

**The Relationship between Corporate Social
Responsibility (CSR) and Profitability of Listed
Companies in the Nairobi Securities Exchange (NSE)**

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ABSTRACT

This study explores the extent and components of corporate social responsibility disclosure by listed companies in the Nairobi Securities Exchange. The study also reveals that companies have been at the forefront of adopting voluntary corporate social responsibility disclosure in order to enhance firm performance and attract investors while guaranteeing the stake of existing stakeholders. To maximize on the benefits of corporate social responsibility disclosure and improve stability of the firm, shareholders, managers, policymakers and other stakeholders need to appreciate the gains made so far and understand what factors influence the same. A panel data set of listed companies' corporate social responsibility disclosure information was tabulated using an un-weighted corporate social responsibility disclosure index. The study applies the least squares regression technique in exploring the relationships between corporate social responsibility disclosure and financial performance as measured by return on equity. The study reveals that there has been a consistent growth in CSR disclosure practices by companies listed in the Nairobi Securities Exchange from a low average of 121 words in (2003) to a commendable average of 1,527 words in (2012). The quality of CSR disclosure also increased from a low average of 29% in (2003) to 89% in (2012). A similar trend was also observed in financial performance with a steady increase in profitability as measured by return on equity from a low average of -6% in (2003) to a commendable average of 21% in (2011). The study further reveals that the following independent variables in the PROF model are positively related to PROF. These are; corporate social responsibility as measured by the number of words used in the annual reports to disclose CSR and corporate social responsibility as measured by the quality of disclosure with the components employees, environment, education, health, community involvement and sponsorship or donations. This result holds when panel data methodology is adopted because it combines time and cross-sectional or group data. However, when results are analysed individually as shown on Table 4.6 (page 61), we obtain mixed results where independent variables CSRQTTY and CSRQLTY give mixed results in their relationship with profitability as measured by return on equity (PROF). That there is a noted increase in corporate social responsibility disclosure and financial performance is an achievement to all stakeholders. The knowledge of the specific parameters where there is no disclosure forms a critical part of what should now be the focus for improvement by the managers and regulators.

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ABBREVIATIONS

CSR	Corporate Social Responsibility
GRI	Global Reporting Initiatives
NSE	Nairobi Securities Exchange
PROF	Profitability
ROI	Return on Assets
ROE	Return on Equity

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The subject of Corporate Social Responsibility (CSR) and its relationship to financial performance has been of interest for a long time (Carroll, 2010; Heald, 1957; Lantos, 2001; Scholtens, 2008). Prior research has found that CSR is positively related to financial performance (Artiach et al, 2009; Karake, 1998; Ullman, 1985;) particularly because socially responsible companies are treated positively by a wide variety of stakeholders (Freeman, 1994; Pelozo and Shang, 2010). Socially responsible companies can also access resources at cheaper cost (Lindblom, 1994; Roberts, 1992).

Shareholders theory is introduced by Milton Friedman. In 1970, Friedman wrote in NY Times (page 12) that “there is one and only one social responsibility of business: to use its resources to engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud.” The idea of the shareholder theory is that managers primarily have a duty to maximize shareholders’ interests in the way that is still permitted by law or social values. Since shareholders are owners of the firm, the firm should be operated to maximize their returns. It is on this basis that this study measured financial performance by return on equity (ROE). According to this theory, among the various actors associated with a business, shareholders have unrivalled primacy, and hence, corporations should be managed so as to maximize their value alone.

There are conflicting findings in trying to find the relationship between CSR and financial performance (Frankle and Anderson, 1978, Chen and Metcalf, 1980, Preston and O'Bannon, 1997; Burlingame, 1994; Lyon,2007; Scholtens, 2008 and Yeh, 2009). Such variations have been attributed to cultural orientations of the environment studied (Mathews, 1993), different variables used to operationalize CSR and financial performance (Barnett, 2005; Pava and Krausz, 1996; Aupperle et al., 1985; Ullman, 1985; Cochran and Wood, 1984), the theoretical framework used to underpin the study (Dowling and Pfeffer, 1975; Lindblom, 1994; Verrecchia,

1983;Dye, 1985; Waddock and Graves, 1997; McGuire et al., 1988), and the different ways in which CSR is understood (Friedman,1970).

Lorenzo (2008) states that the pure moral philosophy model generally considers that corporations bear a fiduciary responsibility to all stakeholders, not just shareholders and can make a substantial contribution toward social betterment. Corporations reap the benefits of serving as a community citizen and therefore owe a congruent contributory obligation to that community (Korten, 1996).

The pure moral philosophy model implies that increased investment in CSR will increase employees' satisfaction through equitable reward systems in terms of remuneration which increases both the quality and the quantity of production. Increased productivity leads to increased customer satisfaction and loyalty to the company's products (Davis, 1975; Soloman and Hansen, 1985). This in turn ensures a ready market for the company's products which could be sold at a premium leading to increase in profits.

A growing number of Kenyan companies have recognized the business benefits of CSR policies and practices. These companies include British American Tobacco Limited, Pan Africa Insurance Company Limited, Bamburi Cement, Standard Chartered Bank of Kenya Limited, Safaricom Limited and the East Africa Breweries Limited which are the largest companies listed on the NSE as well as the Cooperative Bank of Kenya.

Of importance to note is the growing concern about how reputation affects shareholders' perception of company performance which has forced large companies to consider not only financial performance but also their environmental and social performance when reporting. Corporations develop and communicate substantial amounts of information in their annual reports concerning most of their activities. The Companies Act Chapter 486 of the Laws of Kenya does not require companies quoted on the NSE to include a CSR report in their annual reports. However, a number of corporations have responded to the need for more information concerning social performance by voluntarily including a corporate social report as part of their annual reports. This study measured CSR with respect to both quantity and quality of disclosure

and incorporated all the CSR activities identified by all companies listed in the NSE within the period of study.

In addition, there has been an increasing interest in CSR, whereby firms are being held accountable for any actions affecting society, the community and environment (Carroll, 2010; Heald, 1957; Lantos, 2001 and Scholtens, 2008). From this perspective, firms are viewed as part of a larger economic system in which their operations might affect components of the system and consequently the system itself (Hawken, 1993; Rasmussen, 1997). Society nowadays is putting pressure on companies whose irresponsible actions toward the society and environment have become a cost to society (Beltratti, 2005). As a result, CSR is used by organizations to gain a competitive advantage because it portrays the company as behaving contrary to the common practices of business which tend to raid natural resources and exploit the societies by treating them as *externalities*.

CSR has meant that corporations no longer detach themselves from their external environments and the conservative view that, what matters for companies are merely competitiveness, survival and profit is weakening. However, the argument continues until all businesses have integrated CSR into their economic, environmental, and social operations.

Furthermore, companies practicing CSR may also want to reap the benefits of engaging in such practices since CSR practices might have cost them a substantial amount of resources, which they may need to justify to their shareholders. Firms may then decide to disclose their CSR practices to inform shareholders, if not stakeholders. The decision to disclose the CSR information may have the same drivers as the financial information where firms disclose their financial performance to maintain their relations with stakeholders (Neimark, 1992). This decision to disclose may be supported by regulations. However, in many countries including Kenya, the reporting nature of CSR practices are still largely voluntary.

CSR disclosures that are published separately are also known as social and environmental report or CSR reports or sustainability reports. The choice of medium may be influenced by companies' availability of resources and strategic intentions to reach particular stakeholders.

Companies are expected to disclose their CSR practices especially, when they have been performing well in these areas (environmental, social and economic). Voluntary disclosure theory argues that companies should want to differentiate themselves from the less responsible counterparts and make efforts to inform stakeholders on their performances in CSR domain (Verrecchia,1983; Dye, 1985) . This enables stakeholders to avoid adverse selection problem where they may rate bad CSR performers as good or vice versa. The availability of firms' CSR information informs their stakeholders about their performances.

In line with the voluntary disclosure theory, an environmental disclosure rating based on a comprehensive CSR reporting framework, Global Reporting Initiatives (GRI) (2002 Guidelines), was developed by Clarkson et al. (2006) in which they argued that firms with good environmental performance would be more forthcoming with their identity as “Green Companies”, thus, they would disclose information that were hard to be imitated by the bad environmental performers. The GRI (2002) Guidelines have shown their global acceptance as a standard for reporting CSR practices given the fact that they help companies to decide on what to report and how to report the CSR information. These may give companies flexibility and freedom in disclosing their CSR practices. Studies in CSR area have often faced difficulties on measuring CSR performance due to the complexities of CSR issues.

This study covered a 10-year period from 2003 to 2012 and sought to find out whether investment in CSR pays. This study was also done within the same cultural environment, NSE in Kenya and assessed CSR disclosure with respect to quantity and quality of disclosure unlike prior research that studied either quantity or quality of CSR disclosure. The study also confined CSR activities to all those charitable engagements by listed companies that are not undertaken in the ordinary course of doing business. These included investment in environment, education, health, employees, sponsorships and other community welfare activities such as dam construction and food supply to famine struck victims. This study therefore sought to fill the existing gap being lack of current and corroborated knowledge as to whether the CSR variables of quantity and quality of CSR disclosure increases profitability specifically by listed companies in the NSE in the 10 years immediately following the year 2003. Of importance to note is that there exists no legislation that makes it mandatory for listed companies to report on CSR

activities undertaken making the extent of disclosure voluntary. This study will help investors know and, if necessary, demand for CSR reporting if the same will improve the financial performance of companies through ease of access to resources including; human resources, additional capital at cheaper cost and increased profits arising from sale of companies' products at a premium due to stakeholders perception about the company among others.

1.2 Problem Statement

Prior research has found that CSR is positively related to financial performance (Artiach et al., 2009; Karake, 1998; Ullman, 1985;) particularly because socially responsible companies are treated positively by a wide variety of stakeholders (Freeman, 1994; Pelozo and Shang, 2010). Socially responsible companies can access resources at cheaper cost (Roberts, 1992; Lindblom, 1994). Whether a business case can be made for corporations to act as agents of social change on the basis of economic imperatives or at least without undermining their competitiveness is an important question. Most authors, such as Hinings and Greenwood (2002) and Margolis and Walsh (2003), are clear that corporations should act as social change agents. According to Margolis and Walsh's empirical study, the evidence for the business case is mixed thus far. However, Orlitzky, Schmidt, and Rynes (2003), in an exhaustive and rigorous meta-analysis of the relationships among social responsibility, environmental responsibility, and corporate financial performance, found that, on the whole, social responsibility and, to a lesser extent, environmental responsibility tend to be associated with better corporate financial performance.

Finally, there has also been an increasing interest in CSR, whereby firms are being held accountable for any actions affecting society, the community and environment (Carroll, 2010; Heald, 1957; Lantos, 2001 and Scholtens, 2008). Scanty research has been conducted in the Lesser Developed Countries (LDCs) (Tsang,1998) which has generated the need to carry out a study to investigate the relationship between CSR disclosure and financial performance of companies listed on the Nairobi Securities Exchange (NSE) in Kenya.

Therefore, the problem for this study can be stated as follows: -

1. What is the relationship between corporate social responsibility and profitability of companies listed in the Nairobi Securities Exchange?

1.3 Objectives of the Study

The general objective of this study is to find out if there is an relationship between corporate social responsibility as measured by both quantity and quality of disclosure and financial performance as measured by return on equity of companies listed in the Nairobi Securities Exchange.

The specific objectives of this study are to;

1. Determine the quantity of corporate social responsibility disclosure by counting the number of words used to report CSR activities in the annual reports by listed companies in the Nairobi Securities Exchange over 10 years from 2003 – 2012.
2. Determine the quality of corporate social responsibility disclosure by identifying the number of CSR components (including environment, employees, health, education, community and sponsorship/donations disclosures) used to report CSR activities in the annual reports by listed companies in the Nairobi Securities Exchange over 10 years from 2003 – 2012.
3. Ascertain whether there exists any significant relationship between CSR and financial performance of companies quoted on the NSE

1.4 Research Questions

The research questions are therefore;

1. What is the extent (quantity) of corporate social responsibility disclosure by listed companies in the Nairobi Securities Exchange?
2. What is the extent (quality) of corporate social responsibility disclosure by listed companies in the Nairobi Securities Exchange?
3. Is there a significant relationship between CSR and financial performance (ROE) of companies listed in the NSE?

1.5 Significance of the Study

This paper will help all companies either quoted in the NSE or not and whether engaging in CSR activities or not to know if commitment to CSR is beneficial in terms of their financial performance (ROE). This will especially be so considering the new Companies Bill 2007 (currently being worked on) which, if passed into law, will make it mandatory for listed companies to include a CSR report as part of their annual report. This study measures the extent of CSR disclosure and therefore estimates the depth of assimilation of CSR as a management aide with respect to ease of access to resources whether financial or otherwise.

It contributes to the understanding of the components of CSR disclosure practices by listed Kenyan companies. This information is expected to add value to academic debate on what the enablers of enhanced CSR disclosure are as a contributor to the companies' financial performance. To the policy makers, this research will serve as a yard stick of the degree of adoption of CSR practices and disclosure thereof while highlighting areas of inadequacy in need of more attention and emphasis to enhance CSR practices.

It also contributes to the existing local companies' literature and knowledge. Beyond being of interest to academicians, researchers and regulators, this research is of interest to finance managers, customers, employees, capital market participants (investors) and other stakeholders. It adds to the extent of knowledge about the current rate of adoption of CSR in all sectors and gains made since its adoption and the relationship thereof with financial performance. It also highlights areas of emphasis and focus to the managers and regulators and this is expected to enhance CSR disclosure.

In summary, the findings can be a source of constructive debate in academia but also for policy makers, regulators, investors, competitors, suppliers, the government with respect to compliance with existing legislation such as on environmental conservation, shareholders and the community within which the companies operate. They can also help in understanding the role of CSR on financial performance of companies. This information is also critical for regulators as the findings contribute in identifying and pointing out areas of focus or review in the process of

institutionalizing corporate social responsibility and disclosure thereof. Going beyond what is public, there is need to find out why companies engage in CSR disclosure activities to find out the qualitative aspect that motivates managers to engage in CSR in as much as the current nature of CSR reporting is voluntary. The scope may cover both content analysis and quality of the disclosures themselves.

1.6 Scope of Study

This study focuses on the quantity and quality of CSR disclosure by listed companies in the NSE from the year 2003 up to year 2012. The study considers the 10 year period from 2003 to 2012 to show the trend on CSR disclosure practices with respect to both quantity and quality. In addition, the study also seeks to find out if there is any relationship between CSR disclosure and financial performance of listed companies in the NSE. Finally, not much research has been done in Less Developed Countries in assessing both quality and quantity of CSR disclosure over as long a period as 10 years hence the need for this study.

1.7 Organization of the thesis

This is organized into five chapters. Chapter 1 introduces the study. Chapter 2 reviews the relevant prior research and literature in the field of CSR disclosure (both quantity and quality) and financial performance. Chapter 3 describes the research methodology: the research design, data set and sample, data sources and collection methods, and data analysis. Chapter 4 presents the results on CSR disclosure practices (both quantity and quality) and financial performance. Chapter 5 presents the discussion of results and conclusion of the study.

CHAPTER TWO: LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

2.1 Introduction

This chapter critically analyses relevant theories in relation to CSR disclosure and financial performance including Legitimacy Theory, Voluntary Disclosure Theory, Stakeholder Theory, Neoclassical Model and Moral Philosophy Model drawn from different literature. It provides a foundation on which the conceptual framework is developed. It reviews theoretical and empirical literature and the conceptual framework, showing the linkage between the dependent and the independent variables. These themes provide a logical review of existing literature, building upon each other with the theoretical literature providing the foundation which is reinforced by the empirical literature, therefore broadening the understanding of the topic.

To begin with, this chapter analyses the main theories that address the research questions earlier mentioned with details of proponents and opponents of these theories. Secondly, the chapter briefly reviews methodology(ies) used by other studies in this field. Finally, the chapter concludes by reviewing prior empirical research findings.

2.2 Theoretical Framework

Shareholder theory equates to an influential view on the role of business in society which pushes the idea that the only responsibility of managers is to serve in the best possible way the interests of shareholders, using the resources of the corporation to increase the wealth of the latter by seeking profits. According to this theory, such behavior, done within the constraints of law and without deception or fraud, would be beneficial for society as a whole. Within this theory corporate social responsibility is defined in purely economic profit making terms.

Friedman's ideas on the responsibilities of business management are generally interpreted as a declaration in favor of profit above all, and in particular, above any pretenses to corporate "social responsibility." This view was expressed in the famous passage in which, Friedman articulated the essential tenet of what came to be known as shareholder theory.

According to shareholder theory, among the various actors associated with a business, shareholders have unrivalled primacy, and hence, corporations should be managed so as to maximize their value alone. The core of Friedman's argument rests on *private* property and the complete control of that property that is conferred by virtue of its private ownership. To Friedman "the corporation is an instrument of the stockholders who own it..." (Friedman, 1962:135). Since shareholders own the corporation they should control it. It is their prerogative to run the firm themselves or to hire someone else – a professional manager – to do it for them. This corporate executive is an employee of the owners of the firm, and "he has direct responsibility to his employers . . . to conduct the business in accordance with their desires", since he "is an agent serving the interests of his principal" (Friedman 1970, 178). Therefore, the owners' desires become the manager's goals, "which generally will be to make as much money as possible" (Friedman 1970, 178). In its traditional form, corporate social responsibility is not directly related to profit; therefore managers are not legitimized to make these "social" decisions without the owners' approval.

Legitimacy theory begins with the assumption that an organization has no inherent right to exist (Vanessa, 2006). This right is conferred upon it by society, but only when the company's value system is perceived to be congruent with that of the society in which it operates (Dowling and Pfeffer, 1975; Lindblom, 1994). Furthermore, this right can be revoked if the company is thought to have breached any of the terms of its social contract (Deegan, 2002). Since legitimacy theory is based on perception, any response by management must be accompanied by disclosure, for actions which are not publicized will not be effective in changing external parties' views of the organization (Cormier and Gordon, 2001).

Voluntary disclosure theory concurs with legitimacy theory by stating that if companies want to differentiate themselves from the less responsible counterparts then they will make efforts to inform stakeholders on their performances in CSR domain (Verrecchia, 1983; Dye, 1985). Investment in CSR can stimulate a firm's access to resources in a number of ways. CSR investment may allow a firm to generate greater labour resources, with higher capacity to attract and retain quality staff, and improved employee morale and productivity, than it otherwise would. Firms could potentially benefit by gaining the ability to attract greater or cheaper capital.

Firms may benefit from being able to negotiate favorable terms with suppliers as a result of investing in CSR. Finally, investment in CSR can potentially lead to product differentiation, improved customer loyalty and goodwill which are likely to improve financial performance.

Stakeholder theory proposes that the group of claimants of a firm's resources extends beyond its investors, to include all stakeholders who have either an explicit or implicit claim against the firm (Waddock and Graves, 1997; McGuire et al., 1988). This definition of stakeholders includes "any group or individual who can affect or is affected by the achievement of the firm's objectives" (Freeman, 1984: 46). Therefore, this definition is likely to incorporate groups such as a firm's shareholders, creditors, employees, customers and suppliers as well as charities, public interest groups and government.

Stakeholder theory also postulates that stakeholders ultimately control a firm's access to scarce resources and that firms must manage their relationship with key stakeholders to ensure that such access to resources is maintained (Roberts, 1992). In exchange for providing resources, stakeholders impose costs on a firm. It is suggested that these costs come in the form as either explicit or implicit claims brought upon the firm (Cornell and Shapiro, 1987).

Consistent with stakeholder theory, it is proposed that a tension exists between implicit and explicit stakeholder (Waddock and Graves, 1997; McGuire et al., 1988). That is, greater explicit stakeholder claims are associated with less implicit claims and vice versa. Thus a firm which satisfies the implicit claims of stakeholders will be imposed with fewer explicit claims. As an example, a firm which fails to comply with implicit claims by not containing its pollution may be imposed with greater explicit claims as governments enact strict environmental regulations on the firm. Finally, explicit claims are regarded as more costly than implicit claims.

Roberts (1992) argues that investment in CSR is an appropriate strategy for managing stakeholder relationships. Therefore it is proposed in this study that CSR investment is an effective method to satisfy the implicit claims of stakeholders, which has two major benefits.

Firstly, CSR investment creates positive relationships with stakeholders, who ultimately control a firm's access to scarce resources. Thus by satisfying stakeholders' implicit claims, it is likely that a firm will enjoy superior access to scarce resources.

In line with the above theories is the moral philosophy models which consider that firms bear a fiduciary responsibility to all stakeholders, not just shareholders (Freeman, 1970), and can make a substantial contribution toward social betterment; however, their obligations are limited to areas of expertise and/or direct influence. Lorenzo et al (2008) concludes that corporations reap the benefits of serving as a community citizen and therefore owe a congruent contributory obligation to that community.

In contrast, neoclassic economic model or Shareholder Capitalism considers that there is a negative association between CSR and financial or economic performance, since firms could face some competitive disadvantages (Aupperle, Carrol and Hatfield, 1985). Lorenzo (2008) also observes that corporations would be incurring costs that might otherwise be avoided.

In summary, it is expected that investment in CSR satisfies stakeholders' implicit claims, which in turn provides firms with superior access to scarce resources and less exposure to explicit costs. Further, firms with better resources and fewer costs will consequently have greater financial performance.

2.3 CSR Practices and Findings

The focus of analysis on the corporate annual reports is consistent with prior social disclosure studies. This occurs when the corporate annual reports are the main media for corporate communication and, particularly, if the case of quoted firms is widely available (Adams and Harte, 1998). Furthermore, Zeghal and Ahmed (1990) explicitly recognized that annual reports are not the only medium through which firms can report their socially responsible behaviour, and for many activities, other media enables more timely communication to a larger number of stakeholders.

There are a variety (Saleh, 2009) of media or documents for CSR disclosure (Jenkins and Yakovleva, 2005), which include: Advertisements or articles published detailing a company's activities; Annual Reports; Booklets or leaflets to address the social activities of the company; CD reports; Community reports; Environmental reports; Labelling of products to promote environmental and other concerns; Press releases; Supplements to the Annual reports produced at interim dates; and Video tapes and Websites. In this study, the main information to evaluate CSR activities are the annual reports published by the companies listed in the NSE.

2.4 Development of CSR and Financial Performance

There is a substantial body of research that investigates the association between CSR and financial performance. Researchers have hypothesised that there is a negative, positive or no association between a firm's CSR and its financial performance.

One perspective argues that there is a negative association between CSR and financial performance because investment in CSR is costly (Alexander and Buchholz, 1978; Becchetti et al., 2005). It is suggested that firms that invest in CSR incur additional costs including improved employee conditions, the adoption of environmentally friendly practices, charitable donations, the promotion of community development, the development of economically depressed areas and opportunity costs from foregoing socially irresponsible investment. This perspective implies that investment in CSR is contrary to the best interests of investors.

In addition, Barnett (2005); McGuire, Sundgren and Schneeweis (1988); Aupperle, Carroll and Hatfield (1985) and Vance (1975) suggest that investment in CSR represents a re-allocation of scarce resources away from a firm's investors to its external stakeholders. No wonder Barnett, (2005) concluded that CSR investment is undertaken by managers to pursue some personal gain, at the expense of investors.

A second perspective suggests that there is no association between CSR and financial performance. Ullman (1985) argues that the relationship between CSR and financial performance

is complex, where it is likely that there are many intervening influences. Finally, a third perspective by Artiach, (2009) claims that CSR is positively related to financial performance.

There are three predominant views consistent with this third perspective of positive association between a firm's CSR and its financial performance Artiach, (2009). Firstly, researchers suggest that the financial benefits from investing in CSR exceed its costs (Barnett, 2005; McGuire et al., 1988). It is argued that CSR investment produces benefits such as enhanced employee morale, goodwill, and improved relationships with bankers, investors and government and better access to capital; each of which is expected to lead to greater financial performance. Secondly, there is a compatible view supported by stakeholder theory which contends that CSR investment generates positive financial benefits by managing stakeholders. Thirdly, the resource view suggests that firms that invest in CSR have superior resources (Clarkson et al. (1997); Alexander and Buchholz (1978) and Moskowitz (1972). The resource view proposes that only firms with sufficient resources have the capacity to invest in CSR, and suggests that CSR is positively associated with financial performance because the type of firms that invest in CSR have greater underlying resources which produce higher financial performance.

2.5 Measures used to assess CSR

Differences in research findings may also be explained by the measures used assess CSR.

Companies used CSR reporting as means to communicate to their stakeholders over their management performance (Finch, 2005). The external communication of CSR activities can help a firm to build a positive image among its stakeholders (Fombrun and Shanley, 1990; Lafferty, Goldsmith and Newell, 2002). Gray, Owen and Maunders (1987:4) defined CSR reporting as “the process of providing information designed to discharge social accountability” and the medium may cover “annual report, special publications or reports or even socially orientated advertising”. CSR is executed through triple bottom line reporting which declares not only financial results but also social and environmental impact of a business (Elkington, 1999).

The difficulty of measuring CSR practices, especially social performance, has contributed to under-developed nature of comprehensive CSR reporting practices (Abbot and Monsen, 1979).

For example, the problems on how to quantify social performances data have made the reporting on social issues more difficult.

It would be easier to quantify or measure environmental performance (for example reduction of waste from production process). Not surprisingly, it has been studied by KPMG (2005) that the global trend of CSR reporting just recently shifted from purely environmental reporting to sustainability reporting (i.e. environmental, social and economic reporting) in 1999. This trend is also supported by the developments of reporting framework which accommodate companies to report on broader CSR issues such as labour, human rights, product safety and economic impacts to society.

Prior research show there are two leading reporting frameworks for CSR issues, GRI 2002 Guidelines and AA1000. GRI guidelines are acknowledged for their high-international recognition and influence whereas AA1000 standard for its unique focus on the processes of accountability (Adams, 2004). AA1000 was developed to deal with public's distrust of firms' practices on human rights, community and economic issues (Göbbels and Jonker, 2003). AA1000 created by Institute of Social and Ethical Accountability in 1999 features: "it does not attempt to identify issues to be addressed, but rather focuses on the processes by which companies report on their impacts" (Adams, 2004:735).

It was expected that the process standard, AA1000, will improve firms' social and ethical performance by linking the principles of sustainability and accountability (Göbbels and Jonker, 2003).

The focus on the process was based on the premise unless CSR are embedded in the corporate values and unless governance systems, data collection systems, reporting procedures, and audit are sound then CSR reporting are not the appropriate matched of companies performance and stakeholders' information needs (Adams, 2004). AA1000 principles are influenced by the principles of financial accounting but a distinct principle, "inclusivity", is added to this standard. This principle covers the aspirations and needs of all stakeholder groups at all stages of the accounting, auditing and reporting process (Adams, 2004; Göbbels and Jonker, 2003). AA1000 gives organisations the freedom in deciding which issues to include in their management systems

which later were found to create diverse range of CSR reports (i.e. varied in contents, measures and issues) (Göbbels and Jonker, 2003).

On the other hand, GRI Sustainability Reporting Guidelines concerns primarily on the content of sustainability reports (versus CSR reports) but also includes some principles or characteristics of AA1000 (Adams, 2004). The principle of inclusivity in AA1000 is equivalent with the principle of relevance in GRI 2002 Guidelines (Göbbels and Jonker, 2003). GRI has the goal of providing standardised measures of performance indicators for firms' environmental, social and economic impacts (Reynolds and Yuthas, 2008). Companies that adopted GRI Guidelines have been able to increase the value of information to their stakeholders by improving the usefulness and quality of the information (Willis, 2003). GRI guidelines was created to address the demands from stakeholders of firms' environmental and social performance information, the diverse range (that is; vary in content, inconsistent and incomplete) of non-financial reporting practices that resulted in lack of comparability across companies and reporting periods, and the introduction of many reporting guidelines and framework in various countries and sectors (Willis, 2003). The guidelines can accommodate all types of companies, thus it may lead to a global reporting standards for CSR practices.

Adams (2004) notices that the goals differences between companies and other stakeholders can create the gap in reporting (incompleteness). GRI addresses the problem of completeness by initiating stakeholders' communication in developing the framework. The 2002 version requires companies to report on the output and outcomes of stakeholder consultations. The guidelines ensure reasonable and balanced representations of economic, environmental and social performance as well enable comparison across time and institutions (Clarkson et al., 2006). Furthermore, GRI guidelines have required companies' commitments towards social, environmental and economic responsibility. Those commitments are reflected on managements' statements of value with corresponding goals and quantified targets with deadline (Adams, 2004).

Adams and Harte, (1998) studied corporate social reporting in Western Europe by using content analysis to examine 150 annual reports from six countries – the United Kingdom, The Netherlands, Sweden, Switzerland, France and Germany. The survey found that in many cases

the best examples of disclosures came from German companies and that, on average, the German sample tended to disclose more environmental and more employee-related information than companies from the other countries. The UK sample tended to disclose considerably less information than the German sample. However, the UK was not the poorest country in terms of the volume of relevant disclosures, given that there were fewer French, Dutch and Swiss companies disclosing information on environmental or ethical matters.

The differences in the findings may be partly explained by the difference in the components of CSR disclosure. Given the voluntary nature of CSR, there is no standard structure of CSR that firms can use. Some of the components used by researchers revolves around community involvement, environmental reporting, contributions towards charity including donations and sponsorships, addressing employees welfare issues to increase their morale, productivity, attraction and retention of competent employees relative to competition and social involvement through investment in education and health. The difference in understanding of CSR among researchers have led to different measures therefore contributing to the inconsistent research findings.

Mathews (1993) pointed out that cultural and national differences were likely to affect accounting practices in general and corporate social reporting practices in particular. Tsang (1998) suggested the stage of economic development of a country was likely to be an important factor affecting CSR practices. However, Adams et al. (1998) contended that with the increasing globalisation of business, cultural specific factors may not weigh as strongly as corporate and industry specific factors.

2.6 Measures of Financial Performance

Although measuring financial performance is considered a simpler task, it also has its specific complications. Here, too, there is little consensus about which measurement instrument to apply. Many researchers use market measures (Alexander and Buchholz, 1978; Vance, 1975), others put forth accounting measures (Waddock and Graves, 1997; Cochran and Wood, 1984) and some adopt both of these (McGuire, Sundgren and Schneeweis, 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, and Hill, 1986).

The use of different measures complicates the comparison of the results of different studies. In other words, accounting measures capture only historical aspects of firm performance (McGuire, Schneeweis, and Hill, 1986). They are subject, moreover, to bias from managerial manipulation and differences in accounting procedures (Branch, 1983; Brillhoff, 1972). On the other hand, market measures are forward looking and focus on market performance. They are less susceptible to different accounting procedures and represent the investor's evaluation of the ability of a firm to generate future economic earnings (McGuire, Sundgren, and Schneeweis, 1988). But the stock-market-based measures of performance also yield obstacles (McGuire, Schneeweis and 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, Sundgren and Schneeweis, 1988).

According to McGuire, Sundgreen, and Schneeweis (1988), both accounting and market variables look for different aspects of performance, and each is subjected to a particular bias. The usage of accounting data raises the possibility of distortions from inflation (Demsetz and Villalonga (2001). Accounting-based measures only tap historical aspects of a firm's performance (McGuire, Sundgren, Schneeweis, 1988). While short-term stock returns are very volatile for a reliable measure of corporate performance, long-term returns will capture corporate performance (Han and Suk, 1998).

2.7 Empirical literature on CSR and Financial Performance

The prior research examining the association between CSR and financial performance has produced relatively mixed results. It is argued that the variation in research methodologies has resulted in the apparent ambiguity of previous findings and propagated research in the area (Barnett, 2005; Pava and Krausz, 1996; Aupperle et al., 1985; Ullman, 1985; Cochran and Wood, 1984). Notably, across the literature there is considerable variation in the measurement of

CSR and financial performance, the controls included in the research design and the specific tests employed.

Some studies concluded that there is no significant evidence to suggest that an association exists between CSR and financial performance. Alternatively, Pava and Krausz (1996) and Cochran and Wood (1984) find weak evidence to suggest that a positive association exists. Finally, the studies by Waddock and Graves (1997), Herremans et al. (1993) and McGuire et al. (1988) conclude that there is significant evidence to suggest that CSR is positively associated with financial performance.

Some previous studies have theorized that profitable companies would be more likely to implement CSR disclosures (see for example, Bowman, 1978; Fry and Hock, 1976; Jaggi and Freedman, 1982). Contrary to this, Neu, Wasame and Pedwell, 1998 and Freedman and Jaggi, 1988 found that CSR disclosure rises when net income declines, suggesting that management uses social reporting to deflect attention from poor financial performance.

This study identified the key factors that influenced all types of corporate social reporting. It found that company size, industry group and country of head office were all significant factors influencing corporate social reporting patterns. The largest companies were more likely to disclose all types of corporate social information. Industry membership was a key determinant where companies reported environmental and some employee information, but not in respect of ethical disclosures. Size and industry membership were important in all six countries, but there were significant variations between countries.

Tsang (1998) reported a relative lack of empirical studies on corporate social reporting practices in developing and newly industrialised countries. However, some improvements have been made (Tsang, 1998; Williams and Pei Wen Ho, 1999). Williams and Pei Wen Ho (1999) attempted to discover factors which were significant in influencing the quantity of voluntary social and environmental reporting in annual reports in Australia, Singapore, Hong Kong, The Philippines, Thailand, Indonesia and Malaysia. They found that cultural issues and national political and civil systems were significant determinants of quantities of reporting, but that the legal system and the

equity market were not as influential. They concluded that organisations would disclose voluntary social and environmental information in order to avoid government regulation.

In Ireland, Brennan and Pierce (1996) analysed the annual reports of 25 companies and found little social disclosure beyond mandatory statutory requirements. These mandatory requirements were contained in The Companies Act 1986, The Electoral Act 1997 and The Safety, Health and Welfare at Work Act 1989, and covered such disclosures as the amount of money donated to political parties, the health and safety of employees, pension commitments, average number of employees and employment costs and the employment and development of disabled employees.

2.8 Conceptual Framework

The conceptual framework for this study is drawn from research carried out previously. The dependent variable is profitability as measured by return on equity. Profitability can be explained by the following independent variables: quantity of CSR disclosure and quality of CSR disclosure. The quantity of CSR disclosure is measured by counting the number of words used in the Annual report of companies to report CSR activities. The quality of CSR disclosure is measured by the number of CSR components disclosed in the Annual report. The components of CSR as identified in the Annual reports for the 10 year period of study between 2003 and 2012 include: environment, employees, health, education, community and sponsorship/donations disclosures.

2.8.1 Dependent variable (Profitability)

Most previous studies used accounting data to measure financial performance. For example, profitability was measured as the return on total assets (ROA) and as the return on equity (ROE) (Belkaoui and Karpik, 1989; Ljungdahl, 1999). Waddock and Graves (1997) and Tsoutsoura (2004) used three accounting variables. These were return on assets (ROA), return on equity (ROE), and return on sales (ROS). Simpson and Kohres (2002) used return on assets (ROA) and loan losses, whereas Berman et al. (1999) used only return on assets (ROA).

Prior studies by Cochran and Wood (1984) also used accounting data to measure financial performance. Three accounting return measures were employed initially: the ratio of operating earnings to assets, the ratio of operating earnings to sales, and excess market valuation. This study used accounting measure of profitability which is ROE. This is in line with Shareholders theory which states that the main objective of a company is to maximize shareholders value, (Friedman, 1970).

According to McGuire, Sundgreen, and Schneeweis (1988), both accounting and market variables look for different aspects of performance, and each is subjected to a particular bias. The usage of accounting data raises the possibility of distortions from inflation (Demsetz and Villalonga, 2001). Accounting-based measures only tap historical aspects of a firm's performance (McGuire, Sundgreen, and Schneeweis (1988). While short-term stock returns are very volatile for a reliable measure of corporate performance, long-term returns will capture corporate performance (Han and Suk, 1998).

Profitability (ROE) = Profit after Tax / Equity *100

2.8.2 Independent variable (CSR)

Studies have investigated various companies' disclosure practices. The consistent finding is that size is an important predictor of company reporting behaviour (Ahmed and Courtis, 1999). Industry type is another company attribute associated with corporate disclosure (Cooke, 1989; 1992). In this study, content analysis involved counting the number of words used in CSR disclosure in the Annual report by companies listed on the NSE.

According to Neuman, (2006) content analysis is a technique for gathering and analyzing the content of text. The content refers to words, meanings, pictures, symbols, ideas, themes or any message that can be communicated. The text is anything written, visual, or spoken that serves as a medium for communication. It includes books, newspaper or magazine articles, advertisements, speeches, official documents, films or video tapes, musical lyrics, photographs, articles of clothing, or works of art.

Also, the quality of CSR disclosure will be measured by examining the components of CSR with each component carrying equal weight in this case a score of one for disclosure and zero for non-disclosure. The components to be identified in the CSR disclosure reports include social investment for the benefit of the community, education, health, environment, employees and sponsorships.

There are several different approaches that have been adopted to measure disclosure quality (Cerf, 1961). Disclosure is an abstract construct that does not possess inherent characteristics by which one can determine its intensity or quality (Wallace and Naser, 1995). Corporate social responsibility disclosure (CSR); is the transparent disclosure of corporate social information and structure, processes and issues faced by the company mainly in the annual report. CSR disclosure is a dichotomous variable which takes on the value of one if corporate social disclosures are made in a company's annual report and zero if not. This variable is measured using the CSR disclosure index (see appendix 2 page 60). Indices are then derived by computing the ratio of actual scores awarded to the maximum possible score attainable for CSR components that are applicable to each company. The following formula is used to compute the CSR disclosure index:

$$\text{CSRDI} = \frac{\text{Total score of the individual company} \times 100}{\text{Maximum possible score obtainable by company}}$$

Companies with CSR disclosure can have a minimum score of one by disclosing one CSR component against the maximum score of six components of CSR disclosure.

The firms with a higher CSR disclosure index are considered more attractive and less risky and are therefore expected to be vibrant in the capital markets arena. A vibrant capital markets has a positive impact even at the country level specifically with respect to attraction of foreign direct investment. Bushman and Smith, (2000); Groom et al. (2004); Qu and Leung, (2006).

2.9 Chapter Summary

Chapter two presents literature review on studies carried out on the relationship between CSR and financial performance. In addition, this chapter presents a literature review on the level of CSR disclosure and its association with financial performance of companies.

The chapter also presents the theoretical and conceptual frameworks adopted in this study. This study lays special emphasis on the association between CSR disclosure and profitability of companies listed in the Nairobi Securities Exchange. The study uses data collected to determine the nature of the relationship that exists between the variables.

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter discusses the design and methodology used in the study to answer the research objectives. It covers the study area, and the population in focus, data sources, collection methods and analysis, the method of estimation and development of the corporate social responsibility index which is used to measure the extent of corporate social responsibility disclosure followed by the chapter summary.

3.2 Research Design

This study uses descriptive and explanatory research design that relies on literature reviewed in chapter two and published annual reports, aimed at providing insight into the relationship between corporate social responsibility disclosure and financial performance of companies listed in the Nairobi Securities Exchange. The study requires an examination of panel data for a period of ten years representing CSR disclosure practices by listed companies in the Nairobi Securities Exchange. The panel data methodology is adopted because it combines time and cross-sectional or group data. In this study, the group is all listed companies and the time is the duration of the data collected, which is ten year period from 2003 to 2012.

Examining panel data for this study requires a cross-sectional analysis to find out the relationship that exists among the variables under study over the given time period. This study employs quantitative analysis in finding out the relationship between CSR disclosure in terms of both quantity and quality and financial performance of companies listed in the Nairobi Securities Exchange. Panel data has been used in various studies among them, Barako, (2007); Bokpin, and Isshaq (2009); Bhasin and Orazalin (2012). Panel or longitudinal data is a data set that follows a given sample of individual units over a period of time and as such providing multiple observations on each individual in the population sample (that is heterogeneity, where unique characteristics are brought out). Its data sets are large thus increasing the degrees of freedom and reducing collinearity among explanatory variables which in turn improves the efficiency of econometric estimates.

According to Neuman, (2006) content analysis is a technique for gathering and analyzing the content of text. The content refers to words, meanings, pictures, symbols, ideas, themes or any message that can be communicated. The text is anything written, visual, or spoken that serves as a medium for communication. It includes books, newspaper or magazine articles, advertisements, speeches, official documents, films or video tapes, musical lyrics, photographs, articles of clothing, or works of art. In this study, content analysis will involve counting the number of words used in CSR disclosure by companies listed on the NSE.

As is the case with most studies on social and environmental disclosures, a content analysis approach is used (see, for example, Abbot and Monsen, 1979; Abu-Baker and Naser, 2000; Andrew, et al., 1989; Belal, 2001; Imam, 2000; Ernst and Ernst, 1978). In line with other studies investigating CSR disclosure practices, the present study limits the analysis to the annual reports (Freedman and Jaggi, 1988; Gray, Kouhy and Lavers, 1995; Hackston and Milne, 1996; Neu, Wasame and Pedwell, 1998). Hughes, Andersen and Golden (2001) also cited the frequent use of annual reports in CSR disclosure studies. They argued that this is due to “. . . their wide availability and the perception that this is the medium most often used by corporations to communicate in a systematic manner with shareholders” (Hughes, Anderson and Golden, 2001).

No wonder Neuman, (2006) also postulates that this method of analysis is advantageous in that it is non-reactive because the process of placing words, messages, or symbols in a text to communicate to a reader or receiver occurs without influence from the researcher who analyzes their content.

Secondly, content analysis lets a researcher reveal the content (that is messages, meanings and so on) in a source of communication (in this case annual reports). It lets the researcher probe into and discover content in a different way from the ordinary way of reading a book or watching a television program.

In addition, with content analysis, a researcher can compare content across many texts and analyze it with quantitative techniques (for example using graphs, charts and tables)

Finally, content analysis also yields repeatable precise results about the text. As data is gathered through content analysis, the researcher analyzes them with statistics in the same way that an experimenter or survey researcher would.

Whereas Neuman (2006) highlights numerous advantages, he also contends that content analysis cannot determine the truthfulness of an assertion or evaluate the aesthetic qualities of literature. It reveals the content in text but cannot interpret the content's significance. Holsti, (1969) page 602 warned, "Content analysis may be considered as a supplement to, not as a substitute for, subjective examination of documents."

Finally, this study uses accounting data to measure financial performance with respect to return on equity (ROE). This will be used since it is in line with maximization of shareholders' wealth according to shareholder theory (Friedman, 1970).

3.3 Population

The population of this study is all the 55 companies listed in the Nairobi Securities Exchange (NSE) from the year ended 2003 up to the year ended 2012. However, this reduced to 29 companies as the Annual reports of some companies were not available in time for review during the period of study. The study considers the 10-year period from 2003 to 2012 as being sufficient to enable us see the trend on CSR disclosure practices with respect to both quantity and quality by all companies listed in the Nairobi Securities Exchange and their association with financial performance as measured by return on equity. Therefore this study investigates voluntary disclosure as there exists no regulatory requirement for CSR disclosure in the Annual reports.

3.4 Data sources and collection methods

This study uses secondary data collected from the annual audited and published reports of the 29 companies listed in the Nairobi Securities Exchange. The annual report is a major medium used

by companies to disclose information to outsiders, Botosan, (1997); Lang and Lundholm, (1993) and therefore its significance for this study.

The Companies Act Chapter 486 of the Laws of Kenya makes it mandatory for all companies quoted on the Nairobi Securities Exchange (NSE) to issue annual reports which must contain financial statements, a Directors' report and an Auditors' report to the shareholders. The objectivity and reliable nature of this source of information made it necessary for all data to be collected from the annual reports of companies listed in the Nairobi Securities Exchange. The focus of analysis on the corporate annual reports is also consistent with prior social disclosure studies. This occurs when the corporate annual reports are the main media for corporate communication, and, particularly in the case of quoted firms is widely available (Adams and Harte, 1998). Other sources of information that will not be used include websites, newspapers, newsletters, radio, television, seminar presentations, press conferences and press releases since some companies have adequate resources while others do not. The information from websites, newspapers, newsletters, radio, television, seminar presentations, press conferences and press releases lack uniformity as they have not been subjected to statutory audits making the annual audited and published reports more reliable. There was also the need to use a uniform source for the validity of comparison.

Accounting research usually relies on disclosure indices to obtain a proxy for the information disclosed by companies. However, there is no consensus about the best design for these indices. In most disclosure studies a measure of the level of information disclosed is used, under the assumption that quality or transparency of disclosure is captured. In order to overcome limitations of subjective ratings, self-constructed disclosure measures are developed (Urquiza, Navarro and Trombetta, 2009).

A Corporate Social Responsibility Disclosure Index is developed to determine the extent of disclosure and the same data is used in regression outlined herein. Critical in enhancing the reliability of the index is the rigor applied in its construction. In research, weighted Barako, Hancock and Izan, (2006) and non-weighted Bhasin and Orazalin (2012); Bokpin, and Isshaq (2009); Chau and Gray (2002); Meek et al. (1995) disclosure indices have been applied. Both

methods have shortcomings. Weighted disclosure indices have been criticized because they may introduce a bias towards a particular user-preference, while non-weighted disclosure indices assume that all items are equally important, Barako, Hancock and Izan (2006). The intention of this study is to determine the presence of reported items and the quality of reporting by stating the CSR components. The fact that the study relied on annual audited reports which are usually signed off by the Board of Directors as the main source of information gave a reasonable assurance as to the quality of information. Therefore, the disclosure index applied to this study is non-weighted.

The disclosure index attached (Appendix 2 page 60) is prepared from reviewed literature. Extra attention was taken in checking for commonalities across the various guidelines and studies and to identify those parameters which have been consistently identified as relevant.

3.5 Data analysis and regression analysis

Data collected from the published annual reports is analysed using content analysis and the CSR disclosure index. In this study, content analysis involved counting the number of words used in CSR disclosure by companies listed in the Nairobi Securities Exchange. The minimum score a company can get is CSR disclosure of one component while the maximum score is CSR disclosure of all the six components.

Although measuring financial performance is considered a simpler task, it also has its specific complications as highlighted in the literature review. Accounting data was to measure financial performance with respect to ROE since it is in line with maximization of shareholders' wealth according to shareholder theory (Friedman, 1970).

To allow for deeper analysis and making of inferences regression analysis is carried out. It enables the study to evaluate the relationship between CSR disclosure and the financial performance of companies listed in the Nairobi Securities Exchange.

The study uses the regression model shown below.

$$\text{PROF}_{it} = \beta_0 + \beta_1 \Sigma \text{CSR}_{it} + e_{it}$$

Where;

CSR_{it} is the corporate social responsibility disclosure score of company 'i' at time 't' represented by computed profitability score

β_0 is the intercept of the model and measures a company's PROF score which is not determined by the explanatory variables in the model

β_1 is the coefficient of the independent CSR variable which explains a company's PROF score

e_{it} is the random disturbance term and represents the proportion of a company's CSR score which is not explained by the independent variables.

The summarized model above is made more specific as represented by the model below;

$$PROF = \beta_0 + \beta_1 * CSRQTTY_{it} + \beta_2 * CSRQLTY_{it} + e_{it}$$

Where;

$CSRQTTY_{it}$ is the corporate social responsibility disclosure score based on the average number of words used to report CSR of company 'i' at time 't' represented by computed profitability score

$CSRQLTY_{it}$ is the is the corporate social responsibility disclosure score based on the average number of CSR components on the annual report (expressed as a percentage) of company 'i' at time 't' represented by computed profitability score

β_1 is the coefficient of the independent $CSRQTTY$ variable which explains a company's PROF score

β_2 is the coefficient of the independent $CSRQLTY$ variable which explains a company's PROF score

3.6 Chapter Summary

Chapter 3 presents a discussion of the research methodology, research design, data sources and data collection methods and data analysis used to address the research objectives. The analyses are based on the financial data obtained from listed companies in the Nairobi Securities Exchange for the periods 2003 to 2012. The ordinary least square regression model is used to examine the relationship between CSR and financial performance of all companies listed in the Nairobi Securities Exchange.

CHAPTER FOUR: PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

This chapter describes how CSR disclosure by companies listed in the Nairobi Securities Exchange has evolved over the period spanning the year 2003 to 2012. The first part covers descriptive statistics. It is followed by results of regression analysis which is applied to estimate and test the model developed in chapter 3 with respect to the quantity and quality of CSR disclosure and to investigate if there is an association between CSR and financial performance as measured by return on equity (ROE).

4.2 Descriptive Statistics

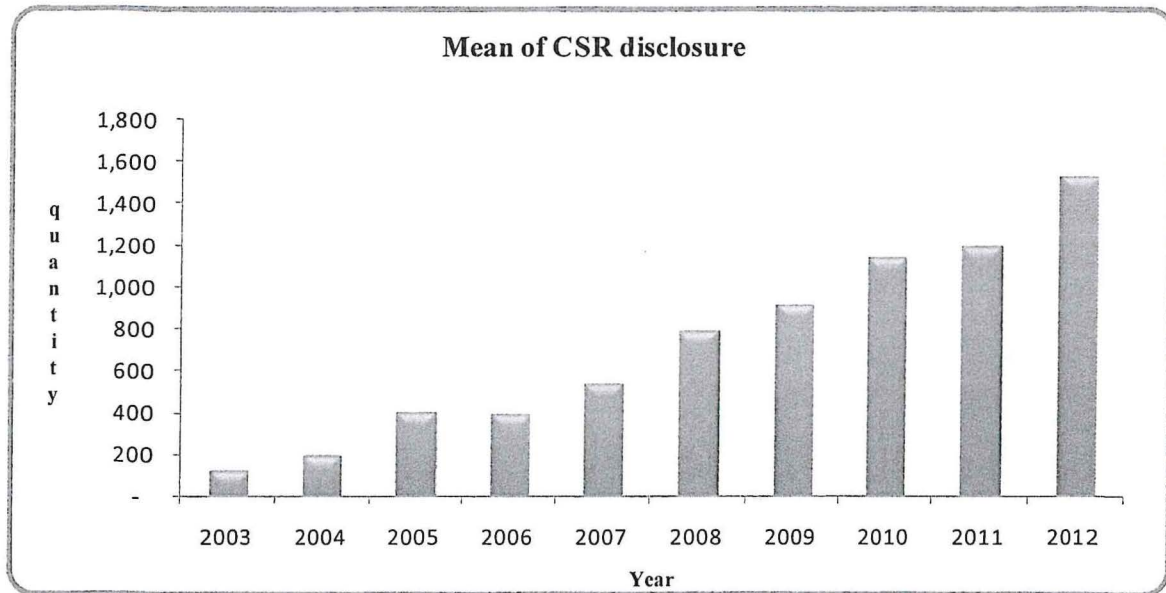
Corporate social responsibility disclosure by companies listed in the Nairobi Securities Exchange has improved year on year as is clearly supported by evidence based on the trajectory report (CSR Disclosure change over time) generated in this study. The parameters in Table 4.1 (page 31) and Table 4.2 (page 33) and Figures 4.1 (page 32) and 4.2 (page 34) answer the first objective of this study by establishing the extent of CSR disclosure by companies listed in the Nairobi Securities Exchange. Figures 4.1 to 4.3 show summarised statistics (in graphs) of the variables' annual averages.

Table 4.1 Extent of corporate social disclosure and trajectory thereof (Quantity/Number of words used to report CSR in Annual Reports)

CSR Disclosure Trajectory											2003-2012 absolute increase	Total Score	Entries	Average Score
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012				
Agriculture														
1 Rea Vipingo	-	-	46	81	232	240	217	210	441	551	551	2,018	10	202
2 Sasini Tea & Coffee Ltd	114	121	132	165	147	126	143	64	451	623	509	2,086	10	209
Commercial & Services														
3 Nation Media Group Ltd	135	291	107	197	488	319	1,274	1,191	887	1,241	1,106	6,130	10	613
4 TPS (Serena) Ltd	52	52	53	67	437	896	604	912	2,017	1,881	1,829	6,971	10	697
Finance & Investment														
5 Barclays Bank of Kenya Ltd	-	374	609	650	624	1,463	1,363	1,683	1,461	1,227	1,227	9,454	10	945
6 CFC Stanbic Bank Ltd	-	122	256	297	364	402	1,064	979	2,710	1,827	1,827	8,021	10	802
7 Kenya Commercial Bank Ltd	110	311	120	126	728	858	991	675	1,225	126	16	5,270	10	527
8 National Bank of Kenya Ltd	-	-	-	-	228	448	450	374	850	764	764	3,114	10	311
9 Pan Africa Insurance Holdings	-	-	-	-	319	494	432	528	1,052	864	864	3,689	10	369
10 Diamond trust bank of Kenya L	-	92	78	89	143	72	150	196	272	1,106	1,106	2,198	10	220
11 Jubilee Insurance Co. Ltd	-	-	-	-	132	160	135	952	624	176	176	2,179	10	218
12 Standard Chartered Bank Ltd	496	360	3,180	1,218	2,511	4,730	4,824	3,871	4,368	5,712	5,216	31,270	10	3,127
13 NIC Bank Ltd	40	200	385	77	528	709	789	1,228	2,040	1,404	1,364	7,400	10	740
14 Equity Bank Ltd	-	65	537	414	1,044	828	1,877	3,474	2,387	4,464	4,464	15,090	10	1,509
15 The Cooperative Bank of Kenya	-	120	342	196	906	2,088	2,982	3,771	2,592	2,312	2,312	15,309	10	1,531
Industrial & Allied														
16 Athi River Mining Ltd	-	-	-	198	98	168	204	397	687	693	693	2,445	10	245
17 British American Tobacco Kenya	504	866	428	378	108	366	250	1,706	180	1,860	1,356	6,646	10	665
18 E.A. Breweries Ltd	63	276	293	921	1,101	987	778	1,764	360	1,232	1,169	7,775	10	778
19 Sameer Africa Ltd	-	147	89	98	71	108	187	506	232	219	219	1,657	10	166
20 Kenya Oil Ltd	-	-	-	1,230	564	612	476	384	472	364	364	4,102	10	410
21 Mumias Sugar Company Ltd	83	38	39	39	513	53	379	501	795	1,827	1,744	4,267	10	427
22 Unga Group Ltd	54	29	-	224	117	48	125	559	511	425	371	2,092	10	209
23 Bamburi Cement Ltd	-	-	3,746	1,853	1,883	3,601	2,866	3,084	2,211	1,057	1,057	20,301	10	2,030
24 E.A. Portland Cement Company	-	187	67	708	136	773	616	864	832	1,122	1,122	5,305	10	531
25 Kenya Power & Lighting Company	-	-	-	1,043	306	403	1,684	972	996	951	951	6,355	10	636
26 Total Kenya Ltd	1,476	1,640	668	422	565	1,232	1,210	1,804	1,787	2,430	954	13,234	10	1,323
27 Kengen Ltd	86	58	-	330	768	532	449	533	2,255	7,590	7,504	12,601	10	1,260
Alternative Investment Market Segment														
28 Williamson Tea Kenya	138	138	158	153	272	101	56	-	180	238	100	1,434	10	143
29 Kapchorua Tea Co.	160	151	175	165	218	112	56	-	223	-	63	1,260	10	126
Total Score	3,511	5,638	11,508	11,339	15,551	22,929	26,631	33,182	35,098	44,286				
Entries	29	29	29	29	29	29	29	29	29	29				
Average	121	194	397	391	536	791	918	1,144	1,210	1,527				

Source: developed for this research

Figure 4.1 Annual average CSR Disclosure (Quantity)



Source: developed for this research

4.2.1 Best CSR disclosure (Quantity)

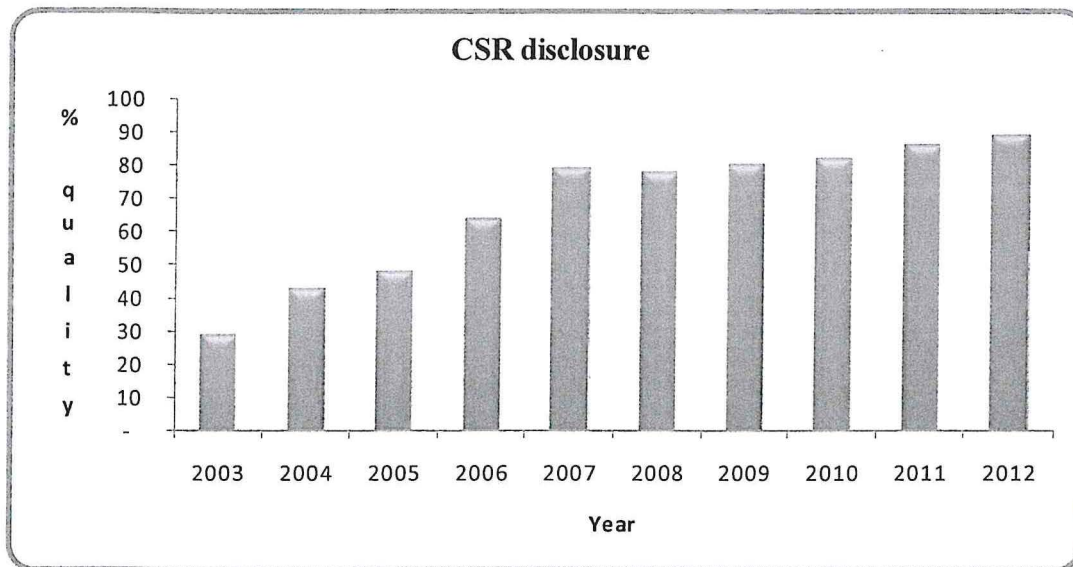
Drawing from the CSR trajectory (Table 4.1page 31), Kengen returned the best corporate social disclosure score at 7,590 words (2012) followed by Standard Chartered bank with 5,712 words in the same year. However, Standard Chartered bank returned the best average corporate social disclosure score at 3,127 words between 2003 and 2012. This score was higher than the companies' year 2012 average score of 1,527 words. Bamburi Cement followed with the second best average score of 2,030 words followed by Cooperative Bank at a distant third with an average score of 1,531 words.

Table 4.2 Extent of corporate social disclosure and trajectory thereof (Quality/Number of CSR components identified in the Annual Reports expressed as a percentage)

CSR Disclosure Trajectory in %											Total Score	Entries	Average Score	
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012				
Agriculture														
1	Rea Vipingo	-	-	83	67	100	83	83	100	83	83	683	10	68
2	Sasini Tea & Coffee Ltd	33	83	83	83	83	83	83	67	83	83	767	10	77
Commercial & Services														
3	Nation Media Group Ltd	33	50	83	83	83	100	100	100	100	100	833	10	83
4	TPS (Serena) Ltd	33	33	50	50	100	67	83	83	83	100	683	10	68
Finance & Investment														
5	Barclays Bank of Kenya Ltd	-	100	100	100	83	100	100	83	100	83	850	10	85
6	CFC Stanbic Bank Ltd	-	83	100	83	83	83	100	100	83	100	817	10	82
7	Kenya Commercial Bank Ltd	33	67	67	33	100	100	83	83	100	67	733	10	73
8	National Bank of Kenya Ltd	-	-	-	-	67	33	100	100	83	83	467	10	47
9	Pan Africa Insurance Holdings Co. Ltd	-	-	-	-	83	100	100	100	100	100	583	10	58
10	Diamond trust bank of Kenya Ltd	-	33	50	50	50	50	33	100	83	100	550	10	55
11	Jubilee Insurance Co. Ltd	-	-	-	-	50	50	50	83	67	83	383	10	38
12	Standard Chartered Bank Ltd	100	67	100	100	100	83	100	100	100	100	950	10	95
13	NIC Bank Ltd	50	50	33	50	50	50	50	100	100	100	633	10	63
14	Equity Bank Ltd	-	50	83	83	83	100	83	83	100	100	767	10	77
15	The Cooperative Bank of Kenya Ltd	-	50	83	67	67	100	100	83	50	100	700	10	70
Industrial & Allied														
16	Athi River Mining Ltd	-	-	-	67	67	67	100	100	67	100	567	10	57
17	British American Tobacco Kenya Ltd	50	83	17	50	100	67	-	67	50	83	567	10	57
18	E.A. Breweries Ltd	83	67	67	83	100	83	100	100	83	100	867	10	87
19	Sameer Africa Ltd	-	33	17	67	67	50	50	67	67	67	483	10	48
20	Kenya Oil Ltd	-	-	-	100	67	67	83	50	50	83	500	10	50
21	Mumias Sugar Company Ltd	17	17	17	17	83	33	67	83	100	100	533	10	53
22	Unga Group Ltd	50	33	-	67	33	33	17	67	100	100	500	10	50
23	Bamburi Cement Ltd	-	-	100	100	100	100	100	100	100	100	800	10	80
24	E.A Portland Cement Company Ltd	-	50	67	100	100	100	100	100	100	100	817	10	82
25	Kenya Power & Lighting Company Ltd	-	-	-	100	100	100	100	100	83	83	667	10	67
26	Total Kenya Ltd	100	67	50	50	83	100	100	100	100	100	850	10	85
27	Kengen Ltd	83	50	-	50	83	100	100	83	100	100	750	10	75
Alternative Investment Market Segment														
28	Williamson Tea Kenya	83	83	67	83	67	83	83	-	83	83	717	10	72
29	Kapchorua Tea Co.	83	83	67	83	67	83	83	-	83	-	633	10	63
Total Score														
Entries														
Quality of CSR disclosure														
		833	1,233	1,383	1,867	2,300	2,250	2,333	2,383	2,483	2,583			
		29	29	29	29	29	29	29	29	29	29			
		29	43	48	64	79	78	80	82	86	89			

Source: developed for this research

Figure 4.2 Annual average CSR Disclosure (Quality)



Source: developed for this research

4.2.2 Best CSR disclosure (Quality)

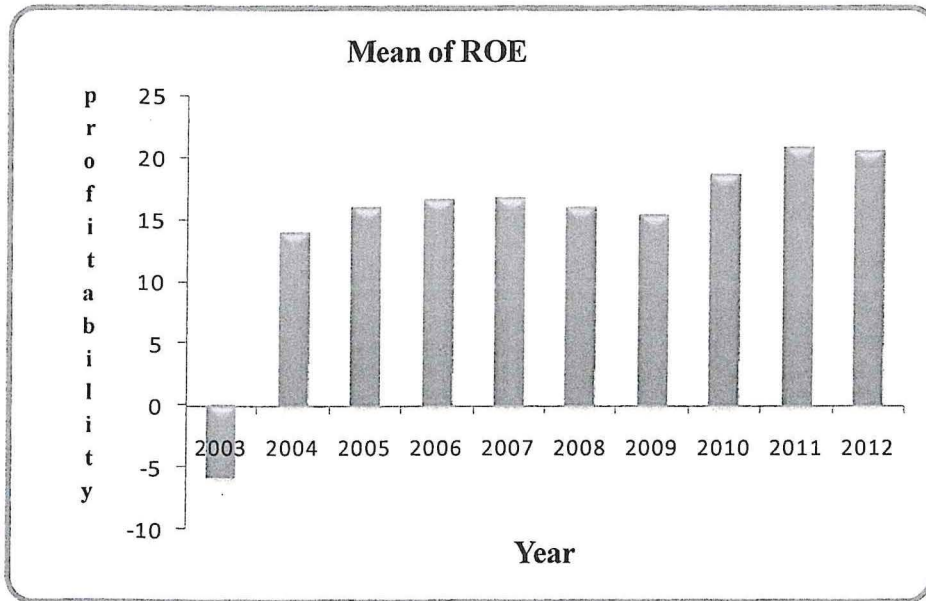
Drawing from the CSR trajectory (Table 4.2page 33) Standard Chartered bank returned the best average quality of corporate social disclosure score at 95% over the ten-year period followed closely by East Africa Breweries Limited at 87% while Barclays bank and Total Kenya came third at 85% over the same period of study. However, National Bank of Kenya had the worst quality of CSR disclosure at 47%.

Table 4.3 Financial performance and trajectory thereof (ROE)

ROE %												Total Score	Entries	Average Score
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012				
Agriculture														
1	Rea Vipingo	9	22	20	17	16	19	15	7	32	23	180	10	18
2	Sasini Tea & Coffee Ltd	-4	25	-14	8	-1	19	9	15	7	-2	62	10	6
Commercial & Services														
3	Nation Media Group Ltd	21	20	21	21	28	30	24	28	33	34	260	10	26
4	TPS (Serena) Ltd	2	12	15	10	11	6	9	7	8	6	86	10	9
Finance & Investment														
5	Barclays Bank of Kenya Ltd	31	31	28	30	28	27	0	35	32	27	269	9	30
6	CFC Stanbic Bank Ltd	19	21	16	20	18	14	11	6	8	11	144	10	14
7	Kenya Commercial Bank Ltd	10	7	13	21	23	20	18	18	25	23	178	10	18
8	National Bank of Kenya Ltd	19	15	19	16	23	20	19	20	15	18	184	10	18
9	Pan Africa Insurance Holdings Co	-4	12	19	33	14	-8	10	24	28	23	151	10	15
10	Diamond trust bank of Kenya Ltd	10	13	18	17	15	19	19	24	23	22	180	10	18
11	Jubilee Insurance Co. Ltd	12	12	15	15	17	22	24	33	28	26	204	10	20
12	Standard Chartered Bank Ltd	43	30	26	26	32	28	34	26	28	26	299	10	30
13	NIC Bank Ltd	9	10	10	15	16	19	17	23	27	20	166	10	17
14	Equity Bank Ltd	0	8	22	34	13	20	18	26	30	28	199	9	22
15	The Cooperative Bank of Kenya l	7	6	11	18	24	17	19	23	26	24	175	8	22
Industrial & Allied														
16	Athi River Mining Ltd	11	11	16	19	24	24	16	22	19	17	179	10	18
17	British American Tobacco Kenya	27	32	36	29	30	35	32	35	48	47	351	10	35
18	E.A. Breweries Ltd	18	35	34	34	36	42	37	37	34	129	436	10	44
19	Sameer Africa Ltd	8	14	10	-1	6	7	7	3	4	3	61	9	7
20	Kenya Oil Ltd	20	25	22	18	12	8	11	17	28	0	161	10	16
21	Mumias Sugar Company Ltd	-4	15	21	20	17	13	16	14	13	13	138	10	14
22	Unga Group Ltd	-2	-9	6	3	6	13	6	7	30	24	84	10	8
23	Bamburi Cement Ltd	0	19	20	22	27	21	33	25	24	16	207	10	21
24	E.A Portland Cement Company L	11	-11	27	13	21	13	30	-5	0	-12	87	9	10
25	Kenya Power & Lighting Compar	-468	3	7	8	8	7	12	13	11	11	-388	10	-39
26	Total Kenya Ltd	12	13	12	10	11	14	5	10	-1	-1	85	10	9
27	Kengen Ltd	5	4	5	10	4	7	0	5	3	4	47	9	5
Alternative Investment Market Segment														
28	Williamson Tea Kenya	3	4	4	-3	5	-4	4	25	21	17	76	10	8
29	Kapchorua Tea Co.	5	6	4	-1	0	-11	10	17	19	17	66	8	8
Total Score		-170	405	463	482	484	461	465	540	603	594			
Entries		29	29	29	29	29	29	29	29	29	29			
Average		-6	14	16	17	17	16	16	19	21	20			

Source: developed for this research

Figure 4.3 Annual average companies' profitability



Source: developed for this research

4.2.3 Best financial performance (ROE)

Drawing from the CSR trajectory (Table 4.3page 35), East Africa Breweries Limited returned the best average ROE score at 44% followed by Barclays bank of Kenya and Standard Chartered bank of Kenya Limited with 30%.

Of importance to note is that average annual CSR disclosure in terms of both quantity and quality was highest in 2012 at 1,527 words and 89%. However, financial performance as measured by annual average ROE was highest at 21% in 2011.

4.3 Regression analysis results

Regression analysis is the study of relationships between variables. In every regression study, there is a single variable that we are trying to predict or explain. This is called the response variable or the dependent variable in this study its depicted by PROF. To explain or predict the

response variable, we use one or more explanatory variables called independent or predictor variables in our case CSR disclosure (CSRQTTY and CSRQLTY). If there is a single explanatory variable, the analysis is called simple regression whereas if there are several explanatory variables the analysis is called multiple regression.

R-squared is the proportion of variance in the dependent variable (PROF) which can be predicted from the independent variable (CSRQTTY and CSRQLTY). It is good to note that this is an overall measure of the strength of association and does not reflect the extent to which any particular independent variable is associated with the dependent variable. R-squared is also called the coefficient of determination.

As predictors are added to the model, each predictor will explain some of the variance in the dependent variable simply due to chance. One could continue to add predictors to the model which would continue to improve the ability of the predictors to explain the dependent variable, although some of this increase in R-square would be simply due to chance variation in that particular sample.

The adjusted R-square attempts to yield a more honest value to estimate the R-squared for the population. There isn't much difference when dealing with only one variable. When the number of observations is small and the number of predictors is large, there will be a much greater difference between R-square and adjusted R-square. By contrast, when the number of observations is very large compared to the number of predictors, the value of R-square and adjusted R-square will be much closer.

The p-value associated with this F value is very small (0.0000).

These values are used to answer the question "Do the independent variables reliably predict the dependent variable?".

The p-value is compared to your alpha level (typically 0.05) and, if smaller, you can conclude "Yes, the independent variables reliably predict the dependent variable". If the p-value were greater than 0.05, you would say that the group of independent variables does not show a

statistically significant relationship with the dependent variable, or that the group of independent variables does not reliably predict the dependent variable."

Analyses of variance values are used to answer the question "Do the independent variables reliably predict the dependent variable?" The p-value is compared to your alpha level (typically 0.05) and, if smaller, you can conclude "Yes, the independent variables reliably predict the dependent variable".

If the p-value were greater than 0.05, you would say that the group of independent variables does not show a statistically significant relationship with the dependent variable, or that the group of independent variables does not reliably predict the dependent variable.

"Coefficients are the values for the regression equation for predicting the dependent variable from the independent variable. These are called unstandardized coefficients because they are measured in their natural units. As such, the coefficients cannot be compared with one another to determine which one is more influential in the model, because they can be measured on different scales. b represents the slope of the line. It is calculated by dividing the change in the dependent variable by the change in the independent variable. The difference between the actual value of Y and the calculated amount is called the residual. The represents how much error there is in the prediction of the regression equation for the y value of any individual case as a function of X .

Tables 4.4 page 39 to 4.6 page 61 show the regression estimates of profitability determinants as identified in the regression equation, the dependent variable being profitability as measured by ROE (PROF). The regression discussions that follow answer the second objective of this study.

Table 4.4 All companies all the years

Regression results for All companies all the years (2003 - 2012)									
The regression equation is	Predictor	Coef	SE coef	T	P	Rsq	R-Sq(adj)	F-Statistic	DW-Statistic
PROF = 4.76 + 0.00173 CSRQTTY + 0.132 CSRQLTY	Constant	4.7550	4.0800	1.1700	0.0100	3.10%	2.50%	4.64	1.72009
	CSRQTTY	0.0017280	0.0019920	0.8700					
	CSRQLTY	0.13169	0.0606	2.17					

Source: developed for this research

The results reveal that the adjusted R² (coefficient of determination) of the model was 2.5% meaning that the independent variables in the model explain up to 2.5% of the changes in the dependent variable. All independent variables had positive coefficients. The positive coefficients denote a positive relationship between the independent and dependent variables' while the negative one denotes a negative relationship interpreted as follows using the CSRQLTY coefficient; that a 1 unit change in the independent variable (CSRQLTY) leads to a 0.13169 change in the dependent variable (PROF). The F-Statistic was 4.64 with a p-value of 0.01 showing that the independent variables CSR quantity and quality of disclosure are statistically significant at 95% confidence level in predicting the dependent variable profitability as measured by return on equity. The Durbin-Watson Statistic was 1.72009 showing the model is good.

Table 4.5 All companies, last year (2012)

Regression results for All companies last year (2012)									
The regression equation is	Predictor	Coef	SE coef	T	P	Rsq	R-Sq(adj)	F-Statistic	DW-Statistic
PROF = 14.7 - 0.00079 CSRQTTY + 0.090 CSRQLTY	Constant	14.7400	11.0400	1.3400	0.7850	1.80%	0.00%	0.24	1.69074
	CSRQTTY	-0.0008	0.0028	-0.2800					
	CSRQLTY	0.0903	0.1312	0.69					

Source: developed for this research

The regression results on Table 4.5 page 39 show that the t-statistic which assesses the variable CSR disclosure (CSRQTTY and CSRQLTY) with values of -0.28 and 0.69 respectively.

The F-statistic which measures the significance of the regression model has a value of 1.69 with a P-value of 0.785 shows that the model is not statistically significant at 95% confidence level in predicting profitability. Durbin Watson statistic checks for the independence of the residuals and should usually fall in the range of 1-3 for a good model, in this case the value is 1.6907 which shows that the model is good.

Table 4.6 Each company 10 years (appendix 3)

The regression results for each company for 10 years will be analyzed as follows:

To begin with, regression results show mixed findings as the coefficients of independent variable show that CSR is both positively and negatively related to financial performance. 34% of the companies show that CSR is positively related to financial performance as measured by return on equity. 14% of the companies show that CSR is negatively related to financial performance. However, 52% of the companies give mixed findings on the independent variable CSRQTTY and CSRQLTY with both positive and negative coefficients on the model.

24% of the companies have P-values of below 0.05 which measures reliability of the CSR in predicting PROF show that CSR has statistically significant influence on the dependent variable in this case PROF at 95% confidence level. The F-statistic which measures the significance of the regression model has values in the range of 0.09 to 44.57.

Durbin Watson statistic checks for the independence of the residuals and should usually fall in the range of 1-3 for a good model, in this case 97% of the values were in the range of 1-3 showing that the model is good.

CHAPTER 5: DISCUSSION

5.1 Introduction

This chapter describes the findings reported in chapter 4, systematically answering the research objectives and questions as outlined in chapter 1 section 1.3 and section 1.4. The first objective of this study was to determine the quantity and quality of corporate social responsibility disclosure (CSR) by listed companies in the Nairobi Securities Exchange over 10 years from 2003 – 2012. The second objective was to ascertain whether there exists any significant association between CSR and financial performance of companies quoted on the NSE. These objectives also brings to the fore the CSR trajectory for the period under study, that is change over time in CSR disclosure.

The study made use of a CSR disclosure index to test the extent of CSR using secondary panel or longitudinal data collected from published and audited annual reports of the listed companies. The study uses the ordinary least squares (OLS) estimation method to analyse the influence of the CSR disclosure practices of the companies on their financial performance and their levels of significance.

5.2 Discussion of findings

5.2.1 Extent of corporate social responsibility disclosure

The results of Tables 4.1 page 31 and 4.2 page 33 reveal that there has been growth in CSR disclosure (quantity and quality) practices by companies listed in Nairobi Securities Exchange. This is true in the case of individual companies but also collectively. The annual average score on CSR quantity of disclosure was highest in 2012 at 1,527 words and lowest in 2003 at 121 words. A similar score was realised also in the CSR quality of disclosure where highest annual average was in 2012 at 89% and the lowest disclosure quality score at 29% in 2003. Annual average financial performance as measured by return on equity was highest at 21% in 2011 with a marginal decrease in 2012 return at 20% and lowest at -6% in 2003. The CSR disclosure scores seem to be closely related over time as such pointing to the probability that the firms are

increasingly embracing the voluntary disclosures practices to all stakeholders in their annual reports.

5.2.2 Regression analysis results

The regression model is $PROF = \beta_0 + \beta_1 * CSRQTTY_{it} + \beta_2 * CSRQLTY_{it} + e_{it}$.

5.2.2.1 Regression results for all companies all the years (2003 - 2012)

The results reveal that the R^2 of the model is 3.1% means that the independent variables in the model explain up to 3.1% of the changes in the dependent variable and the Probability is at 0.01 shows that the independent variable CSR disclosure has a statistically significant influence on the dependent variable profitability as measured by return on equity at 95% confidence level.

The Durbin-Watson statistic is 1.72 showing that the auto-correlation levels can be ignored.

At 95% confidence level, CSRQLTY is the more important predictor of PROF looking at their co-efficients and P values. The positive coefficients denote a positive relationship between the independent and dependent variables' while the negative one denotes a negative relationship interpreted as follows using the CSRQLTY co-efficient; that a 1 unit change in the independent variable (CSRQLTY) leads to a 0.13169 change in the dependent variable (PROF). This is in line with the findings of Artiach, (2009) who found out that CSR is positively related to financial performance.

There are three predominant views consistent with this perspective. Firstly, researchers suggest that the financial benefits from investing in CSR exceed its costs (Barnett, 2005; McGuire et al., 1988). It is argued that CSR investment produces benefits such as enhanced employee morale, goodwill, and improved relationships with bankers, investors and government and better access to capital; each of which is expected to lead to greater financial performance.

Secondly, there is a compatible view supported by stakeholder theory which contends that CSR investment generates positive financial benefits by managing stakeholders.

Thirdly, the resource view suggests that firms that invest in CSR have superior resources (Clarkson, Li, Richardson and Vasvari, 2006; Waddock and Graves, 1997; Alexander and

Buchholz, 1978; Moskowitz, 1972). The resource view proposes that only firms with sufficient resources have the capacity to invest in CSR, and suggests that CSR is positively associated with financial performance because the type of firms that invest in CSR have greater underlying resources which produce higher financial performance.

5.2.2.2 Regression results for all companies last year (2012)

The regression results on Table 4.5 page 39 show that the t-statistic which assesses the variable CSR disclosure (CSRQTTY and CSRQLTY) with values of -0.28 and 0.69 respectively. The P-value of 0.785 which measures reliability of the CSR disclosure in predicting PROF shows that CSR disclosure does not have statistically significant influence on the dependent variable in this case PROF at 95% confidence level possibly due to the one year period of these results. Durbin Watson statistic checks for the independence of the residuals and should usually fall in the range of 1-3 for a good model, in this case the value is 1.6907 which shows that the model is good. Of importance to note is that when the coefficients of the independent variable CSR disclosure are applied on the regression model, the resulting outcome is a positive association between profitability and CSR disclosure. This is in line with the findings of Artiach, (2009) who found out that CSR is positively related to financial performance with respect to the quality of disclosure with a coefficient of 0.0903.

There is a compatible view supported by stakeholder theory which contends that CSR investment generates positive financial benefits by managing stakeholder. The resource view suggests that firms that invest in CSR have superior resources (Clarkson, Li, Richardson and Vasvari, 2006; Waddock and Graves, 1997; Alexander and Buchholz, 1978; Moskowitz, 1972).

5.2.2.3 Regression results for Each Company for 10 years

To begin with, regression results show mixed findings as the coefficients of independent variable show that CSR is both positively and negatively related to financial performance. 34% of the companies show that CSR is positively related to financial performance as measured by return on equity. 14% of the companies show that CSR is negatively related to financial performance. However, 52% of the companies give mixed findings on the independent variable CSRQTTY

and CSRQLTY with both positive and negative coefficients on the model. This is in line with prior research which also shows mixed findings Frankle and Anderson, (1978); Chen and Metcalf, (1980); Preston and O'Bannon, (1997); Burlingame, 1994; Lyon, 2007; Scholtens, 2008 and Yeh, 2009).

The results showed that 24% of the companies have P-values of below 0.05 which measures reliability of the CSR in predicting PROF show that CSR has statistically significant influence on the dependent variable in this case PROF at 95% confidence level. The F-statistic which measures the significance of the regression model has values in the range of 0.09 to 44.57.

Durbin Watson statistic checks for the independence of the residuals and should usually fall in the range of 1-3 for a good model, in this case 97% of the values were in the range of 1-3 showing that the model is good.

5.3 Conclusion

The study finds that there has been a steady increase in CSR disclosure practices by companies listed in the Nairobi Securities Exchange from a low average of 121 words in (2003) to a commendable average of 1,527 words in (2012). The quality of CSR disclosure also increased from a low average of 29% in (2003) to 89% in (2012). A similar trend was also observed in financial performance with a steady increase in profitability as measured by return on equity from a low average of below -6% in (2003) to a commendable average of 21% in (2011) which marginally decreased to 20% in 2012.

The study further reveals that the following independent variables in the PROF model are positively related to PROF. These are; corporate social responsibility as measured by the number of words used in the annual reports to disclose CSR and corporate social responsibility as measured by the quality of disclosure with the components employees, environment, education, health, community involvement and sponsorship or donations. This result holds when panel data methodology is adopted because it combines time and cross-sectional or group data as shown on sub-section 5.2.2.2 and sub-section 5.2.2.3 over a long period of time. However, when results are analysed individually or over one year period as shown on (Table 4.5 page 39 and Table 4.6

page 61), we obtain mixed results where independent variables CSRQTTY and CSRQLTY give mixed results in their association with financial performance as measured by return on equity (PROF). This is in line with prior research which also shows mixed findings (Frankle and Anderson, 1978; Chen and Metcalf, 1980; Preston and O'Bannon, 1997; Burlingame, 1994; Lyon, 2007; Scholtens, 2008 and Yeh, 2009).

In order of importance however, the quality of corporate social disclosure is found to be the more important determinant of financial performance (PROF) as per their coefficients' and P values.

5.4 Ethical Consideration

There is no known possible cause of ethical contraventions as the data was collected from published annual reports which are public information.

5.5 Limitations of study

There was no independent reviewer during data collection to mitigate against possibility of human error. Since the study covered listed companies in the Kenyan context, findings may not be applied beyond the specific industries within the Kenyan context.

Finally, during data collection, several annual reports were not available either in hard or soft copy reducing the population from 55 companies to only 29 companies which is 53% representation of listed companies in the NSE.

5.6 Recommendations

To enrich corporate social responsibility disclosure practices, the study recommends enactment of legislation that makes it mandatory for all companies listed on the Nairobi Securities Exchange to include in their annual report social performance report. The same should have a well-defined structure of what defines the quality of disclosure of corporate social performance. This will ensure uniformity in corporate social disclosure enhancing ease of analysis and comparison.

Companies are encouraged to go further beyond the voluntary disclosures by benchmarking with international counter-parts and view it as a strategic activity and not simply as a way of communicating with their stakeholders; institutionalize sensitization of importance of CSR to all employees and at all levels to work up their websites with at least one of their main sources of public information that is the published annual report as most of the Kenyan listed companies do not have this information on their websites thus making it really difficult for interested parties or investors to access any useful information about them. This bottleneck would particularly be difficult for those outside Kenya who may not have an easy alternative to getting this information through avenues like the NSE or CMA library.

A contribution made by this study in the course of data collection is that CMA library embraced the need of having annual reports of companies listed in the NSE uploaded on their website for ease of access by scholars, investors and the public which enhances compliance with reporting requirements, transparency, and accountability and also promotes corporate governance.

5.7 Research contribution and implications

These findings can be a source of constructive debate in academia but also for policy makers, regulators, investors and shareholders in understanding the role of CSR on financial performance of companies. This information is also critical for regulators as the findings contribute in identifying and pointing out areas of focus or review in the process of institutionalizing corporate social responsibility and disclosure thereof.

5.8 Areas of further research

Going beyond what is public, there is need to find out why companies engage in CSR disclosure activities to find out the qualitative aspect that motivates managers to engage in CSR in as much as the current nature of CSR reporting is voluntary. The scope may cover both content analysis and quality of the disclosures themselves.

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Appendix 1 Listed Companies in NSE, 2003 – 2012

	Agriculture
1	Rea Vipingo
2	Sasini Tea and Coffee Ltd
	Commercial and Services
3	Nation Media Group Ltd
4	TPS (Serena) Ltd
	Finance and Investment
5	Barclays Bank of Kenya Ltd
6	CFC Stanbic Bank Ltd
7	Kenya Commercial Bank Ltd
8	National Bank of Kenya Ltd
9	Pan Africa Insurance Holdings Co. Ltd
10	Diamond trust bank of Kenya Ltd
11	Jubilee Insurance Co. Ltd
12	Standard Chartered Bank Ltd
13	NIC Bank Ltd
14	Equity Bank Ltd
15	The Cooperative Bank of Kenya Ltd
	Industrial and Allied
16	Athi River Mining Ltd
17	British American Tobacco Kenya Ltd
18	E.A. Breweries Ltd
19	Sameer Africa Ltd
20	Kenya Oil Ltd
21	Mumias Sugar Company Ltd
22	Unga Group Ltd
23	Bamburi Cement Ltd
24	E.A Portland Cement Company Ltd
25	Kenya Power and Lighting Company Ltd
26	Total Kenya Ltd
27	Kengen Ltd
	Alternative Investment Market Segment
28	Williamson Tea Kenya
29	Kapchorua Tea Co.

Appendix 2 Corporate Social Responsibility Disclosure Index

No. A. Employees

- 1* Conditions that can contribute to increased commitment and motivation of employees.
- 2* Employees' involvement in CSR activities
- 3* Leave permissions to employees when participating in CSR activities

B. Environment

- 4* Engagement in environmental conservation activities like waste management, tree planting and the like
- 5* Existence of Environmental report in the Annual report

C. Community

- 6* Involvement in CSR activities directly impacting community welfare such as dam construction, relief food etc
- 7* Partnering with Non-Governmental Organizations on education on HIV and AIDS

D. Health

- 8* Development of health facilities and facilitation of any healthcare requirement like participation in the Mater Heart r

E. Sponsorship

- 9* On community involvement activities such as sporting activities, donations both in kind and financial

F. Education

- 10* Development of education facilities like schools, provision of books and computers to schools.

Appendix 3 Regression Results

Regression results for All companies all the years (2003 - 2012)

The regression equation is	Predictor	Coef	SE coef	T	P	Rsq	R-Sq(adj)	F-Statistic	DW-Statistic
PROF = 4.76 + 0.00173 CSRQTTY + 0.132 CSRQLTY	Constant	4.7550	4.0800	1.1700	0.0100	3.10%	2.50%	4.64	1.72009
	CSRQTTY	0.0017280	0.0019920	0.8700					
	CSRQLTY	0.13169	0.0606	2.17					

Regression results for All companies last year (2012)

The regression equation is	Predictor	Coef	SE coef	T	P	Rsq	R-Sq(adj)	F-Statistic	DW-Statistic
PROF = 14.7 - 0.00079 CSRQTTY + 0.090 CSRQLTY	Constant	14.7400	11.0400	1.3400	0.7850	1.80%	0.00%	0.24	1.69074
	CSRQTTY	-0.0008	0.0028	-0.2800					
	CSRQLTY	0.0903	0.1312	0.69					

Regression results for Each Company for 10 years

	Predictor	Coef	SE coef	T	P	Rsqr	R-Sq(adj)	F-Statistic	DW-Statistic
1 Rea Vipingo	CSRQTTY	0.02607	0.01523	1.71	0.286	30.10%	10.10%	1.5	2.27796
	CSRQLTY	-0.05884	0.0751	-0.78					
2 Sasini Tea & Coffee Ltd	CSRQTTY	-0.02082	0.02374	-0.88	0.586	14.20%	0.00%	0.58	2.8348
	CSRQLTY	0.2223	0.2657	0.84					
3 Nation Media Group Ltd	CSRQTTY	0.003373	0.003714	0.91	0.074	52.50%	38.90%	3.86	1.60155
	CSRQLTY	0.10899	0.07594	1.44					
4 TPS (Serena) Ltd	CSRQTTY	-0.002833	0.002379	-1.19	0.515	17.30%	0.00%	0.73	1.65183
	CSRQLTY	0.04777	0.06938	0.69					
5 Barclays Bank of Kenya Ltd	CSRQTTY	-0.002398	0.007503	-0.32	0.813	5.70%	0.00%	0.21	2.54496
	CSRQLTY	-0.0431	0.1368	-0.31					
6 CFC Stanbic Bank Ltd	CSRQTTY	-0.00421	0.001501	-2.81	0.034	61.90%	51.00%	5.68	1.89964
	CSRQLTY	-0.03329	0.04369	-0.76					
7 Kenya Commercial Bank Ltd	CSRQTTY	0.004406	0.008191	0.54	0.353	25.80%	4.50%	1.21	1.02194
	CSRQLTY	0.0527	0.1365	0.39					
8 National Bank of Kenya Ltd	CSRQTTY	-0.005967	0.004039	-1.48	0.299	29.20%	8.90%	1.44	2.33348
	CSRQLTY	0.04933	0.02935	1.68					
9 Pan Africa Insurance Holdings Co. Ltd	CSRQTTY	0.03146	0.02277	1.38	0.43	21.40%	0.00%	0.95	1.53808
	CSRQLTY	-0.2013	0.1718	-1.17					
10 Diamond trust bank of Kenya Ltd	CSRQTTY	-0.002466	0.002888	-0.85	0.002	82.60%	77.60%	16.61	1.91391
	CSRQLTY	0.14327	0.02936	4.88					
11 Jubilee Insurance Co. Ltd	CSRQTTY	0.009511	0.003393	2.8	0	92.70%	90.60%	44.57	2.2257
	CSRQLTY	0.12726	0.03078	4.14					
12 Standard Chartered Bank Ltd	CSRQTTY	-0.0014344	0.0009895	-1.45	0.395	23.30%	1.40%	1.06	1.4484
	CSRQLTY	0.1072	0.1688	0.63					
13 NIC Bank Ltd	CSRQTTY	0.007168	0.00273	2.63	0.002	83.10%	78.30%	17.23	1.31905
	CSRQLTY	0.03324	0.06827	0.49					
14 Equity Bank Ltd	CSRQTTY	0.000933	0.001785	0.52	0.02	67.40%	58.00%	7.22	2.24564
	CSRQLTY	0.25457	0.08845	2.88					
15 The Cooperative Bank of Kenya Ltd	CSRQTTY	0.003347	0.001685	1.99	0.082	51.00%	37.00%	3.64	1.33985
	CSRQLTY	0.02952	0.07446	0.4					
16 Athi River Mining Ltd	CSRQTTY	-0.004441	0.006925	-0.64	0.147	42.20%	25.70%	2.55	2.09809
	CSRQLTY	0.0889	0.0439	2.03					
17 British American Tobacco Kenya Ltd	CSRQTTY	0.004229	0.004283	0.99	0.619	12.80%	0.00%	0.51	1.37833
	CSRQLTY	-0.0112	0.08774	-0.13					
18 E.A. Breweries Ltd	CSRQTTY	0.01559	0.0292	0.53	0.495	18.20%	0.00%	0.78	1.08486
	CSRQLTY	0.439	1.182	0.37					
19 Sameer Africa Ltd	CSRQTTY	0.001884	0.009789	0.19	0.11	46.70%	31.50%	3.07	2.56432
	CSRQLTY	-0.12301	0.0561	-2.19					
20 Kenya Oil Ltd	CSRQTTY	0.024273	0.009881	2.46	0.022	66.30%	56.70%	6.88	2.24519
	CSRQLTY	-0.34477	0.0979	-3.52					
21 Mumias Sugar Company Ltd	CSRQTTY	-0.002907	0.007813	-0.37	0.911	2.60%	0.00%	0.09	1.0786
	CSRQLTY	0.0518	0.1198	0.43					
22 Unga Group Ltd	CSRQTTY	0.02141	0.0272	0.79	0.12	45.40%	29.80%	2.91	2.20996
	CSRQLTY	0.107	0.1722	0.62					
23 Bamburi Cement Ltd	CSRQTTY	0.001086	0.002862	0.38	0.105	47.50%	32.50%	3.16	2.66344
	CSRQLTY	0.11243	0.09191	1.22					
24 E.A Portland Cement Company Ltd	CSRQTTY	-0.03525	0.01548	-2.28	0.143	42.60%	26.20%	2.6	2.50422
	CSRQLTY	0.3091	0.1823	1.7					
25 Kenya Power & Lighting Company Ltd	CSRQTTY	0.0113	0.1271	0.09	0.339	26.60%	5.60%	1.27	1.66817
	CSRQLTY	1.568	1.575	1					
26 Total Kenya Ltd	CSRQTTY	-0.004494	0.003616	-1.24	0.26	31.90%	12.50%	1.64	1.90572
	CSRQLTY	-0.0194	0.1073	-0.18					
27 Kengen Ltd	CSRQTTY	-0.0000321	0.0004328	-0.07	0.648	11.70%	0.00%	0.46	2.91908
	CSRQLTY	-0.02608	0.03075	-0.85					
28 Williamson Tea Kenya	CSRQTTY	0.0327	0.04293	0.76	0.18	38.70%	21.20%	2.21	0.592206
	CSRQLTY	-0.273	0.1317	-2.07					
29 Kapchorua Tea Co.	CSRQTTY	0.01236	0.05448	0.23	0.28	30.50%	10.60%	1.53	1.7547
	CSRQLTY	-0.1745	0.1315	-1.33					