconclusive** result. Several research studies have examined corporate social **responsibility** (CSR) and its effects on business performance, but their results vary **widely**. This may stem from flawed analyses by regressing financial performance on **corporate** social performance, and/or perhaps from several inadequately controlled variables. Previous studies did not recognize investment in research and development as a critical variable because there is considerable empirical evidence to indicate that it has a strong positive **impact** on **profitability**. This misidentification creates biased estimates of the **financial** impact on corporate social responsibility. McGuire, Sundgren and Schneeweis (1988) found that prior year's stock returns and accounting-based performance measures are related to current measures of CSR, but that a past record of good social performance does not affect the current financial performance of a firm. Waddock and Graves (1997) suggested that positive stakeholder relationships can reduce the likelihood of difficulty when dealing with different groups.

Good social performance and good managerial practice may be related, and in turn may lead to strong financial performance. Hillman and Keim (2001) found that increased CSR leads to enhanced financial performance and vice versa. Verschoor and Murphy (2002), used the top 100 "Best Corporate Citizens" as reported by Business Ethics magazine, found that firms with strong social values and practices exhibit superior financial performance. Hillman and Keim (2001) suggested that misspecification arises from using broad measures of CSR in the models, and that a more focused approach is warranted. They concluded that stakeholder management leads to improved shareholder value but that social issue participation does not.

CSR has also attracted the attention of mutual fund investors, and a number of funds using CSR as a screening device for investment selection. Orlitzky et al (2003) integrated

">,0 years of research from 52 previous studies and used meta analytical techniques to support the proposition that corporate social performance and corporate financial performance are positively correlated and statistically significant. The meta analysis revealed a higher correlation between financial performance and a company's management of its social impact than between financial performance and a company's management of its environmental performance. Studies by investment analysts and fund managers on the performance of socially responsible investment fund products and sustainability indices are also regularly reported in order to attract investors and encourage participation. Aupperle et al. (1985), Griffin and Mahon (1997), Husted (2000), McWilliams and Siegel (2001), Pava and Krausz (1995), Ullmann (1985), Wartick and Cochran (1985), Wood (1991); Wood and Jones (1995) have proposed conceptual explanations for the existence (or lack thereof) of a causal relationship between corporate social performance and corporate financial performance, but failed to provide clear cut answers.

Recent investigation undertaken by Baron et al. (2009) demonstrates that these questions remain unanswered. They examined the connection between CSR and financial performance combining the variable "Social Pressure" as a moderating factor of this relation. The inclusion of this factor to the study leads to a neutral relation. However, when excluding the activity of the variable "Social Pressure" from the model they found that the relation is associated to sector, producing a negative relation to industrial corporations, while producing an opposite result for the commerce and service sectors. In Dubai, Rettab et al. (2009) found that CSR affect positively organizational performance.

The examination of the nature of the relationship between measures for long-term financial performance and measures of CSR is the second set that is used from accounting and financial measures of profitability according to Aguilera et al. (2007); Mahoney & Roberts (2007); McGuire, Sundgren & Schneeweis (1988); McWilliams & Siegel (2000); Simpson & Kohers (2002); Waddock & Graves (1997). They also gained mixed results in these studies. Waddock & Graves (1997) and Simpson & Kohers (2002) found a significant positive relationship between CSR and profitability. While McGuire,

Sundgren & Schneeweis (1988) revealed that subsequent performance was less closely related to CSR than prior performance. Aguilera et al (2007) found that there is strong evidence for a positive and significant association between them. In addition, McWilliams and Siegel (2000) examined the relationship between two with a regression model that measures financial performance as the dependent variable while social performance as the independent variable during the period 1991-1996 for 524 large companies. They concluded that there was no link between CSR and financial performance if the regression model was properly specified.

Simpson & Kohers (2002) tested the relationship between CSR and financial performance in the banking industry where the community Reinvestment Act was used as a social performance measure. They found that there is a positive relationship. Griffin & Mahon (1997) revealed that the relationship was mixed between a positive and negative relationship. However, most of the findings found a positive relationship. Mahoney & Roberts (2007) also examined the relationship in a large sample of public companies during four years of panel data in Canada. The study yielded no significant relationship between them. Yet, they revealed a significant relationship between some CSR activities such as environmental and international activities and financial performance

Rettab, Brik & Mellahi (2009) in the UAE market as an emerging economy conducted a study on the relation of CSR and financial performance. They tested the relationship in 280 industries (manufacturing, trading and repairing services, hotels and restaurants, real estate, rental, and business services, education, banking and financial services, mining and quarrying, and others). Although there are some challenges that have contributed to ineffective engagement with stakeholders and the lack of communication of CSR activities, they found a strong positive relationship between CSR and Financial performance.

2.4 Conclusion

The field of (CSR) has grown exponentially in the last decade. Nevertheless, there remains a protracted debate about the legitimacy and value of corporate responses to CSR concerns. This study explores the relationship between CSR and financial performance. The existing studies on the relation between CSR and financial performance provide mixed results. This study is motivated by the lack of consistent evidence on the relationship between CSR and financial performance (Carhart's, 1997)

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. Specifically it includes the following subsections; research design, target population, data collection procedures and finally data analysis.

3.2 Research design

The causal study design was employed in this research. Causal research aims to suggest causal linkages between variables by observing existing phenomena and searching back through available data in order to identify plausible causal relationships. It is concerned with determining the cause and effect relationship and to understand which variable is dependent and which is independent (Ross, 2005). This research design was the best in explaining if two variables are related and if they vary together with the help of enough information or data for testing cause and effect relationship. It aimed to exploring the relationship between CSR and financial performance of companies listed in NSE and the empirical evidences that help answer the research objective.

3.3 Population

The population of interest consisted of all companies listed at the Nairobi Stock Exchange. The study includes the listed companies because of their investor orientation and statutory obligations.

3.4 Sample

The sample of the study comprised of companies continuously listed in the NSE for a period of 5 years (2007 to 2011). This sample will be chosen since it has a cumulative data for 5 years and thus consistency in disclosure of their financial performance and

CSR practices. These firms are selected based on the fact that they are expected to be pace-setters.

3.5 Data collection

The study used both secondary and primary data. Secondary data was collected from **annual** reports of companies listed in the NSE obtained from Capital Markets Authority. Financial performance measure; in terms of profit after tax for the period of 2007-2011 was attained from the reports. While Primary data in questionnaire forms were administered to companies listed in the NSE to collect data concerning CSR expenditure. Financial statements together with the notes to the financial statements including the management report will be scrutinized for information regarding CSR and profits in the respective companies. A checklist was developed to aid in collection of data, which will be based on previous studies in this area.

This data is useful for generating additional information for the study from already documented data or available reports. Cooper and Schindler (2003) further explain that secondary data is a useful quantitative technique for evaluating historical or contemporary confidential or public records, reports, government documents and opinions. Mugenda and Mugenda (2003) add that, numerical records can also be considered a sub category of documents and those records include figures, reports and budgets. This basically implied the incorporation of valuable statistical data in the study.

Primary data refers to the information gathered directly from respondents and for this study the researcher used questionnaires. The questionnaire was to be used to collect mainly quantitative data although some qualitative data were to be collected from the open ended questions. Secondary data involved the collection and analysis of published material and information from other sources such as annual reports, published data. Thus in this study the researcher employed the use of survey questionnaire for data collection.

The researcher administered a survey questionnaire to each member of the target population. The questionnaire was carefully designed and tested with a few members of the population for further improvements. This was done in order to enhance its validity

and accuracy of data to be collected for the study. The researcher exercised care and control to ensure all questionnaires issued to the respondents are received and achieve this, the researcher maintained a register of questionnaires, which were sent, and received.

3.6 Data analysis and model of the study

In order to determine the relationship between CSR and financial performance of companies listed in NSE, The study adopted a model on the causal relationship between CSR and Firm's Financial Performance. This study employed regression analysis, Fogler and Nutt (1975); Vance (1975); McWilliams et al. (2000); Hull et al. (2008) as the main statistical method, where CSR is an independent variable and financial performance is a dependent variable.

Quantitative data collected was analyzed by the use of descriptive statistics using SPSS and presented through percentages, means, standard deviations and frequencies. The information was then displayed by use of bar charts, graphs and pie charts and in prose-form. This was done by computing percentages of variations as well as describing and interpreting the data in line with the study objectives and assumptions through use of SPSS. Inferential statistics regression established the relationship between CSR and financial performance. The logistic regression used in this model was:

$$Y = a + \sum P_i X_i + e$$

Where

Y= Financial performance (Return on investment)

a = Constant Term (the value of Financial performance when all variable are held to constant zero)

P_i= Beta Coefficients

X_i= CSR value (CSR expenditure)

e = Error Term

CHAPTER FOUR
DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.1 Introduction

This chapter presents the data collected from the field which is vital in analysing the hypotheses at hand. The finding are then analyzed and presented using SPSS which enabled to get frequency tables, graphs and contingency tables. The questionnaires were used to collect mainly quantitative data although some qualitative data was collected from the open ended questions. Secondary data involved the collection and analysis data from the annual reports of companies listed in NSE continuously for 5 years;2007 to 2011. The frequency tables represent the figures of the basic data while the graphs and pie charts help to give a clearer picture of the variables in question.

4.2 Response Rate

The population of interest consists of all companies listed at the Nairobi Stock Exchange. The study included the listed companies because of their investor orientation and statutory obligations. Fortunately all targeted responded were cooperated thus the data is represented on a basis of eighteen companies; 100 percent success. The study selected companies continuously listed in the NSE for a period of 5 years (2007 to 2011). These firms^were selected based on the fact that they are expected to be pace-setters. These companies cut across all sectors

SECTOR	COMPANY
1. Agriculture	REA VIPINGO LTD
2. commercial and services	NATION MEDIA
	KENYA AIRWAYS
3. Telecommunication and Technology	SAFARICOM
	ACCESS KENYA
4. Automobiles and accessories	TPS E.A LTD
	SCAN GROUP LTD
5. Banking	KCB

	NIC BANK
insurance	JUBILEE HOLDINGS
insurance	PAN AFRICA INSURANCE
2. Investment	CENTUM
	HOUSING FINANCE
3. Manufacturing and Allied	EABL
	EVEREADY EA LTD
Construction and Allied	BAMBURI CEMENT
	ATHI RIVER MINING
5. Energy and Petroleum	KENOL KOBIL

Table 1: List of companies

Figure 1: company average net profit

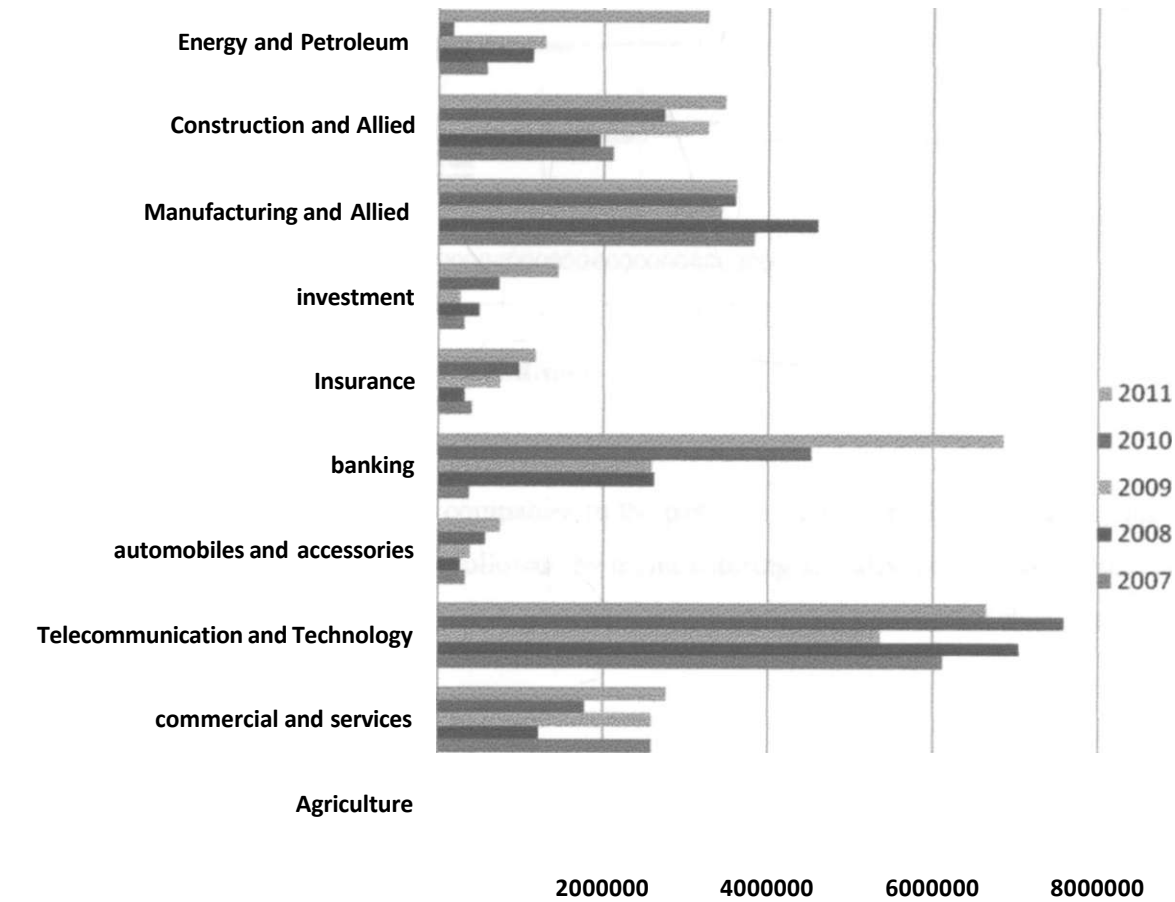


Figure 1: company average net profit

Interpretation

Among all sectors, telecommunication and technology are the best in terms of net profit in the past five years, followed by manufacturing and allied then banking industry, while the bottom performing companies include Agriculture, automobile and accessories then investment respectively.

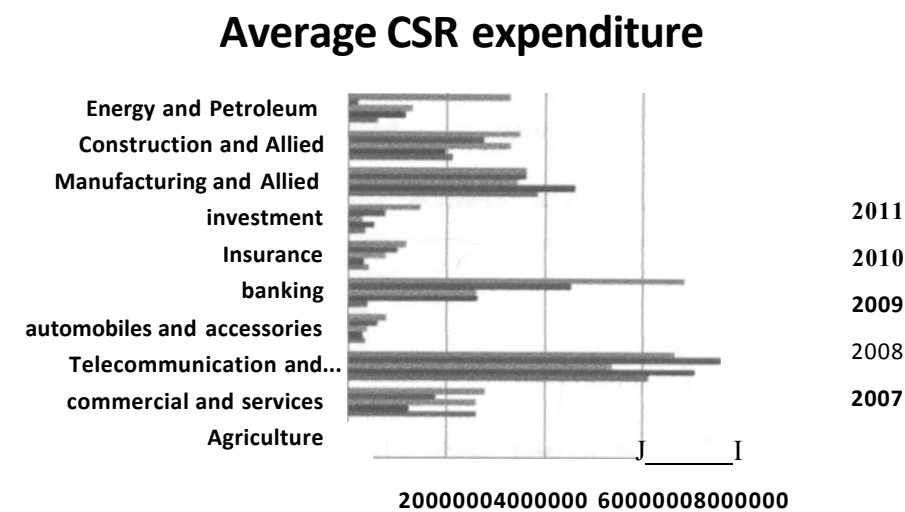


Figure 2: Company average CSR expenditure

Interpretation

Telecommunication and technology companies in the past five years were the companies that had the highest expenditure on CSR, followed by manufacturing and allied then construction and allied industry, while the least included; Agriculture, automobile and accessories then insurances respectively.

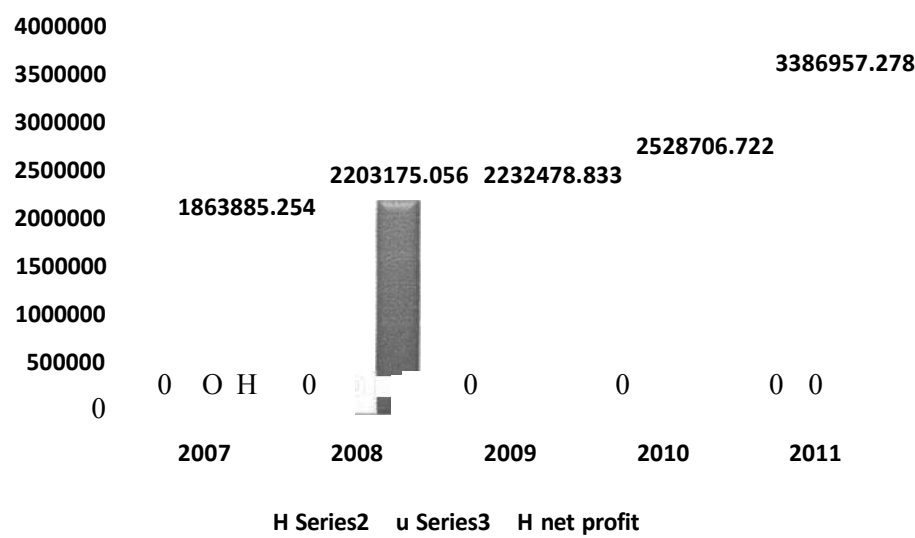


Figure 3: Average net profit

Interpretation

The best performing year is 2011 where most of the companies registered highest profit followed by 2010 whereas 2008 and 2007 were the years that recorded the lowest turnover along the years in all sectors the net profit has been increasing since 2007.

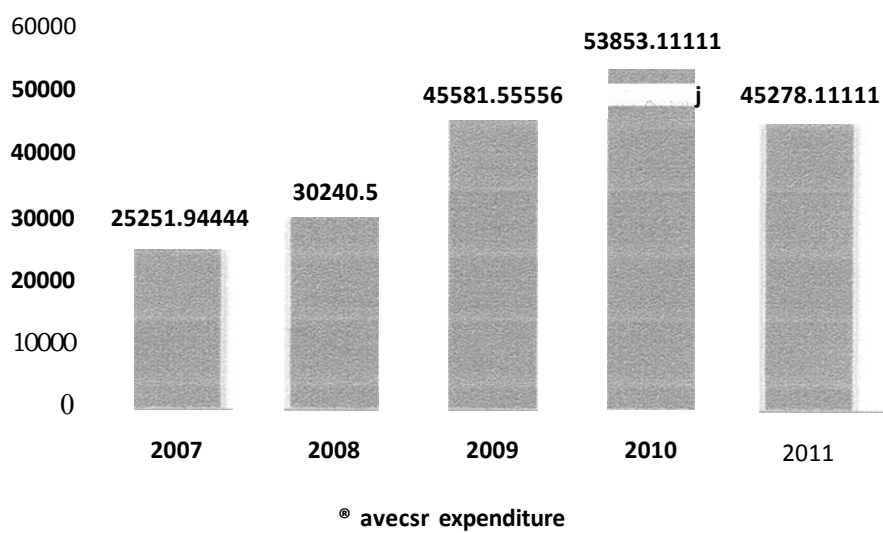


figure 4: Average CSR expense

Interpretation

The year 2010 was marked with the highest expenditure on CSR followed by 2009 in most companies whereas 2007 and 2008 were the years that recorded the lowest expenditure on CSR among the companies.

		COMPANY	AVE.CSR (000)	AVE.NETP(OOO)
N	Valid	18	18	18
	Missing	0	0	0
Mean			39751.35	2360132.76
Std. Error of Mean			19092.729	796058.060
Median			2434.60	1117004.90
Mode			367(a)	11446(a)
Std. Deviation			81003.588	3377388.313
Variance			6561581307.391	11406751817894.750
Range			261632	12930052
Minimum			367	11446
Maximum			261999	12941498
Sum			715524	42482390

Table 2: Quantitative data

Interpretation

The average CSR expenditure in these companies is khs. 39,751,350 per year which is equivalent to 1.7 % of the net profit.

Indices									
	N	Range	Minimum	Maximum	Sum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
CSR	18	261631.8	367.4	261999.2	715524.4	39751.35	19092.73	81003.59	6.56E+09
NFIP TOT	18	12930052	11445.6	12941498	42482390	2360133	796058.1	3377388	1.14E+13
	18	12007456	2974.572	12010431	32841199	1824511	757657.3	3214468	1.03E+13
	18	13943632	-90346	13853286	38333679	2129649	868847.6	3686208	1.36E+13
	18	10508489	28271	10536760	38741165	2152287	697382.8	2958745	8.75E+12
	18	15156038	-8000	15148038	45271702	2515095	915777.7	3885316	1.51E+13
	18	13282967	-123994	13158973	57224204	3179122	897578.9	3808105	1.45E+13
	18	167395	0	167395	448166	24898.11	12306.42	52211.71	2.73E+09
	18	209760	240	210000	536486.8	29804.82	15011.16	63686.94	4.06E+09
	18	276073	0	276073	815967.6	45331.53	21178.64	89853.38	8.07E+09
	18	349000	0	349000	966470	53692.78	26877.17	114030.2	1.3E+10
iNpisT	18	397720	960	398680	810531.4	45029.52	25065.23	106342.8	1.13E+10
	18								

The highest CSR expenditure is Khs. 261,999,000 and the lowest is Khs.367,000 where the range is Ksh. 261,632,000.

4.3 Model of the study

Regression

In order to determine the relationship between CSR and financial performance of companies listed in NSE, a model on the causal relationship between CSR and Firm's Financial Performance was adopted,. This study employed regression analysis where CSR is an independent variable and financial performance is a dependent variable.

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
	10.685722	0.470215	0.437104	2533934	0.470215	14.20093	1	16	0.00168
a									

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig-
1	Regression	9.12E+13	1	9.12E+13	14.20093	0.001681
	Residual	1.03E+14	16	6.42E+12		
	Total	1.94E+14	17			
a	Predictors: (Constant), AVE.CSR					
b	Dependent Variable: AVERAGE NET PROFIT					

Interpretation

Since $p<0.005$ then the model is significant. $P=0.001681$

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1223613	669081		1.828797	0.086132
	AVE.CSR	28.59071	7.586938	0.685722	3.768413	0.001681
a	Dependent Variable: AVE.NETP					

It is clear CSR affects financial performance positively since all coeffients are positive.

So the model will be;

$$Y=122363+28.59X$$

This will allow us to predict the Financial performance (Return on investment) in any given time provided we have the CSR.

The logistic regression used in this model will be:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Where

Y= Financial performance (Return on investment)

a = Constant Term (the value of Financial performance when all variable are held to constant zero)

β_i = Beta Coefficients

X_i = CSR value (CSR expenditure)

e = Error Term

4.4 Summary and interpretations of the Findings

According to the study investments in CSR have been increasing over the years from 2007 to 2011, the highest peak in 2010 and the lowest in 2007. Generally there was an upward trend in the performance of firms listed in NSE. There is a clear relationship between CSR and financial performance. Thus the company performance has been improving as much as investment in CSR has. The year 2010 was marked with the highest expenditure on CSR followed by 2009 in most companies whereas 2007 and 2009 were the years that recorded the lowest expenditure on CSR among the companies. The best performing year was 2011 where most of the companies registered highest profit followed by 2010 whereas 2008 and 2007 were the years that recorded the lowest turnover. Along the years in all sectors the net profit has been increasing since 2007.

There is a strong positive relationship between CSR and financial performance since R is positive then it has a positive gradient. The correlation coefficient measures the goodness of fit of the regression equation, which in this study $R=0.6857$, showing a strong and positive relationship. The model is also significant since $p<0.005$. $P=0.00168$

There are previous studies on the same study whose findings are similar to this study. The third view proposes that there is a positive linkage, since the actual costs of CSR are covered by the benefits. Companies perceived to have a strong CSR commitment often

have an increased ability to attract and to retain employees Turban & Greening (1997), which leads to reduced turnover, recruitment, and training costs. Companies that improve working conditions and labour practices also experience increased productivity and reduced error rates. Regular controls in the production facilities throughout the world ensure that all the employees work under good conditions and earn living wages.

Kipkemoi (2008) in his study on the relationship between CSR and financial performance of companies listed in NSE found out that there is a positive relationship between the two variables. On the other hand Mwangi (2011) on her study on the relationship between CSR and corporate financial performance found out that CSR had a negative but insignificant effect on performance at 5%.

The empirical argument for a negative relationship follows the thinking of those such as Friedman (1970). According to his view, socially responsible firms have a competitive disadvantage. On the other hand, many empirical results reveal no significant relationship between CSR and financial performance. According to this line of thinking Ullman (1985), there are so many variables that intervene between the two that a relationship should not be expected to exist.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The main objective of this study was to determine whether there exists relationship between CSR and financial performance for companies listed at the NSE continuously for five years, from 2007 to 2011. A model on the causal relationship between CSR and Firm's Financial Performance was adopted. This study employed regression analysis where CSR is an independent variable and financial performance is a dependent variable. In summary the initial regression analysis on the companies listed at the NSE main market segment reveals a statistically significant the relationship between CSR and financial performance

The study used both secondary and primary data. Secondary data was collected from annual reports of companies listed in the NSE obtained from Capital Markets Authority. Financial performance measure; in terms of profit after tax for the period of 2007-2011 was attained from the reports. While Primary data in questionnaire forms were administered to companies listed in the NSE to collect data concerning CSR expenditure. However in conducting the analysis, a number of opportunities for refining the research were identified as recommendations. As such this paper could be considered a further step in testing the relationship between CSR and financial performance

The study found that there was a general upward trend in the amount invested in CSR activities between 2007 and 2011. The highest investment was seen in 2010 while the lowest in 2007. The study also found that there was an upward trend in the performance of firms listed in NSE. The year 2010 was marked with the highest expenditure on CSR followed by 2009 in most companies whereas 2007 and 2009 were the years that recorded the lowest expenditure on CSR among the companies. The best performing year was 2011 where most of the companies registered highest profit followed by 2010 whereas 2008 and 2007 were the years that recorded the lowest turnover. Along the years in all sectors the net profit has been increasing since 2007.

5.2 Conclusion

The field of (CSR) has grown exponentially in the last decade. Nevertheless, there remains a protracted debate about the legitimacy and value of corporate responses to CSR concerns. This study explores the relationship between CSR and financial performance. The existing studies on the relation between CSR and financial performance provide mixed results. This study is therefore motivated by the lack of consistent evidence on the relationship between CSR and financial performance.

The study concludes that investments in CSR have been increasing over the years from 2007 to 2011, the highest peak in 2010 and the lowest in 2007. Generally there was an upward trend in the performance of firms listed in NSE. There is a clear relationship between CSR and financial performance. Thus the company performance has been improving as much as investment in CSR has.

Among all sectors, telecommunication and technology are the best in terms of net profit in the past five years, followed by manufacturing and allied then banking industry, while the bottom performing companies include Agriculture, automobile and accessories then investment respectively. Telecommunication and technology companies in the past five years were the companies that had the highest expenditure on CSR, followed by manufacturing and allied then construction and allied industry, while the least included; Agriculture, automobile and accessories then insurances respectively.

Corporate social responsibility is a relatively new topic in Kenya. Since government authorities alone are unable to combat poverty and ensure sustainable development, international organizations, local NGOs and national and international companies need to support them in their efforts. United Nations programs have been among the first to introduce the concept of CSR to Kenya. Under the "Guidelines on Reporting and Disclosure in Kenya", companies are required to disclose CSR based on the themes of Environmental and Social Stewardship; Code of Ethics; Statement of Compliance and Assurance.

5.3 Policy Recommendations

In respect to the conclusion made in the study, it is quite evident that there is a positive relationship. The companies should now refocus of a 'Triple-Bottom Approach' TBL that is the totality of the corporation's financial, social and environmental performance in conducting its business if they are to remain profitable in the future.

It should be made compulsory for all companies to disclose their CSR expenditure since this will help researchers to research with much difficulty. Also to determine if the expense on CSR programs directly improves the sales of a company hence improved performance. And also that all companies should engage in CSR activities

The study also recommends that if the sole motive of investments in CSR is to improve on company performance, then this motive needs to be revised. Since there are other variables which impact on company performance. Therefore companies should examine all their expenses

Companies seen to be investing in wrong programs hence not leading directly to improved sales which would lead to improved profitability. There is therefore need to invest in programs that improve company sales.

For easier measurement of CSR and uniformity Kenya should have a CSR index. Therefore there is need to develop a measure of CSR index in Kenya by Kenya National Bureau of Statistics to overcome this limitation in future.

5.4 Limitations of the study

The study focused on listed companies only which are in the private sector. These results would therefore not necessarily apply to the companies in the public sector. Therefore a research should include all companies so that the findings can be concluded to apply across all companies.

Another constraint is lack of a CSR index in Kenya. Therefore there is need to develop a measure of CSR index in Kenya by Kenya National Bureau of Statistics to overcome this limitation in future, so as to ensure uniformity .Corporate social responsibility was measured using CSR expenditure via questionnaires. The study assumed that the information acquired was true, which might not be the case.

Time period (2007-2011) included in this study did not provide sufficient time carrying out the research work. A longer period of time should be embraced so as to determine the consistency of these findings.

The explanatory power of the model was very low suggesting that the variables used in the study were not enough to explain the variance in performance. There are therefore other variables which when included would improve the explanatory power of the model.

5.5 Suggestions for further studies

The study recommends that more studies should be done in the public sector in order to ascertain that results hold across all companies, not necessarily on listed companies. More also need to be done on the determinants of CSR in Kenya.

It would also be useful to determine whether significant relationship emerges as long term financial performance becomes available. The study period could be extended and short-term and long-term measures of financial performance could be employed.

More case studies should be done on CSR and multiple dimensions of financial performance within the context of a single industry.

The analysis included only the listed companies at NSE main market segment. Increasing the sample size, potentially to other companies not necessarily listed, may allow for a better measure of the relationship between CSR and financial performance.

More studies should be done to determine the impact of CSR activities since it does not solely affect company's performance only. In some instances it may not contribute to improving financial performance.

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APPENDICES

Appendix I: Questionnaire

- 1. Company name

- 2. Classification at the Nairobi Securities Exchange
 - Agricultural []
 - Commercial and Services []
 - Telecommunication and Technology []
 - Automobiles and Accessories []
 - Banking []
 - Insurance []
 - Investment []
 - Manufacturing and Allied []
 - Construction and Allied
 - Energy and Petroleum []

- 3. In summary, please provide the total amount spent on Corporate social responsibility activities in the years listed below.

2007
2008
2009 ;
2010
2011

Thank you