

# **A Longitudinal Study of Corporate Social Responsibility Disclosure amongst Insurance Companies in Kenya**

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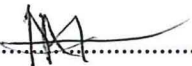
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## ABSTRACT

Most of the extant studies on social accounting have been conducted in developed and advanced economies. Due to differences in the socio-economic context between developed and developing economies, it is essential carry out research on Corporate Social Responsibility Disclosure (CSRD) in developing countries.

This is therefore an empirical examination on disclosure of Corporate Social Responsibility initiatives amongst insurance companies in Kenya where disclosure on social accounting is voluntary. The underlying theory of this study is legitimacy theory. This study has used content analysis and adopted instruments used in prior studies to measure the nature and extent of disclosure on Corporate Social Responsibility in the corporate annual reports of insurance companies during the period 2004 to 2011. The population for this study was drawn from registered insurance companies in Kenya as at 31<sup>st</sup> December 2012.

The results of the study reveal that quite a large proportion of insurance companies made CSRD in the corporate annual reports (CARs) during the period under study. The theme most preferred by insurance companies is community development while the least preferred theme is energy. Insurance companies used a combination of monetary, non-monetary, declarative and pictorial disclosures. Most insurance companies preferred to disclose 'good news' only which may suggest that insurance the companies aim at influencing the public's perception about the companies. The findings of the study suggest that legitimacy theory explains why insurance companies voluntarily make CSRD in their CARs.

The findings of the study show that gross premiums written, total assets, ownership structure, existence of board audit committee and return on assets are significantly related to CSRD in the sampled insurance companies in Kenya. Conversely, profit before tax, board composition, size of the audit firm and return on equity are not significantly related to CSRD in the sampled insurance companies.

In addition the findings established that gross premiums written, ownership structure, existence of board audit committee, size of audit firm and return on assets are positively associated with CSRD in the sampled insurance companies. On the other hand, total assets, profit before tax, board composition and return on equity are negatively associated with CSRD in the sampled insurance companies.

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**Key words:** Corporate Social Responsibility Disclosure, Insurance companies, Corporate Annual Reports, Kenya

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## ABBREVIATIONS AND ACRONYMS

|        |                                                      |
|--------|------------------------------------------------------|
| AIDS   | - Acquired Immuno Deficiency Syndrome                |
| CARs   | - Corporate Annual Reports                           |
| CAP    | - Chapter                                            |
| CCG    | - Centre for Corporate Governance                    |
| CSR    | - Corporate Social Responsibility                    |
| CSRD   | - Corporate Social Responsibility Disclosure         |
| GPW    | - Gross Premiums Written                             |
| HIV    | - Human Immunodeficiency Virus                       |
| ICPAK  | - Institute of Certified Public Accountants of Kenya |
| IFRS   | - International Financial Reporting Standards        |
| IRA    | - Insurance Regulatory Authority                     |
| KLD    | - Kinder, Lydenberg, Domini                          |
| MCOM   | - Master of Commerce                                 |
| MNCs   | - Multi-National Companies                           |
| NSE    | - Nairobi Securities Exchange                        |
| ROA    | - Return on assets                                   |
| ROE    | - Return on equity                                   |
| RS     | - Reporting score                                    |
| SAGA   | - Semi Autonomous Government Agency                  |
| SPSS   | - Statistical Program for Social Scientists          |
| TD     | - Total disclosure                                   |
| U.K.   | - United Kingdom                                     |
| U.S.A. | - United States of America                           |

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## **DEDICATION**

This work is dedicated to my family for their prayers, unwavering support, understanding and constant encouragement during the study. In a special way my late dad (may his soul rest in eternal peace), my mother, brothers and sisters, and my loving children: Memusi, Naserian and Yiamat.



# CHAPTER ONE

## 1.1 Background to the Study

The role of business has changed from a classical “profit maximizing” approach to a “socially responsible” approach (Rouf, 2011). Rouf argues that this has been caused by the interaction between businesses and the community; businesses impact the environment in which they operate. Businesses are therefore expected to disclose relevant information to enable the community assess an organization’s net contribution to social welfare (Zain, 1999). Hence, businesses should report on the impact of corporate decisions on the community as a whole (Zain and Janggu, 2006).

According to Dawkins and Fraas (2008), disclosure is the timely provision of relevant information leading to a transparent and accurate picture of corporate operations, financial performance and governance. According to Gray, Javad, Power and Sinclair (2001), disclosure comprises mandatory and voluntary items. Mandatory disclosure is information that is required by law or code of practice while voluntary disclosure includes information that is not required by the Government, but is nonetheless useful to stakeholders (Dawkins and Fraas, 2008).

The extant literature on Corporate Social Responsibility Disclosure (CSRD) has defined CSRD as the communication of Corporate Social Responsibility (CSR) activities to stakeholders (Mohd Ghazali, 2007; Nik Ahmad, Sulaiman, and Siswantoro, 2003; Che Zuriana, Kasumalinda, and Rapih, 2002; Robert, 1992; Kin, 1990).

Empirical research on the reporting practices of businesses has always gone hand in hand with the respective developments in corporate reporting (Fifka, 2010). Hence, academicians began by examining traditional and obligatory financial statements followed by non-financial reporting in the 1970s.

Disclosure on Corporate Social Responsibility (CSR) can take many forms; however in most cases it is either the production of information in annual reports or the production of stand-alone reports (that are usually, but not always, voluntary) (Bebbington, Larrinaga and Moneva, 2008). Both forms of reporting have been subjected to academic examination.

According to Kalunda (2012), companies make CSRD to convey how “compassionate” they have been during the past financial period and to inform their plans for the future. Kalunda further states that the subject has attracted interest beyond the confines of accounting academics

and professional accountants. CSRD has become part of the Corporate Annual Report (CAR) in addition to the traditional annual financial report (Idowu and Towler, 2004). This has been the trend in Kenya especially for public companies and Multi National Corporations (MNCs) (Kalunda, 2012). CSRD has however remained predominantly a voluntary practice at the discretion of a company's management (Gray, 2000).

#### **1.1.1 Financial Reporting of Insurance Companies in Kenya**

The financial reporting and disclosure of insurance companies in Kenya is regulated by the Companies Act, CAP 486 Laws of Kenya, the Insurance Act, CAP 487 Laws of Kenya, guidelines issued by the Insurance Regulatory Authority (IRA) supplemented by International Financial Reporting Standards (IFRSs). The Insurance Act, CAP 487 provides the legal and regulatory framework for the regulation of the insurance industry in Kenya.

Provisions of section 54 of the Insurance Act require all insurance companies to prepare in the prescribed format a revenue account for the year, a balance sheet as at the end of the year and a profit and loss account for the year or, in the case of a company not trading for profit, an income and expenditure account of the year. This is in respect of all insurance business wherever carried on by the insurer. On a quarterly basis, the companies are also required to prepare and submit to the Commissioner, within thirty days of the end of the quarter to which it relates, an unaudited revenue account, balance sheet, profit and loss account and statement of admitted assets and admitted liability.

Insurers are required to submit to the Commissioner the accounts, balance sheet, certificate, abstract, returns prepared under sections 54, 56, 57, 58, and 59 of the Insurance Act within four months after the end of the period to which they relate. Further, the companies are required to publish a copy of the audited balance sheet and other statements submitted to the Commissioner in at least two daily newspapers of national circulation, within thirty days of such submission.

The revenue account, balance sheet, profit and loss account and financial statement are prepared in accordance with International Financial Reporting Standards (IFRS) and such accepted Kenyan reporting standards as may be prescribed. The Insurance Act defines International Financial Reporting Standards as the standards issued by the International



Accounting Standards Board (IASB) of London or Kenyan accepted standards developed by the Institute of Certified Public Accountants of Kenya (ICPAK).

The Insurance Act requires the accounts of all insurance companies to be audited annually by an auditor qualified under section 161 of the Companies Act and approved by the IRA. The auditor is required to issue a certificate relating to the accounts under the Insurance Act as well as under the Companies Act. The auditor is required to issue a statement to the effect that the accounts and statements truly represent the transactions and financial position of the insurer in respect of the financial year to which they relate.

Disclosure of CSR is not mandatory under the Insurance Act or the Companies Act. Insurance companies therefore make CSR on a voluntary basis.

## **1.2 Statement of the Problem**

Most of the existing empirical studies on CSR have been done in the context of developed countries, such as Western Europe, the USA and Australia, while studies on CSR practices of developing countries are extremely limited (Tsang, 1998). International comparative studies have also focused on analyses of the differences and similarities of CSR practices in these countries only (Ernst and Ernst, 1978; Guthrie and Parker, 1990). Tsang (1998) argues that the findings of these studies cannot be generalized as applicable to less developed countries as the stage of economic development is likely to be an important factor affecting CSR practices. Cultural and national differences are also likely to affect accounting practices in general and particularly CSR practices (Mathews, 1993; Perera and Mathews, 1990).

Gray, Owen & Adams (1996) argue that accounting rules and regulations of developed countries can be replicated in the developing countries to meet their reporting needs. Briston (1984), however is of a different opinion and states that financial regulations of developed countries are investor-oriented as contrasted to the developing countries where regulations are weak and ineffective, private investors are few, corporate culture is yet to be developed and stock exchange is relatively new. Supporting Briston's view, Gray and Kouhy (1993) are critical of introducing Western CSR reporting techniques into different socio-cultural

environment of developing countries as socio-economic, political and cultural environment of a country largely influences accounting in general and particularly CSR.

Belal (2008) is of the opinion that CSR practices and CSRD has the potential of promoting equality, social justice, transparency and accountability by holding businesses accountable. He states that most of the developing economies are faced with widespread poverty, wide gap between the rich and the poor, human rights violations, corruption, inequalities and social exploitations. And for such, businesses operating in developing economies have a responsibility to address some of these challenges and businesses can be held accountable through complete and transparent disclosures addressing the issues noted above (Pachauri, 2006).

Another shortfall of most of the existing studies is that they are cross-sectoral (Gray, Kouhy and Lavers, 1995; Guthrie and Parker, 1989; Hogner, 1982). Fraser and Fraser (2007) argue that industry has an impact on the type and extent of CSRD. In support, Sturdivant and Ginter (1977) highlighted the need to take a firm's industry into account when studying CSR. Boutin-Dufresne and Sacaris (2004) are of the same opinion and argue that firms in a particular industry may be more socially responsible simply due to the nature of their activities. Sweeney and Coughlan (2008) confirmed this and highlighted the importance of industry as a control variable for studies investigating the CSR activities of a group of firms.

CSR practices and disclosure differ across countries and between developed and developing countries (Adams, Hill and Roberts, 1998; Imam, 2000). The nature and patterns of CSR and disclosure also vary between industry sectors (Gray et al., 2001).

This study not only adds to the existing literature on CSRD studies in developing countries which is limited (Hamid, Fadzil, Ismail, and Ismail, 2007; Jamali and Mirshak, 2007), but also contributes to the study of CSRD in a specific industry, as most of the prior studies are cross-sectoral (Gray, Javad, Power, and Sinclair, 2001). This study will help to detect some specific patterns of CSRD that relates to a particular industry (Griffin and Mahon, 1997; Hamid, 2004). This study will therefore provide more precise descriptions on CSR activities and disclosure that relate to a particular industry, insurance, in a developing country.

### **1.3 Objectives of the Study**

This study is designed to explore the extent and trend of Corporate Social Responsibility Disclosure (CSR) in the Corporate Annual Reports (CARs) of insurance companies in Kenya during the period 1<sup>st</sup> January 2004 to 31<sup>st</sup> December 2011 and addresses four research objectives.

#### **1.3.1 Specific Objectives**

This study expects to address the following objectives:

- i. To examine the nature of Corporate Social Responsibility Disclosure in the corporate annual reports of insurance companies in Kenya.
- ii. To establish the extent of Corporate Social Responsibility disclosure in the corporate annual reports of insurance companies in Kenya.
- iii. To determine the factors that influence Corporate Social Responsibility Disclosure among insurance companies in Kenya.

### **1.4 Research Questions**

This study expects to answer the following questions:

- i. What is the nature of Corporate Social Responsibility Disclosure in the insurance industry in Kenya?
- ii. What is the extent of Corporate Social Responsibility Disclosure in the insurance industry in Kenya?
- iii. What factors influence Corporate Social Responsibility Disclosure by insurance companies in Kenya?



## **1.5 Scope of the Study**

This study will focus on Corporate Social Responsibility Disclosure amongst insurance companies in Kenya during the period 2004 to 2011. The population for this study is all the insurance companies registered under the Insurance Act, CAP 487 the Laws of Kenya as at 31<sup>st</sup> December 2012. A total of forty-eight (48) insurance companies were authorized to transact insurance business during that period.

The dependent variable for this study is Corporate Social Responsibility Disclosure measured using a disclosure index that has been developed for this study as well as number of pages devoted to CSRD in CARs. The independent variables are corporate attributes and governance issues. These are size (assets and turnover); profitability (profit before tax, ROA and ROE); ownership; board composition; existence of board audit committee and size of audit firm.

## **1.6 Significance of the Study**

A study on CSRD in the insurance industry in Kenya is significant due to the following:

- i. The results of the study can be used to determine whether to develop guidelines for CSRD or not. Hence, it is useful for the supervisor of the insurance industry, the Insurance Regulatory Authority (IRA) as well as the accounting standards setter, Institute of Certified Public Accountants of Kenya (ICPAK) in its decision on whether to introduce an accounting standard in the area of CSRD.
- ii. It can be useful as a subject matter for international comparisons of CSR practices.
- iii. It may raise some issues of interest to other researchers who are currently or may be researching into the field.

## **CHAPTER TWO**

### **2.0 Literature Review**

#### **2.1 Introduction**

This chapter reviews existing literature on Corporate Social Responsibility Disclosure (CSRD). For the purpose of this study, the literature has been divided into studies done in different countries at different times. According to Haron, Yahya, Manasseh and Ismail (2006), existing literature on CSRD lacks a consistent approach, whether in terms of (a) research method, (b) sample selection or (c) the period of study. This leads to challenges of comparison between research studies in terms of accuracy.

#### **2.2 Prior Studies on Corporate Social Responsibility Disclosure**

A lot of research, both theoretical and empirical, on CSRD has been carried out all over the world (Basalamah and Jermias, 2005). Most of the past research however concentrated on two issues: the nature and extent of disclosure and the relationship between disclosure and possible determinants (Sobhani, Amran and Zainuddin, 2009).

Using content analysis, Guthrie and Parker (1990) conducted a study on the annual reports of 150 companies in three countries: the U.S.A., U.K and Australia. The study used fifteen content categories within four testable dimensions: theme, evidence, amount and location, with the aim of identifying international similarities and differences. The findings revealed that 85%, 98% and 56% of the companies in the U.S.A., U.K and Australia respectively made CSRD in their annual reports. The themes covered in the disclosure are human resources, community involvement, environment, energy and products and others. Companies in the U.S.A. and the U.K. used a mixture of monetary and non-monetary disclosure, while Australian companies used mostly descriptive CSRD. The study further revealed that U.K. companies mostly disclosed CSR information in the Directors' report while Australian companies made CSRD in various sections of the annual report.

A longitudinal study by Ernst and Ernst (1978) on the annual reports of Fortune 500 companies revealed that the companies made disclosure on environment (78%), fair business practices (77%), community involvement (72%), energy (67%), human resources (60%), products (37%) and 24% of the companies made disclosure on other social responsibility issues.

### **2.2.1 Corporate Social Responsibility Disclosure in Developing Countries**

Very few studies are available on CSRD in the developing countries (Belal, 2001). Research on CSRD in the developing countries has generally found that the extent of CSRD is lower than in the developed countries (Ahmad et al., 2003). In India, Hegde, Bloom and Fuglister (1997) conducted a study on the Steel Authority of India Limited (SAIL) and observed that the company prepared a social balance sheet and income statement. The company made extensive disclosures on human resources and included a value-added statement in the annual report.

Singh and Ahuja (1983) carried out a study using 40 annual reports of public companies for the year 1975/76 to examine the extent of CSRD in India and corporate attributes, namely company age, size, profitability and industrial grouping. The study covered 33 social disclosure items and found that approximately 40% of the companies disclosed more than 30% of the total social disclosure items included in the survey.

Imam (2000) and Belal (2001) examined CSRD in Bangladesh. The study by Imam found that the level of such disclosures was very poor and inadequate. Belal established that 97% of companies listed on the Dhaka Stock Exchange made some form of CSRD, though the volume was very low and that the disclosure was largely descriptive in nature, and emphasized 'good news'. Only one instance of 'bad news' disclosure was found (Belal, 2001). In Jordan, Abu Baker and Naser (2000) used content analysis to examine content-category themes, methods and location of CSRD within annual reports of 143 companies listed on the Amman Financial market. The findings of the study revealed that the predominant themes are human resources and community involvement and the extent of CSRD is very low.

A study by Haron, Yahya, Manasseh and Ismail (2006) examined the level of CSRD among Bursa Malaysia listed companies pre, during and post financial crisis periods using content analysis. The period covered was from the year 1996 to the year 2000 and found that the year 1998 recorded the highest level of disclosure. Disclosures were found in the chairman's report and were mainly qualitative and reported 'good news' only; human resources was the most disclosed theme (Haron et al., 2006).

Using legitimacy theory, Ahmad et al. (2003) examined the nature and extent of CSRD in the annual reports of selected Malaysian companies listed in the Kuala Lumpur Stock Exchange (KLSE) for the year 2000 using content analysis. The findings of the study revealed





that the format and information provided varied; the themes disclosed by most companies are products and consumers, employees and community involvement. The disclosures were descriptive and there was no substantial variance across industry groups nor was there any distinct pattern for a particular industrial sector (Ahmad et al., 2003).

Andrew, Gul, Guthrie and Teoh (1989) used content analysis to examine 119 annual reports of publicly listed companies in Malaysia and Singapore in 1983. The results revealed that only 26 percent of the companies had some CSRD and that a higher number of large and medium size companies disclosed social information as compared to smaller sized companies. The dominant theme was human resources and firms in the banking and finance industry had the highest proportion of companies with CSRD in their annual reports. Overall, the level of CSRD was very low, ranging from less than a quarter of a page to slightly more than one page. This study did not make a distinction between Malaysian and Singapore companies, thus it is not possible to get the complete picture of CSRD in each individual country (Ahmad, Sulaiman and Siswantoro, 2003).

Teoh and Thong (1984) and Andrew et al. (1989) conducted studies on CSRD in Malaysia using different methodologies. Teoh and Thong (1984) used the personal interview survey to examine the concept of CSR, the nature and extent of corporate involvement in such activities and CSRD by one hundred foreign and locally owned companies in Malaysia. The findings revealed that only 29% of the companies disclosed any CSR and that foreign-owned companies made more CSRD as compared to locally-owned Malaysian companies. The popular themes are human resources and products/services.

Ebimobowei (2011) used content analysis to examine the practice of social accounting disclosure in forty (40) Nigerian companies quoted in the stock exchange for the period 2005 to 2007. The results show that 82.5% of the companies reported on social issues in the annual report and the most popular themes were human resources, community involvement and the environment. The companies made the disclosures in the Directors' Report, the Chairman's Statement and Notes to the Accounts in the form of short qualitative information. A study by Owolabi (2008), using content analysis, from 2002 to 2006 on 20 companies in Nigeria revealed that 35% of the companies (multinationals) made some social disclosures in their annual reports.

Mamman (2004) used content analysis to examine CSRD of 30 companies listed on the stock exchange in Nigeria in 2002. The findings show that companies made some disclosure on social performance in their financial statements with the dominant theme being human resources followed by environmental contribution (Mamman, 2004).

Savage (1994) conducted a study on 115 South African companies out of which approximately 50% made social disclosures and human resources being the major theme at 89%. The issues covered under human resources include working conditions, compensation and equal opportunities. Other social disclosures included community involvement (72%) and environmental disclosures (63%). A study on 30 companies (7 responded) in Uganda revealed that only four companies made CSRD (Kisenyi and Gray, 1998). The four made disclosures on employees while two disclosed information on customers and community involvement. None of the companies made disclosures on the environment. A tentative conclusion is that “social and environmental disclosure in Uganda is scarce, low grade and of little importance” (Kisenyi and Gray, 1998: 18).

### **2.2.2 Corporate Social Responsibility Disclosure in Kenya**

The few studies on CSRD in Kenya have been carried out on the companies listed on the Nairobi Securities Exchange (NSE). A study conducted by Kalunda (2012) revealed that 38.1% of companies reported on CSR for the first time in 2004 though they started engaging in CSR activities way before the year 2002. 81% of the companies included information about CSR in the annual reports. This was done in the chairman’s statement, directors’ statement (14.3%) or in the corporate governance section (38.1%). The corporate governance section was the most popular section for disclosing corporate social reports. Only two companies prepared separate annual stand-alone social reports.

The themes covered in the report varied. Education (64.7%) was the most dominant followed by Health (58.8%) and social activities and charity (47.1%). Health focused mainly on Acquired Immune Deficiency Syndrome (AIDS) and the cure and prevention of malaria. The environment and actions taken to safeguard and improve the environment had a score of 35.3% while water and sanitation, 17.6%. Staff welfare, training and development at 11.8%, were the least featured.



The reports presented the information in qualitative form (50%), some in both qualitative and pictorial (38%) while others used a combination of qualitative, pictorial and quantitative (32%). None of the companies presented the information in a purely quantitative form.

Ponnu and Okoth (2009) conducted a study on CSRD in annual reports and web sites of companies to determine the relationship between company size (paid-up capital, revenue and profit before tax) and CSRD and to examine the themes (environment, community involvement, product and consumer and human resources) covered by CSRD. The study revealed that CSRD received only modest attention and the theme most commonly disclosed was community involvement. There were significant differences among various industry groupings with respect to the background of the company and the themes of CSRD.

Barako (2007) conducted a longitudinal study to examine voluntary disclosure practices in the annual reports of listed companies in Kenya from 1992 to 2001. The purpose of the study was to investigate the extent to which corporate governance attributes, ownership structure and company characteristics influence voluntary disclosure of various types of information. The results of the study revealed that disclosure of all types of information are influenced by corporate governance attributes, ownership structure and corporate characteristics. In particular, the results suggest that size and companies in the agricultural sector are significantly associated with the voluntary disclosure of all four types of information disclosure.

### **2.3 Theoretical Framework**

CSRD has been a subject of substantial research in the academic accounting literature. However, it lacks a coherent theoretical framework (Uwalomwa and Uadiale, 2011)). According to Ullmann (1985) this could be the reason why there is no substantive and systematic conclusion on CSRD. Some of the theories used include legitimacy theory (Lindblom, 1984 and Pattern, 1992); stakeholders' theory (Gray et al, 1987); accountability theory (Adams, 2001); social obligation theory (Shocker and Sethi, 1973) and decision usefulness theory (Hogner, 1982). All the theories however, tend to emphasize that the main reason for companies to make CSRD is to influence the public's perceptions of the company

(Hooghiemstra, 2000). This is clear in the studies that have used legitimacy theory (Gray et al., 1995).

The theories that have been used by most researchers to explain why companies make social and environmental disclosures are legitimacy theory and stakeholder theory which are derived from Bourgeois Political Economy Theory (PET). PET views the world as essentially pluralistic with no particular class dominating another (Deegan and Samkin, 2001). According to Vos (n.d), both legitimacy theory and stakeholder theory represent concerns regarding impacts of an organization's activities on the environment, though different theoretical perspectives exist. This position is supported by Gray, Kouhy and Lavers, (1995) who state that there are overlapping perspectives between the theories in terms of enriching understanding of corporate social disclosures. Stakeholder theory focuses on the economic motivations for the disclosure of CSR information and legitimacy theory on the other hand mainly focuses on the social perspective (Purushothaman, Tower, Hancock and Tapli, 2000). The two theories therefore deal with economic and philanthropic responsibilities of organizations as stated by Carroll (2001).

**Legitimacy Theory** – Legitimacy theory tries to explain the efforts undertaken by corporate entities to minimize or eliminate any perceived legitimacy gap so as to avoid sanctions or threats to their survival (Uwalomwa, 2011). Legitimacy theory relies on the notion of a “social contract” on which organizations’ survival and growth depend; thus organizations should conform to the norms and expectations of the society in which they operate (Patten, 1991). Organizations might therefore make social and environmental disclosures so as to be viewed as conforming to community expectation so as to change societal expectations (Deegan, Rankin and Tobin, 2002).

Zain (1999) concurs and argues that legitimacy theory seeks to manipulate the perception by distracting attention from the issue at hand to other related issues. Through disclosure of social information, organizations can maintain their freedom, status and reputation while portraying an image to society that the organization is socially responsible (Abbot and Monson, 1979; Pattern 1992). Legitimacy theory advances that corporate social disclosures may be regarded as reactive attempts that organization use to legitimize their activities (Vos,



n.d). Organizations should therefore disclose adequate social information to enable society evaluate whether it is a good corporate citizen (Guthrie and Parker, 1989).

**Stakeholder Theory** - Stakeholder theory asserts that corporate entities make social and environmental disclosures due to pressure from stakeholders (Zain and Janggu, 2006). Freeman and Reed (1983) have defined stakeholders as any identifiable group or individual who can affect or is affected by the achievement of an organisation's objectives. The theory argues that all stakeholders have the right to be treated fairly by an organisation (Orts and Strudler, 2002). The firm is seen as a vehicle for coordinating stakeholder interests (Deegan and Rankin 2006). An organization should therefore balance the conflicting demands so as to attain optimal balance among them. Organizations utilize information, financial as well as social performance, as a major element for managing stakeholders (Vos).

According to stakeholder theory, stakeholder groups differ from one company and industry to another. And as such, the stakes of different stakeholders differ from one stakeholder to another (Zain and Janggu, 2006).

## **2.4 Factors that Influence Corporate Social Responsibility Disclosure**

This study intends to determine the corporate characteristics and the governance issues that influence CSRD. These are size, profitability, ownership structure, board composition in terms of proportion of non-executive directors, presence of board audit committee and the size of the audit firm.

### **2.4.1 Size of the company**

Most of the existing studies show that the size of a firm has an impact on the level of CSRD in CARs (Cooke 1989a, 1992; Ahmed and Nicholls, 1994; Hossain et al., 1994; Wallace et al., 1994; Craig and Diga, 1998; Hossain, 2000; Hossain, 2001; Rouf, 2011). Most of the studies have established that there is a positive association between firm size and voluntary disclosure (Hossain, 2008).

Several reasons have been advanced in the existing literature in an attempt to justify this relationship. A study Singhvi and Desai (1971, p.131) gives three reasons. Firstly, that it more expensive for small firms to accumulate certain information as compared to large firms. Secondly, the need for disclosure is higher for larger firms since their securities are typically distributed via a more diverse network of exchanges. Lastly, managers of large firms realize the benefits accrued from better disclosure of social and environmental issues while small companies view full disclosure as detrimental to their competitive position.

Studies by Suwaidan (2004); New, Warsame and Pedwell, (1998); Adams, Hill and Roberts (1998); and Barako, Hancock and Izan (2006) revealed that larger companies are more likely to make voluntary disclosure on CSR. Contrary to this, studies by Hossain et al. (2006); Roberts (1992); Ng (1985) and Davey (1982) revealed that there is no significant relationship between size and the level of CSRD.

The size of firms can be measured in various ways, such as number of employees, total asset value, sales volume, etc. This study will use sales turnover in terms of gross written premiums and total assets to measure the size of insurance companies.

#### **2.4.2 Profitability**

Studies on the relationship between profitability and CSRD have yielded mixed results. A study by Gray et al. (1987) revealed that profitability is not related to CSRD in the same period but may be related to lagged profits. Studies by Belkaoui and Karpik (1989), Patten (1991), Hackston and Milne (1996) and Richardson and Welker (2001) indicate that there is a weak association between CSRD and profitability.

On the other hand studies by Singh and Ahuja (1983) and Balabanis et al. (1998) found some statistically significant evidence of a positive association between CSRD and profitability. According to Islam and Deegan (2010) profitable companies may have to disclose that they operate within the norms of society as they would not want to be associated with actions that breach society's expectations. And for such, profitable companies may find themselves explaining to the society – through CSRD – how they have earned their profits (Bewley and Li 2000). In support, Brammer and Pavelin (2006) add that profits provide managers with resources from which the costs of disclosure are funded.

This study uses profit before tax, return on assets (ROA) and return on equity (ROE). Due to the inconclusive results on the association between CSRD and profitability, no expectation is formed.

### **2.4.3 Board Composition**

Shamser and Annuar (1993) have defined board composition as the proportion of outside directors to the total number of directors. The resource dependence theory states that selection of outside board members will provide more resources, information, and legitimacy to the board (Ayuso and Argandona, 2007). Outside board members are more likely to be sensitive to society's needs rather than focus on organizational performance which deals primarily with financial measures (Ibrahim et al., 2003).

Board composition indirectly reflects the role played by non-executive directors (Haniffa and Cook, 2002). Empirical evidence on the influence of non-executive directors on CSRD has yielded mixed results. A study by Ho and Wong (2001) found no association between the number of outside non-executive directors and the extent of voluntary disclosure.

Chen and Jaggi (2000) established that the presence of non-executive directors in a corporate board improves the comprehensiveness and quality of disclosure. Akhtaruddin et al. (2009) found that the percentage of independent non-executive directors on the boards of Malaysian listed companies is an important explanatory variable for voluntary disclosure. Mulcahy and Donnelly (2008) also found a positive association between the existence of non-executive directors in the boards of Irish companies and voluntary disclosure.

### **2.4.4 Ownership Structure**

Prior studies on CSRD have dealt with various aspects of ownership structures such as ownership concentration, family ownership, government ownership, foreign ownership, institutional ownership and managerial ownership. This study examines two aspects of a firm's ownership structure, namely, ownership concentration and institutional ownership.

The efficient monitoring hypothesis states that a significant proportion of outside ownership serves to monitor managers' actions and reduces the likelihood that managers will withhold information for their self-interest. Thus information disclosure is likely to be greater



in firms where ownership is dispersed widely as compared to companies where ownership is concentrated on a few individuals (Hossain et al., 1994).

A widely held company is a case where shares of the company are not concentrated in the hands of a few large shareholders, but rather a large number of shareholders each holding a small portion of the company's shares (Ghazali, 2007). He argues that widely held companies may engage in social activities and voluntarily disclose the same. On the other hand, owner-managed companies or companies where directors hold a significant proportion of the shares are known as closely held companies (Ghazali, 2007).

Empirical results of the relationship between ownership concentration and corporate disclosure are mixed. A study by Muhamad, Saleh and Zulkifli (n.d) found that CSR activities are positively related with the level of shareholdings by the institutional investors in Malaysia. A study in Hong Kong revealed that there is a negative association between family shareholding and voluntary disclosures (Ho and Wong, 2001). Akhtaruddin et al. (2009) established that there is no association between family control and voluntary disclosures by firms in Malaysia.

#### **2.4.5 Audit Firm**

Studies on size of audit firm and amount of CSRD have yielded mixed results. Studies by Craswell and Taylor (1992); Hossain et al. (1994); Ng and Koh (1993) and (1994) found a positive relationship while Mohamad and Ahmad (2001) established that environmental disclosure is negatively related to audit firm. Other studies established that there is no relationship between auditor and amount of social disclosures (Malone et al., 1993; Tan, Kidman and Cheong, 1990; Hossain, 2001). Choi (1998) argues that auditors have a responsibility of advising their clients to act responsibly.

Research that have established a positive relationship suggest that audit firms that are associated with the Big-4 international audit firms provide more information in the CARs as compared to audit firms without affiliation to the Big-4. This study uses the same logic to examine the effect of size of audit firm on disclosure of voluntary information by insurance companies in Kenya. Consistent with previous research, a score of "1" is assigned to a company that uses one of the Big-4 audit firms, otherwise a "0" is assigned.



#### 2.4.6 Board Audit Committee

Studies by Ho and Wong (2001) and McKinnon and Dalimunthe (1993) show that the existence of board audit committees is positively associated with the level of CSRD. The composition of audit committees, in terms of insiders and outsiders, plays an important role in examining the level of CSRD (Akhtaruddin et al., 2009).

### 2.5 Conceptual Framework

The conceptual framework of this study is drawn from a discussion of prior studies on CSRD. The dependent variable in this study is total Corporate Social Responsibility Disclosure in the annual reports measured by a disclosure index and there are six (6) independent variables to be tested which may motivate insurance companies to voluntarily make disclosure on Corporate Social Responsibility. The independent variables are the company's attributes; size (assets and turnover), profitability, ownership structure, board composition, existence of board audit committee and size of the audit firm. In this study, the independent variables are tested for their relationship with total CSRD. The nature and expected effect of these variables have been explained and discussed in the previous section.

The following research propositions are advanced to assess the influence of these variables on CSRD. These propositions are based primarily on prior research and are designed to reconcile the findings of prior research.

*The level of CSRD in CARs is positively related with total sales.*

*The level of CSRD in CARs is positively related with total assets.*

*The extent of CSRD in CARs is associated with a company's profitability.*

*The extent of CSRD in CARs is positively associated with the proportion of shares held in blocks by institutional investors.*

*There is a positive association between the representation of outside directors on the board and the extent of CSRD.*

*The level of CSRD in CARs is positively related with the existence of board audit committees.*

*Firms that engage the 'big four' audit firms are likely to make more CSRD as compared to those that use 'non-big four' audit firms.*

The conceptual framework for this study is as shown below.

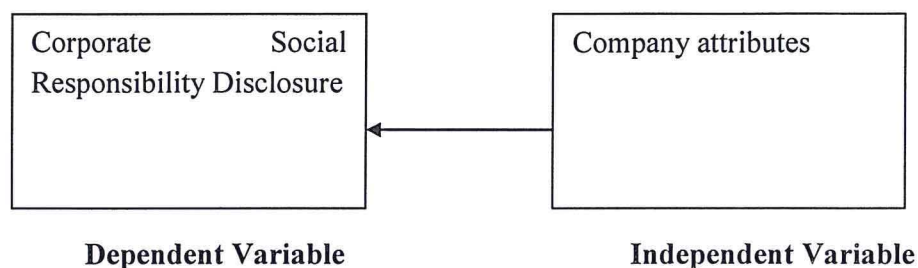


Figure 2-1: Conceptual Framework

### 2.5.1 Operationalization of Variables

This study has adapted Hackston and Milne's (1996) operational definitions to measure CSRD as follows:

- a. Theme – Community development, human resources, market place, and physical resources & environment (Ernst and Ernst, 1978).
- b. News evidence – monetary quantification, non-monetary quantification and declarative (Ernst and Ernst, 1978).
- c. News type - good, bad and neutral.
- d. Amount – Number of pages and disclosure index.
- e. Location - refers to directors' report, chairman's report, corporate governance statement, separate section of annual report, and separate or stand-alone report

CSRD index will be grouped into 8 categories of bands of 10 percent as follows:

| Group | Total CSRD (Disclosure index) |
|-------|-------------------------------|
| 1     | 0 – 9.9                       |
| 2     | 10 – 19.9                     |
| 3     | 20 – 29.9                     |
| 4     | 30 – 39.9                     |
| 5     | 40 – 49.9                     |
| 6     | 50 – 59.9                     |
| 7     | 60 – 69.9                     |
| 8     | More than 70                  |

The company attributes have been discussed in another part of this paper and these are:

- i. Company size – This is measured using turnover in terms of gross written premiums and total assets.
- ii. Profitability – This study has used profit before tax, return on assets and return on equity.
- iii. Board composition – Ratio of non-executive directors in the board to the total board size.
- iv. Ownership structure – Proportion of shares owned by institutional investors to total number of issued shares.
- v. Audit firm – This study assigned a score of ‘1’ for companies that use one of the Big-4 audit firms, otherwise a ‘0’ is assigned.
- vi. Existence of board audit committee.

Table 2-1 below reports the proxies used for independent variables and the predicted direction of the relation with disclosure extent for each proposition.

**Table 0-1: Operational Definitions of Variables, Expected Signs and Relationship in the Regression**

| Independent Variable | Operational Definition                                                                 | Source of Information                  | Expected sign and relationship                                                                             |
|----------------------|----------------------------------------------------------------------------------------|----------------------------------------|------------------------------------------------------------------------------------------------------------|
| TCSR                 | Total CSR disclosure index                                                             | CARs                                   | Index                                                                                                      |
| $\beta_1$ TSE        | Total sales (GPW) represent the size of firms.                                         | CARs                                   | (+) TSE is associated positively with TCSR.                                                                |
| $\beta_2$ TA         | Total assets (TA) represent size of firms                                              | CARs                                   | (+) TA is positively associated with TCSR                                                                  |
| $\beta_3$ PBT        | Profit before tax (PBT) for profitability                                              | CARs                                   | None                                                                                                       |
| $B_4$ ROA            | ROA represents firm's profitability                                                    | CARs                                   | None                                                                                                       |
| $B_5$ ROE            | ROE represent firm's profitability                                                     | CARs                                   | None                                                                                                       |
| $B_6$ OWN            | Percentage of shares owned by institutional investors to total number of shares issued | Returns to IRA, IRA inspection report. | (+) the proportion of shares held in blocks by institutional investors is positively associated with TCSR. |
| $B_7$ BIND           | ratio of non-executive directors on the board over the total board size                | CARs                                   | (+) BIND is positively associated with TCSR                                                                |
| $B_8$ BAC            | Board Audit Committee, 1 for yes or 0 for No                                           | CARs                                   | (+) BAC is associated positively with TCSR.                                                                |
| $B_9$ SAF            | 'Big Four' 1 or 0 for 'Non-Big Four'                                                   | CARs                                   | (+) the size of audit firm is positively associated with TCSR                                              |



This study uses panel data that consist of observations on cross sectional and time-series. Panel data allows for a large number of data points thus increasing the degree of freedom and reducing the collinearity amongst the independent variables (Hsiao, 2003).

The model used in this study is as follows:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \beta_8X_8 + \beta_9X_9 + \varepsilon$$

where

Y = Total Corporate Social Responsibility Disclosure score received for each insurer

$\beta_0$  = the intercept

$\varepsilon$  = the error term.

## 2.6 Conclusion

From the above discussion on CSRD in developing countries and in Kenya, there is a scarcity of CSRD literature in the context of developing countries in general and particularly in Kenya.

The existing studies have been cross-sectional. A study by Sweeney and Coughlan (2008) revealed that industry impacts on the reporting of CSR by different organisations. There is therefore need to carry out research on CSRD by specific industries rather than cross-sectionally.

O'Donovan (2002) argues that the theory that has been utilized by most of the studies since the 1980s to explain environmental disclosures is legitimacy theory. Other researchers that are of the same opinion include O'Donovan (1999), Walden and Swartz (1997), Gray et al. (1995a), Hooghiemstra (2000) and Wilmsurst and Frost (2000). This study therefore uses legitimacy theory to establish the nature and level of CSRD as well as motives for voluntarily disclosing information on CSR amongst insurance companies in Kenya during the period 2004 to 2011.

## **CHAPTER THREE**

### **3.0 Methodology**

#### **3.1 Introduction**

This chapter justifies the research methodology and uses techniques commonly found in studies. It provides information on the data to be used, sources of data and the targeted population. The chapter also deals with the research design, data collection methods and methods of analyzing the data.

This is an exploratory study aimed at determining the nature and extent of CSRD in the CARs of insurance companies in Kenya during the years 2004 to 2011 and addresses four objectives. The first two objectives examine CSRD from a descriptive point of view, that is the nature and extent of CSRD amongst insurance companies in Kenya; what is disclosed and how much is disclosed. The third objective determines the factors that influence CSRD amongst insurance companies in Kenya. The final objective is to find out whether the amount of disclosure varies over time.

Content analysis is used to achieve the first two objectives while the last two objectives are achieved by using statistical packages, Statistical Program for Social Scientists (SPSS) and StataSE 12, in order to investigate the influence of the variables on disclosure patterns.

#### **3.2 Research Design**

This is a longitudinal study that involves analyzing corporate annual reports of insurance companies in Kenya over a period of eight years from the year 2004 to 2011. This study qualifies as a longitudinal study in that corporate annual reports are published annually (Saunders et al., 2001) by insurance companies as required under section 54 of the Insurance Act.

The period of 2004 to 2011 has been selected on the basis that most companies in Kenya started making social disclosures in the first half of 2000 (Kalunda, 2012). Moreover, advocates of good corporate governance were vocal at around the same time and the Centre for

Corporate Governance (CCG) in Kenya developed guidelines on corporate governance incorporating disclosures on both financial and non-financial issues in 2005 (Barako, 2007).

### **3.3 Population**

A population has been defined as the set of all “units” of analysis in one’s problem area (Breakwell, 1995). The population targeted for this study will be all the insurance companies registered under the Insurance Act, CAP 487 of the Laws of Kenya as at 31<sup>st</sup> December 2012. Forty five (45) insurance companies and three (3) reinsurance companies were authorized to transact insurance business during that period.

For the purpose of this study, all companies will be treated as insurance companies as per the definition in the Insurance Act, that an insurer is “any person registered under this Act to carry on insurance business and includes a reinsurer”. The population for the study is therefore forty eight (48) insurance companies (**Appendix A**).

#### **3.3.1 Sampling**

The main criteria used to sample the companies to be included in the study are: (i) the company must have been registered for the entire period of the study 2004 – 2011; and ii) availability of corporate annual reports. A total of twelve (12) insurance companies did not meet the first criteria while six (6) companies did not meet the second criteria. The final sample set is therefore thirty (30) insurance companies (**Appendix F**).

### **3.4 Data and Data Collection**

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Disclosure on Corporate Social Responsibility can be made through various means such as the internet, press report, interim reporting, press releases, newspaper advertisements and company websites (Belal, 2001). Hughes, Andersen and Golden (2001) have stated that corporate annual reports have been used frequently in similar studies. This is suggested due to the wide availability of corporate annual reports and they are perceived as the means used by



most organizations to communicate with their shareholders in a systematic manner (Hughes, Anderson and Golden, 2001).

Insurance companies in Kenya are yet to produce separate reports on Corporate Social Responsibility. This study followed the assumption highlighted by Krippendorff (1980) that the extent of disclosure can be taken as some indication of the importance of an issue to the reporting entity. This study therefore will use corporate annual reports as the main source of information.

The annual reports were obtained from the companies' websites, the regulator (IRA) and copies of the pages on corporate governance were obtained from the companies' offices. Each of the insurance company's annual report during the period under review was perused and disclosure on Corporate Social Responsibility was recorded in an instrument which has been adopted from previous studies in the area (Ernst and Ernst, 1978; Guthrie and Parker, 1990; Gray et al., 1995 and Hackston & Milne, 1996). The instrument has been slightly modified to suit the current study. The items in the instrument include theme (community development, human resources etc), nature of the disclosure (good, bad or neutral and monetary and non-monetary (**Appendix C**). A list of operational definitions was used for each of the themes (see below for themes) and a set of decision rules were applied (**Appendix D and Appendix E**).

**Amount of disclosure** – A disclosure index was developed to measure the level of disclosure in the annual reports of insurance companies in Kenya. The study also used number of pages devoted to Corporate Social Responsibility Disclosure.

**Themes** - Themes have been categorised according to: environment and energy, human resources, products or services and community.

**Quality dimensions** - The quality of evidence can be assessed by type of statements made (quantitative, financial or other numeric, or declarative) as well as the type of news conveyed by the statement (whether the events reflect well, badly or neutrally on the reporting entity) (Guthrie and Mathews, 1985).

Another way of distinguishing evidence is between monetary, non-monetary or declarative disclosures (Gilkison and KPMG, 1999). Studies by Guthrie (1982), Gray et al. (1995b) and

Hackston and Milne (1996) replicated previous studies and distinguished evidence between monetary, non-monetary and declarative disclosures.

This study distinguished evidence by using monetary, no-monetary and declarative disclosures. This study also measures news evidence by using good, bad and neutral categories after Hackston and Milne's (1996) instrument.

#### **3.4.1 Selection of Corporate Social Responsibility Items**

This study has adopted the same instrument as the one used by Hackston and Milne (1996), which is a slight modification of Ng's (1985) instrument, which in turn is based on the earlier work of Ernst and Ernst (1978), Guthrie and Parker (1990) and Gray et al., (1995). The instrument has been modified slightly to suit the current study and disclosure on Corporate Social Responsibility has been categorized into environment and energy, human resource, product or services and community.

As there are no guidelines on voluntary disclosures for the insurance industry in Kenya, a checklist was developed. In developing the checklist, reference was made to checklists employed by previous researches on voluntary disclosure based on an earlier work conducted by Ernst and Ernst (1978). Review of prior studies was undertaken to develop a list of items that may be voluntarily disclosed by a company with the aim of checking for commonalities across the studies and to isolate those items that have been consistently identified as relevant and which may be disclosed by companies.

For an item to be included, it must have been used in more than one previously published study. Such an approach was applied in prior studies by Buckland et al. (2000), Firer and Meth (1986), Hossain et al. (1994) and Barako (2007) in Jordanian, South African, Malaysian and Kenyan studies respectively, all of which are based on disclosure by companies in developing countries. A checklist containing 33 items (Appendix C) will be used to assess the extent and nature of disclosure in the corporate annual reports of insurance companies in Kenya.

### 3.4.2 Scoring the Disclosure Items

Baracko (2007) has stated that there are two important and contentious issues that are normally debated in the literature on the construction of disclosure indices: weighting of CSR items and whether the weights should be externally generated or researcher generated. Both approaches have been used in accounting research: weighted (Botosan, 1997; Buzby, 1974b; Choi, 1973; Chow and Wong-Boren, 1987; Eng et al., 2001; Firer and Meth, 1986; Firth, 1984; McNally et al., 1982; Singhvi and Desai, 1971; Stanga, 1976) and unweighted (Cooke, 1989 and 1991; Hossain et al., 1994; Owusu-Ansah, 1998; Raffournier, 1995).

Both approaches have been critiqued in that a weighted disclosure index may introduce a bias towards a particular user-orientation while an unweighted disclosure index accords all items equal importance (Barako, 2007). This study adopts an unweighted approach for disclosure scoring as no importance is given to any specific user-groups (Cooke, 1989; Hossain et al., 1994; Akhtaruddin et al., 2009). This study only considers whether or not a company discloses an item on CSR in the CAR. After establishing the disclosure index, a scoring sheet has been developed to assess the extent of CSRD (**Appendix B**).

According to Cooke (2012), there are two main approaches to developing a scoring scheme to capture levels of disclosure. The first approach, advocated by Copeland and Fredericks (1968), is based on the presentation of information where words are used to describe a disclosed item. This approach leads to a scale of disclosure which varies between zero and one and subjectivity is introduced through the allocation of scores along the continuum.

The second approach uses a dichotomous procedure known as the Kinder Lydenberg Domini (KLD) social environmental performance rating system where an item is awarded one if it is disclosed otherwise a zero is awarded. This study will use the latter to measure the reporting score (RS) consistent with previous studies in the area, such as Uwalomwa & Uadiale, 2011 and Cooke, 2012. The consideration for this study is whether or not a company discloses an item of CSR in the CAR.



### 3.5 Data Analysis

Previous research on Corporate Social Responsibility Disclosure have used content analysis as the main research tool for analyzing non-financial reports (Gray et al., 1995; Hackston and Milne, 1996; Sweeney and Coughlan, 2008; Milne and Adler 1999). In line with previous studies in the area, this study therefore uses content analysis as the main tool for measuring the nature and quantity of social disclosures.

Different researchers have adapted different units of measuring disclosure on Corporate Social Responsibility (Mohammad et al, 2009). Zeghal and Ahmed (1990) used the number of words, Hackston and Milne (1996) used the number of sentences while Gray et al. (1995b) used the number of pages. The use of different units to quantify CSRD has attracted considerable debate (Gray et al., 1995a; 1995b; Milne and Adler, 1999; Unerman, 2000). Raman (2006) has critiqued the use of words arguing that words have no meaning unless they are part of a sentence. Hackston and Milne (1996) argue that using words to measure CSRD may lead to confusion as to which individual word refers to CSRD and which does not.

This study will use 'page' as a measurement for CSRD for comparison with other studies (Hackston and Milne (1996), Gray et al. (2002), and Newson and Deegan's (2002). The use of a 'page' as a measurement technique provides a similar result to measurement of individual sentences which have been widely used in similar studies previously (Hackston and Milne, 1996; Newson and Deegan's (2002). Page measurement also captures non-narrative CSRD, such as graphs and photographs which are potentially powerful and a highly effective method for communications (Beattie and Jones, 2001).

The collected data was presented in tabular forms. Percentages were used to depict the extent of CSRD amongst insurance companies in Kenya during the eight-year period. Descriptive statistics such as average (mean), standard deviation are used to test the bivariate relations by comparing the mean (average) for each variable.

This study will use descriptive statistics and inferential statistics. Descriptive statistics will be used to describe the extent of social disclosures while inferential statistics will be used to draw conclusions about the relationship of the variables (Zain and Janggu, 2006).

The study used  $t$  test to assess the statistical significance of the proposed relations between CSRD and the independent variables. The strength of the relationship between variables is measured using spearman's rank correlation coefficient.

## **CHAPTER FOUR**

### **4.0 Results Presentation and Findings**

#### **4.1 Introduction**

This study provided two types of data analysis; namely descriptive analysis and inferential analysis. The descriptive analysis helps the study describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable. For the inferential analysis, the study used the Pearson correlation, the panel data regression analysis and the t-test statistics. While the Pearson correlation measures the degree of association between variables under consideration, the regression estimates the relationship between CSRD and the independent variables.

#### **4.2 Results**

An eight-year period from 2004 to 2011 was chosen for this study and the study concentrated on the insurance industry in Kenya. A total of thirty (30) insurance companies qualified for this study (**Appendix E**). A total of 240 CARs were therefore perused to establish the nature and extent of Corporate Social Responsibility Disclosure and determine the factors that may influence insurance companies in Kenya to voluntarily make disclosure on Corporate Social Responsibility.

##### **4.2.1 Incidences of Corporate Social Responsibility Disclosure**

The number of insurance companies making disclosure on CSR increased over time from 11 in 2004 to the highest number of 23 insurance companies in the year 2011. The highest number of insurance companies making CSRD was in the year 2011 with 23 companies (77%) in the sample making some form of disclosure. This is a clear indication that most insurance companies in Kenya made CSRD during the period under review with the number of companies making CSRD increasing over time.

The disclosure indices of most of the insurance companies is skewed towards relatively low levels ranging from 0 to 20%. This is an indication that the disclosure levels of CSR in the insurance industry in Kenya was low during the period under review.



Table 4-1 below presents results of the descriptive statistics of the overview of CSRD by insurance companies in Kenya during the period under review.

**Table 4-1: Descriptive Statistics of Overall Corporate Social Responsibility Disclosures**

| Year /Statistics | No. of Companies | Minimum | Maximum | Mean | Skewness | Kurtosis | Standard Deviation |
|------------------|------------------|---------|---------|------|----------|----------|--------------------|
| 2004             | 11               | 0       | 5       | 1.38 | 1.60     | 2.91     | 1.69               |
| 2005             | 11               | 0       | 5       | 1.63 | 0.97     | 0.52     | 1.77               |
| 2006             | 13               | 0       | 5       | 1.63 | 0.97     | 0.52     | 1.77               |
| 2007             | 14               | 0       | 5       | 1.75 | 1.01     | 0.99     | 1.67               |
| 2008             | 17               | 0       | 4       | 1.88 | 0.30     | 0.15     | 1.25               |
| 2009             | 20               | 1       | 6       | 2.50 | 1.28     | 0.18     | 1.93               |
| 2010             | 21               | 1       | 7       | 2.63 | 1.84     | 3.41     | 2.00               |
| 2011             | 23               | 1       | 6       | 2.88 | 0.83     | (0.35)   | 1.81               |

*Source: Computed from data extracted from CARs of Insurance Companies: 2004 - 2011*

The results reveal that on the average insurance companies that made CSR disclosure during the period under review ranges from a low of 1.4 in the year 2005 to a high of 2.9 during the year 2011. This is depicted in the minimum and maximum number of insurance companies voluntarily making CSRD of 0 and 7 respectively during any one year.

#### **4.2.2 Themes of Disclosure**

The themes of disclosure in this study were divided into four categories: environment and energy, products or services, community development and human resources. Table 4-2 below shows the number of insurance companies that disclosed the items in the disclosure index as grouped into the four CSR themes.

**Table 4-2: CSR Disclosure Items**

| Disclosure items / Year                                                                                                                       | 2004    | 2005 | 2006   | 2007    | 2008    | 2009    | 2010    | 2011    |
|-----------------------------------------------------------------------------------------------------------------------------------------------|---------|------|--------|---------|---------|---------|---------|---------|
| <b>COMMUNITY DEVELOPMENT</b>                                                                                                                  |         |      |        |         |         |         |         |         |
| 1 Donations of cash, products or employee services to support established community activities, events, organizations, education and the arts | 5       | 3    | 7      | 9       | 8       | 8       | 8       | 11      |
| 2 Sponsoring education related projects e.g constructing or rehabilitating classrooms, laboratories, etc.                                     | 2       | 2    | 5      | 6       | 7       | 10      | 9       | 12      |
| 3 Part-time employment of students or the disabled                                                                                            | 0       | 1    | 1      | 3       | 4       | 6       | 5       | 6       |
| 4 Sponsoring public health and / or recreational projects                                                                                     | 8       | 4    | 5      | 11      | 11      | 13      | 14      | 12      |
| 5 Funding scholarship programs or activities                                                                                                  | 2       | 4    | 4      | 5       | 6       | 7       | 9       | 9       |
| 6 Sponsoring national pride government sponsored project campaigns                                                                            | 0       | 1    | 1      | 6       | 16      | 6       | 7       | 11      |
| 7 Sponsoring communities programs and activities                                                                                              | 9       | 11   | 13     | 14      | 15      | 19      | 19      | 20      |
| 8 Other special community-related activities, e.g., opening the company's facilities to the public                                            | 0       | 0    | 0      | 0       | 0       | 1       | 0       | 0       |
| Sub-Total                                                                                                                                     | 26      | 26   | 36     | 54      | 67      | 70      | 71      | 81      |
| <b>HUMAN RESOURCES</b>                                                                                                                        |         |      |        |         |         |         |         |         |
| 9 Employee Profiles                                                                                                                           | 3       | 4    | 5      | 7       | 9       | 12      | 13      | 15      |
| 10 Employee's development (e.g. Training Programme /Scheme)                                                                                   | 5       | 4    | 5      | 6       | 7       | 8       | 9       | 9       |
| 11 Employees' appreciation                                                                                                                    | 7       | 5    | 6      | 6       | 8       | 10      | 11      | 15      |
| 12 Employee health and safety                                                                                                                 | 0       | 0    | 3      | 1       | 4       | 5       | 5       | 5       |
| 13 Industrial relation                                                                                                                        | 0       | 0    | 0      | 0       | 0       | 1       | 1       | 0       |
| 14 Employee assistance and benefits                                                                                                           | 5       | 3    | 4      | 8       | 7       | 9       | 7       | 6       |
| 15 Employment of minorities/women/disabled                                                                                                    | 0       | 0    | 1      | 2       | 2       | 4       | 5       | 5       |
| 16 Employee Remuneration                                                                                                                      | 1       | 3    | 4      | 4       | 5       | 5       | 5       | 4       |
| 17 Employee Morale and Relations                                                                                                              | 1       | 3    | 3      | 4       | 5       | 8       | 9       | 11      |
| 18 Employee Share Purchase Schemes                                                                                                            | 0       | 0    | 0      | 0       | 0       | 0       | 0       | 0       |
| Sub-Total                                                                                                                                     | 22      | 22   | 31     | 38      | 47      | 62      | 65      | 70      |
| <b>MARKET PLACE</b>                                                                                                                           |         |      |        |         |         |         |         |         |
| 19 Product quality                                                                                                                            | 2       | 1    | 2      | 5       | 5       | 4       | 4       | 7       |
| 20 Product safety                                                                                                                             | 0       | 0    | 0      | 0       | 1       | 4       | 2       | 4       |
| 21 Customer service improvement/awards/ratings                                                                                                | 4       | 4    | 2      | 6       | 7       | 7       | 8       | 10      |
| 22 Customer complaints                                                                                                                        | 0       | 0    | 0      | 0       | 0       | 0       | 1       | 1       |
| 23 Specific consumer relations (over and beyond "our duty to the consumer")                                                                   | 0       | 1    | 0      | 2       | 3       | 4       | 1       | 1       |
| 24 Provision for the disabled, aged, vulnerable (HIV/AIDS) etc., customers                                                                    | 0       | 0    | 0      | 0       | 0       | 2       | 2       | 0       |
| 25 Supporting professional bodies.                                                                                                            | 0       | 0    | 0      | 2       | 0       | 1       | 1       | 2       |
| 26 Ethical principle/stakeholder engagement                                                                                                   | 3       | 4    | 6      | 6       | 7       | 8       | 4       | 6       |
| Sub-Total                                                                                                                                     | 9       | 10   | 10     | 21      | 23      | 30      | 23      | 31      |
| <b>PHYSICAL RESOURCES and ENVIRONMENTAL CONTRIBUTION</b>                                                                                      |         |      |        |         |         |         |         |         |
| 27 Commitment to minimize/avoid environmental pollution.                                                                                      | 3       | 3    | 3      | 4       | 5       | 8       | 8       | 7       |
| 28 Environmental policy statement                                                                                                             | 0       | 0    | 0      | 0       | 1       | 3       | 5       | 5       |
| 29 Environmental education programs, awards and studies                                                                                       | 0       | 0    | 0      | 0       | 0       | 0       | 1       | 2       |
| 30 Participation in activities aimed at conserving natural environment and biodiversity                                                       | 2       | 2    | 4      | 2       | 4       | 6       | 6       | 7       |
| 31 Wildlife conservation                                                                                                                      | 1       | 1    | 1      | 2       | 1       | 0       | 1       | 4       |
| 32 Environmental Aesthetics e.g landscaping, contributions to beautify the environment etc.                                                   | 1       | 2    | 0      | 2       | 3       | 2       | 2       | 5       |
| 33 Energy related commitment                                                                                                                  | 0       | 0    | 0      | 0       | 1       | 1       | 1       | 2       |
| Sub-Total                                                                                                                                     | 7       | 8    | 8      | 10      | 15      | 20      | 24      | 32      |
| <b>TOTAL</b>                                                                                                                                  | 64      | 66   | 85     | 123     | 152     | 182     | 183     | 214     |
| Disclosure Index (Disclosed items/Total number of items during the period)                                                                    | 24.2424 | 25   | 32.197 | 46.5909 | 57.5758 | 68.9394 | 69.3182 | 81.0606 |

*Source: Computed from data extracted from CARs of Insurance Companies: 2004 - 2011*

As can be seen in the table, the number of insurance companies disclosing the CSR items steadily increased over time in all the four themes. The table shows that the most favoured CSR theme in the insurance industry in Kenya during the period under study is community development, closely followed by human resources. The least favoured theme is environment and energy. None of the insurance companies made any disclosure on employee share purchase scheme under human resources while one company made disclosure on other special community related activities (community development).

The table shows that CSRD in the insurance industry in Kenya was spread across the four themes with various frequencies during the period under study. As can be seen in the table, most of the insurance companies in the sample preferred to make CSRD on community development, human resources, market place and finally environment in that order. The results, whether by the number of companies or the level of disclosure, were consistent.

Table 4-3 below shows the descriptive statistics on the content-category.

**Table 4-3: Descriptive Statistics of Corporate Social Responsibility Disclosure**

| CSR Themes / Statistics | Minimum | Maximum | Average | Skewness | Kurtosis | Standard deviation |
|-------------------------|---------|---------|---------|----------|----------|--------------------|
| Community development   | 37.85   | 44.08   | 40.68   | 0.44     | - 1.68   | 2.47               |
| Human resources         | 30.89   | 36.47   | 33.54   | - 0.07   | - 0.93   | 2.00               |
| Market place            | 11.76   | 17.07   | 14.59   | - 0.28   | - 0.62   | 1.80               |
| Environment             | 8.13    | 14.95   | 11.19   | 0.45     | - 0.06   | 2.17               |

*Source: Computed from data extracted from CARs of Insurance Companies*

It is evident from the table that most of the items disclosed by the insurance companies in the sample is related to community development, where on average, it has received the highest overall disclosure index at an average of 40.1%. This is also evident in the maximum disclosures under community development at 44.1%. This is closely followed by disclosures on human resources with an average of 33.5% while the maximum disclosures is 36.5%. Disclosure on environment and energy is the least popular amongst insurance companies in Kenya at an average of 11.2% and a maximum percentage of 15%.



### 4.2.3 Methods of Disclosure

Just like previous studies in the area, this study has categorized CSRD according to their methods, i.e. monetary, non-monetary quantitative and declarative. The results of the study indicate that no one method of disclosure dominated CSRD in the insurance industry in Kenya during the period under review. The results shows that 37.5% of CSRD in the CARs of insurance companies were made using declarative statements.

Table 4-4 below shows the descriptive statistics on the methods of CSRD in the CARs of insurance companies in Kenya during the period under review.

Table 4-4: Descriptive Statistics on Methods of Disclosure

| News Type / Statistics | Minimum | Maximum | Average | Skewness | Kurtosis | Standard deviation |
|------------------------|---------|---------|---------|----------|----------|--------------------|
| Monetary               | 5       | 19      | 12.75   | (0.41)   | (1.21)   | 4.92               |
| Non-monetary           | 10      | 19      | 13.50   | 1.20     | 2.36     | 2.67               |
| Declarative            | 10      | 23      | 16.88   | (0.17)   | (1.02)   | 4.42               |
| Total                  | 25      | 61      | 43.13   | (0.07)   | (0.68)   | 11.75              |
| Pictorial              | 4       | 13      | 8.13    | 0.44     | (1.23)   | 3.14               |

Source: Computed from data extracted from CARs of Insurance Companies: 2004 – 2011

On average, 13.25 disclosures made on CSR were in monetary terms while 17.63 were declarative statements. Disclosures made using pictorial were an average of 8.75.

### 4.2.4 News Type of Corporate Social Responsibility Disclosures

Consistent with previous studies, CSRD has been categorized into three groups, based on their news-type, namely good news, bad news or neutral (whether the events reflect well, badly or neutrally on the reporting entity) (Guthrie and Mathews, 1985).

The results of the study indicate that good news is the most dominant form of CSRD by insurance companies in Kenya during the period under review. Approximately 85 percent of the total sample made ‘good news’ disclosures. In contrast, just 4 percent of the companies had ‘bad news’ disclosures while 11 percent of the total sample had ‘neutral’ disclosures.

Table 4-5 below shows descriptive statistics on news-type on CSRD by insurance companies in Kenya during the period under review.

**Table 4-5: Descriptive Statistics on News-type**

| Text Disclosure | Minimum | Maximum | Average | Variance | Skewness | Kurtosis | Standard Deviation |
|-----------------|---------|---------|---------|----------|----------|----------|--------------------|
| Good news       | 13      | 25      | 18.13   | 21.55    | 0.01     | 4.64     | 4.02               |
| Bad news        | 0       | 2       | 0.75    | 0.79     | 0.62     | - 1.48   | 0.89               |
| Neutral         | 0       | 5       | 2.38    | 3.98     | 0.46     | - 1.78   | 2.00               |
| Total           | 14      | 32      | 21.25   | 49.07    | 0.40     | - 1.54   | 7.01               |

*Source: Computed from data extracted from CARs of Insurance Companies: 2004 – 2011*

The minimum number of insurance companies that disclosed ‘good news’ is 13 while the maximum number is 25. This is a clear indication that most insurance companies disclose information that have a positive impact. Only 2 insurance companies disclosed ‘bad news’ information.

#### **4.2.5 Amount of Disclosure**

This study measured the amount of CSRD using the number of pages dedicated to CSRD and a disclosure index. According to Zain and Janggu (2006), the incidence and amount of disclosure reflect the importance attached to a certain issue, hence the higher the incidence and amount of disclosure the greater the perceived importance. Hackston and Milne (1996) argue that relying on incidence rates may be misleading since companies making disclosures are treated equally irrespective of the amount of disclosure. This study therefore focuses on the amount of disclosure in line with previous studies such as by Mohamed Zain (1999), Ingram and Frazier (1980) and Hackston and Milne (1996).

Table 4-6 below shows the descriptive statistics on companies disclosing the items in the disclosure index.

**Table 4-6: Descriptive Statistics on Companies Disclosing Items in the Disclosure Index**

| Disclosure Items / Statistics                                                                                                                 | Minimum | Maximum | Average | Skewness | Kurtosis | Standard Deviation |
|-----------------------------------------------------------------------------------------------------------------------------------------------|---------|---------|---------|----------|----------|--------------------|
| <b>COMMUNITY DEVELOPMENT</b>                                                                                                                  |         |         |         |          |          |                    |
| 1 Donations of cash, products or employee services to support established community activities, events, organizations, education and the arts | 3       | 11      | 7.38    | - 0.58   | 0.64     | 2.45               |
| 2 Sponsoring education related projects e.g constructing or rehabilitating classrooms,, laboratories, etc.                                    | 2       | 12      | 6.63    | 0.02     | - 1.08   | 3.62               |
| 3 Part-time employment of students or the disabled                                                                                            | 0       | 6       | 3.25    | - 0.14   | - 1.81   | 2.38               |
| 4 Sponsoring public health and / or recreational projects                                                                                     | 4       | 14      | 9.75    | - 0.67   | - 1.07   | 3.69               |
| 5 Funding scholarship programs or activities                                                                                                  | 2       | 9       | 5.75    | 0.08     | - 0.97   | 2.49               |
| 6 Sponsoring national pride government sponsored project campaigns                                                                            | 0       | 16      | 6.00    | 0.75     | 0.02     | 5.50               |
| 7 Sponsoring communities programs and activities                                                                                              | 9       | 20      | 15.00   | - 0.10   | - 1.40   | 4.04               |
| 8 Other special community-related activities, e.g., opening the company's facilities to the public                                            | 0       | 1       | 0.13    | 2.83     | 8.00     | 0.35               |
| Sub-Total                                                                                                                                     | 26      | 81      | 53.88   | - 0.32   | - 1.83   | 21.83              |
| <b>HUMAN RESOURCES</b>                                                                                                                        |         |         |         |          |          |                    |
| 9 Employee Profiles                                                                                                                           | 3       | 15      | 8.50    | 0.22     | - 1.62   | 4.47               |
| 10 Employee's development (e.g. Training Programme /Scheme)                                                                                   | 4       | 9       | 6.63    | 0.07     | - 1.67   | 1.92               |
| 11 Employees' appreciation                                                                                                                    | 5       | 15      | 8.50    | 1.11     | 0.80     | 3.34               |
| 12 Employee health and safety                                                                                                                 | 0       | 5       | 2.88    | - 0.41   | - 1.97   | 2.23               |
| 13 Industrial relation                                                                                                                        | 0       | 1       | 0.25    | 1.44     | - 0.00   | 0.46               |
| 14 Employee assistance and benefits                                                                                                           | 3       | 9       | 6.13    | - 0.22   | - 0.89   | 2.03               |
| 15 Employment of minorities/women/disabled                                                                                                    | 0       | 5       | 2.38    | 0.24     | - 1.72   | 2.07               |
| 16 Employee Remuneration                                                                                                                      | 1       | 5       | 3.88    | - 1.54   | 2.57     | 1.36               |
| 17 Employee Morale and Relations                                                                                                              | 1       | 11      | 5.50    | 0.45     | - 1.10   | 3.46               |
| 18 Employee Share Purchase Schemes                                                                                                            | 0       | 0       | -       | -        | -        | -                  |
| Sub-Total                                                                                                                                     | 22      | 70      | 44.63   | 0.11     | - 1.87   | 19.35              |
| <b>MARKET PLACE</b>                                                                                                                           |         |         |         |          |          |                    |
| 19 Product quality                                                                                                                            | 1       | 7       | 3.75    | 0.17     | - 0.63   | 1.98               |
| 20 Product safety                                                                                                                             | 0       | 4       | 1.38    | 0.90     | - 1.06   | 1.77               |
| 21 Customer service improvement/awards/ratings                                                                                                | 2       | 10      | 6.00    | - 0.07   | - 0.44   | 2.56               |
| 22 Customer complaints                                                                                                                        | 0       | 1       | 0.25    | 1.44     | -        | 0.46               |
| 23 Specific consumer relations (over and beyond "our duty to the consumer")                                                                   | 0       | 4       | 1.50    | 0.81     | - 0.23   | 1.41               |
| 24 Provision for the disabled, aged, vulnerable (HIV/AIDS) etc., customers                                                                    | 0       | 2       | 0.50    | 1.44     | - 0.00   | 0.93               |
| 25 Supporting professional bodies.                                                                                                            | 0       | 2       | 0.75    | 0.62     | - 1.48   | 0.89               |
| 26 Ethical principle/stakeholder engagement                                                                                                   | 3       | 8       | 5.50    | - 0.12   | - 0.97   | 1.69               |
| Sub-Total                                                                                                                                     | 9       | 31      | 19.63   | - 0.08   | - 1.76   | 8.94               |
| <b>PHYSICAL RESOURCES and ENVIRONMENTAL CONTRIBUTION</b>                                                                                      |         |         |         |          |          |                    |
| 27 Commitment to minimize/avoid environmental pollution.                                                                                      | 3       | 8       | 5.13    | 0.41     | - 1.97   | 2.23               |
| 28 Environmental policy statement                                                                                                             | 0       | 5       | 1.75    | 0.81     | - 1.39   | 2.25               |
| 29 Environmental education programs, awards and studies                                                                                       | 0       | 2       | 0.38    | 1.95     | 3.20     | 0.74               |
| 30 Participation in activities aimed at conserving natural environment and biodiversity                                                       | 2       | 7       | 4.13    | 0.19     | - 1.79   | 2.03               |
| 31 Wildlife conservation                                                                                                                      | 0       | 4       | 1.38    | 1.76     | 3.94     | 1.19               |
| 32 Environmental Aesthetics e.g landscaping, contributions to beautify the environment etc.                                                   | 0       | 5       | 2.13    | 0.82     | 2.00     | 1.46               |
| 33 Energy related commitment                                                                                                                  | 0       | 2       | 0.63    | 0.82     | - 0.15   | 0.74               |
| Sub-Total                                                                                                                                     | 7       | 32      | 15.50   | 0.90     | - 0.29   | 9.10               |
| <b>TOTAL</b>                                                                                                                                  | 64      | 214     | 133.63  | - 0.00   | - 1.75   | 57.91              |
| <b>Disclosure Index</b>                                                                                                                       | 24.24   | 81.06   | 50.62   | - 0.00   | - 1.75   | 21.94              |

*Source: Computed from data extracted from CARs of Insurance Companies*



The table shows that the items that received the most attention is sponsoring communities programs and activities with an average of 15%. This is supported by the minimum and maximum disclosures at 9% and 20% respectively.

The results of the study show that the pages of CARs devoted to CSRD in the insurance industry in Kenya ranges from a few sentences to more than three pages. This is a clear indication that insurance companies in Kenya make CSRD in their CARs during the period under review.

Table 4-7 below shows the descriptive statistics on pages devoted to CSRD in the insurance industry in Kenya during the years 2004 to 2011.

**Table 4-7: Descriptive Statistics on Pages Devoted to CSRD**

| Pages devoted / Statistics          | Minimum | Maximum | Average | Variance | Skewness | Kurtosis | Standard deviation |
|-------------------------------------|---------|---------|---------|----------|----------|----------|--------------------|
| One sentence – one fourth of a page | 2       | 8       | 4.63    | 3.41     | 0.55     | 0.64     | 1.85               |
| One fourth of a page – half page    | 1       | 5       | 2.88    | 1.84     | - 0.16   | - 0.17   | 1.36               |
| Half page – three fourths of a page | 0       | 3       | 1.13    | 1.55     | 0.88     | - 0.71   | 1.25               |
| Three fourths of a page – one page  | 0       | 7       | 2.88    | 5.84     | 0.92     | - 0.20   | 2.42               |
| More than 1 page                    | 3       | 10      | 5.25    | 5.07     | 1.39     | 2.61     | 2.25               |
| Total                               | 11      | 23      | 16.75   | 22.21    | 0.03     | - 1.67   | 4.71               |

*Source: Computed from data extracted from CARs of Insurance Companies*

The table shows that there was a balance in the distribution of pages devoted to CSRD by insurance companies in Kenya. There was no skew towards one extreme, either few pages devoted to CSRD or on the other extreme of devoting several pages on CSRD. A maximum of 9 insurance companies devoted the least number of pages to CSRD while 10 insurance companies devoted more than one page in the CARs to CSRD.

#### **4.2.6 Location of Corporate Social Responsibility Disclosure**

This study examined the location of CSRD within the CARs of insurance companies in Kenya. The findings of the study revealed that insurance companies in Kenya made CSRD in various parts of the CARs, namely chairman's statement, managing director's or chief executive officer's statement, corporate governance statement, CSR report / statement and in the

supplementary information section. Some companies made CSRD in various sections within the same CARs.

The results of the study show that, the most popular location for making CSRD by insurance companies in Kenya are the Corporate Governance statement (except in the year 2006), Chairman's statement and CSR report or statement. A few insurance companies made CSRD in the supplementary information section.

Table 4-8 below shows the descriptive statistics on the location of CSRD in the CARs of insurance companies in Kenya during the period 2004 to 2011.

**Table 4-8: Descriptive Statistics on the Location of Corporate Social Responsibility Disclosures**

| Location / Year | Minimum | Maximum | Average | Variance | Skewness | Kurtosis | Standard deviation |
|-----------------|---------|---------|---------|----------|----------|----------|--------------------|
| Chairman's      | 2       | 8       | 5.88    | 4.41     | - 0.89   | 0.08     | 2.10               |
| CEO's statement | 2       | 7       | 4.63    | 4.27     | 0.28     | - 1.94   | 2.07               |
| Corporate       | 6       | 14      | 10.63   | 9.70     | - 0.59   | - 1.70   | 3.11               |
| CSR statement   | 2       | 11      | 6.75    | 10.21    | - 0.15   | - 1.33   | 3.20               |
| Others          | 0       | 2       | 0.88    | 0.70     | 0.28     | - 1.39   | 0.83               |

*Source: Computed from data extracted from CARs of Insurance Companies*

The table shows that the most preferred location to disclose CSR information by insurance companies in Kenya is the Corporate Governance statement with a maximum of insurance companies. This was followed by CSR report / statement while the least preferred location is in the supplementary information.

#### **4.2.7 Longitudinal Analysis of Corporate Social Responsibility Disclosure**

Figures 4-1, 4-2 and 4-3 below show the trend of CSRD in the insurance industry in Kenya during the period under study. The trend is shown in terms of CSRD based on content-category as well as the number of companies making the disclosures as per the items in the checklist.

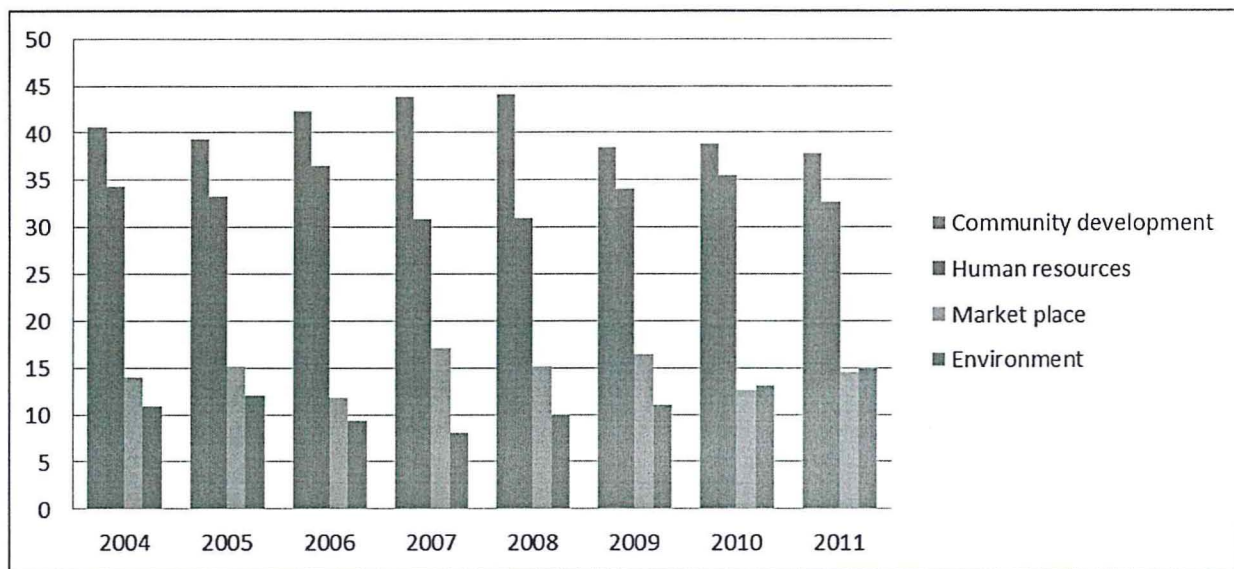


Figure 4-1: Amount of CSRD in the Insurance Industry

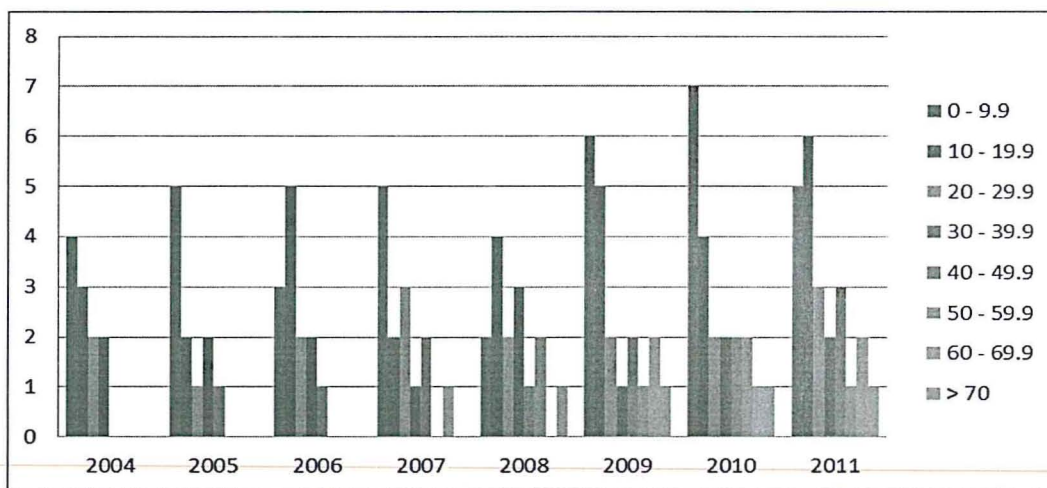


Figure 4-2: Number of Companies making CSRD



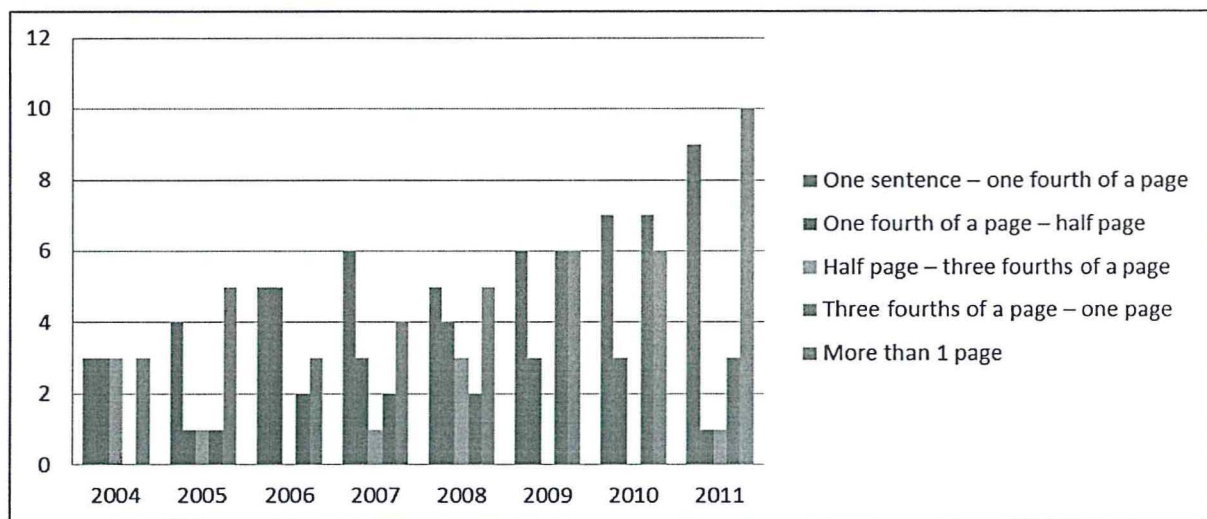


Figure 4-3: Pages Devoted to CSRD

As can be seen in the figures above, both the amount of disclosures and the number of insurance companies making the disclosures increased steadily during the period under study.

### 4.3 Correlation Matrix and Multicollinearity Analysis

This section examines the degree of association between CSRD and corporate attributes of insurance companies in Kenya. To examine the correlation between the independent variables, Pearson product moment correlation coefficients ( $r$ ) were computed. A correlation matrix of all the values of  $r$  for the explanatory variables along with the dependent variables was constructed and is shown in the table below.

**Table 4-9: Correlation Matrix**

```
. correlate tcsrd gpw assets pbt ownership bcomp bac auditfirm roa roe
(obs=239)
```

|           | tcsrd  | gpw     | assets  | pbt    | owners~p | bcomp   | bac     |
|-----------|--------|---------|---------|--------|----------|---------|---------|
| tcsrd     | 1.0000 |         |         |        |          |         |         |
| gpw       | 0.4966 | 1.0000  |         |        |          |         |         |
| assets    | 0.2918 | 0.7677  | 1.0000  |        |          |         |         |
| pbt       | 0.2790 | 0.6385  | 0.5960  | 1.0000 |          |         |         |
| ownership | 0.4230 | 0.4699  | 0.4036  | 0.2020 | 1.0000   |         |         |
| bcomp     | 0.1202 | 0.2042  | 0.1380  | 0.0842 | 0.0993   | 1.0000  |         |
| bac       | 0.4185 | 0.3572  | 0.2728  | 0.2536 | 0.1761   | 0.2673  | 1.0000  |
| auditfirm | 0.2909 | 0.3102  | 0.3130  | 0.1830 | 0.5277   | -0.1252 | 0.2028  |
| roa       | 0.1070 | -0.0275 | -0.1220 | 0.1546 | -0.0627  | 0.0648  | 0.0639  |
| roe       | 0.0498 | 0.1249  | 0.1020  | 0.4697 | 0.0935   | -0.1603 | -0.0168 |

|           | auditf~m | roa    | roe    |
|-----------|----------|--------|--------|
| auditfirm | 1.0000   |        |        |
| roa       | -0.0055  | 1.0000 |        |
| roe       | 0.0304   | 0.0125 | 1.0000 |

*Source: Computed from data extracted from CARs of Insurance Companies*

Consistent with Weisberg (1985), multicollinearity in explanatory variables has been diagnosed through analyses of correlation factors and Variable Inflation Factors (VIF). The correlation matrix shows that some of the predictors are at least moderately marginally correlated. For example, gross premiums written and total assets ( $r = .768$ ); gross premiums written and profit before tax ( $r = .639$ ); and total assets and profit before tax ( $r = .596$ ) are highly correlated.

According to Kaplan (1982) multicollinearity may be a problem when the correlation between independent variables is 0.90 while Emory (1982) considered more than 0.80 to be problematic. It is evident from the table that the magnitude of the correlation between the independent variables seems to indicate no severe multicollinearity problems as no bivariate correlation exceeds the value of 0.9 (Cheng et al. 2007; Farrar and Glauber 1967; Hair et al. 2010; Peng and Beamish 2008; Roberts 1992).

### 4.3.1 Multivariate Analysis

Though the descriptives and correlation analysis above provide some insights into the average level and the univariate relations between the variables, their joint effects is a major concern.

The coefficient of determination R-squared, adjusted R-squared, F ratio, beta coefficients and t-statistics for the regression model and summarized results of the dependent variable on the explanatory variables can be seen in table 4-10 below.

**Table 4-10: Regression Analysis Results**

. regress tcsrd gpw assets pbt ownership bcomp bac auditfirm roa roe

| Source   | SS         | df  | MS         | Number of obs = 239    |  |  |
|----------|------------|-----|------------|------------------------|--|--|
| Model    | 352.486579 | 9   | 39.1651754 | F( 9, 229) = 16.52     |  |  |
| Residual | 542.760283 | 229 | 2.37013224 | Prob > F = 0.0000      |  |  |
| Total    | 895.246862 | 238 | 3.76154144 | R-squared = 0.3937     |  |  |
|          |            |     |            | Adj R-squared = 0.3699 |  |  |
|          |            |     |            | Root MSE = 1.5395      |  |  |

| tcsrd     | Coef.     | Std. Err. | t     | P> t  | [95% Conf. Interval] |           |
|-----------|-----------|-----------|-------|-------|----------------------|-----------|
| gpw       | 6.35e-10  | 1.26e-10  | 5.06  | 0.000 | 3.88e-10             | 8.83e-10  |
| assets    | -7.66e-11 | 3.03e-11  | -2.53 | 0.012 | -1.36e-10            | -1.69e-11 |
| pbt       | -1.49e-10 | 4.66e-10  | -0.32 | 0.749 | -1.07e-09            | 7.68e-10  |
| ownership | .0103034  | .0029037  | 3.55  | 0.000 | .0045821             | .0160248  |
| bcomp     | -.0044344 | .0057903  | -0.77 | 0.445 | -.0158436            | .0069747  |
| bac       | 1.082511  | .2277978  | 4.75  | 0.000 | .633663              | 1.531358  |
| auditfirm | .1445692  | .3084889  | 0.47  | 0.640 | -.4632704            | .7524088  |
| roa       | .0084265  | .0047033  | 1.79  | 0.075 | -.0008408            | .0176937  |
| roe       | -.000141  | .0076572  | -0.02 | 0.985 | -.0152287            | .0149466  |
| _cons     | -.1945519 | .5162149  | -0.38 | 0.707 | -1.21169             | .8225862  |

*Source: Computed from data extracted from CARs of Insurance Companies*

The results of the study have an R square of .3937 which indicates that the model is capable of explaining 39% of the variability of CSRD in the sample insurance companies in Kenya under the study. The adjusted R square indicates that 37 percent of the variation in the dependent variable in the model used here is explained by variations in the independent variables. The F-value of 16.52 indicates that the model significantly explains the variations in



CSRD in the CARs of the sampled insurance companies in Kenya. These values suggest that a significant percentage of the variation in CSRD can be explained by the variations in the independent variables.

The results of the study found that gross premiums written, ownership, existence of board audit committee, size of the audit firm and return on assets are positively associated with disclosure on CSR in the annual reports of the sampled insurance companies in Kenya. The other company attributes: total assets, profit before tax, board composition and return on equity; are negatively associated with disclosure on CSR in the annual reports of the sampled insurance companies.

Gross premiums written, total assets, ownership, existence of board audit committee and return on assets are significantly related to CSRD in the annual reports of the sampled insurance companies during the period of the study. The other company attributes: profit before tax, board composition, size of audit firm and return on equity are not significant predictors of CSRD in the annual reports of the sampled insurance companies in Kenya during the period of the study.

#### **4.4 Testing of Propositions**

This study advanced six propositions on the relationship between CSRD and independent variables as follows:

*The level of CSRD is positively related with total sales.*

*The level of CSRD is positively related with total assets.*

*The extent of CSRD in annual reports is associated with a company's profitability.*

*The extent of CSRD is positively associated with the proportion of shares held in blocks by institutional investors.*

*The proportion of independent directors in a company's board is positively associated with CSRD.*

*The level of CSRD in CARs is positively related with the existence of board audit committees.*

*Firms that engage the 'big four' audit firms are likely to make more CSRD as compared to those that use 'non-big four' audit firms.*

This section discusses the results of the study in respect testing of the propositions.

#### 4.4.1 Relationship between CSRD and Company Size

In line with previous studies in the area by Trotman and Bradley, (1981), Hackston and Milne, (1996), Mohamed Zain, (1999) and Gray (2001), this study used total assets to measure the size of insurance companies in Kenya. The study also used turnover in terms of gross premiums written by insurance companies to measure the size of the companies which is consistent with the study by Zain and Jangu (2006). This study did not use paid-up capital of insurance companies as this is prescribed in the Insurance Act and most companies have the minimum paid-up capital. The relationship between total CSRD and firm size in terms of assets and turnover has therefore been tested in the past.

It was proposed that there is a positive relationship between company size and total CSRD in the CARs of insurance companies in Kenya. Table 4-11 below shows the Spearman rank correlation results between total CSRD and company size in terms of gross premiums written and total assets for each of the eight years under study.

**Table 4-11: Correlation Between Total CSRD and Company Size**

| Year | Gross Premiums Written |              | Assets         |              |
|------|------------------------|--------------|----------------|--------------|
|      | Spearman's Rho         | Significance | Spearman's Rho | Significance |
| 2004 | 0.535                  | 0.002        | 0.46           | 0.011        |
| 2005 | 0.35                   | 0.058        | 0.206          | 0.276        |
| 2006 | 0.413                  | 0.023        | 0.401          | 0.028        |
| 2007 | 0.439                  | 0.015        | 0.113          | 0.551        |
| 2008 | 0.407                  | 0.026        | 0.381          | 0.038        |
| 2009 | 0.543                  | 0.002        | 0.388          | 0.034        |
| 2010 | 0.621                  | 0            | 0.412          | 0.024        |
| 2011 | 0.569                  | 0.001        | 0.499          | 0.005        |

*Source: Computed from data extracted from CARs of Insurance Companies*

The statistical results above show mixed results during the period under consideration. In some years, both turnover and assets are significantly related while in other years they are not

significantly related. All the years except years 2005 and 2007 are significantly related. The proposition is therefore supported in five of the eight years' period.

It can therefore be concluded that the proposition that there is a positive relationship between company size and total CSRD in the CARs of insurance companies in Kenya is not supported by both turnover and total assets in the insurance industry in Kenya during the period 2004 to 2011.

#### 4.4.2 Relationship Between CSRD and Profitability

This study used profit before tax, ROA and ROE to measure profitability of insurance companies in Kenya during the years 2004 to 2011. It was proposed that there is a relationship between CSRD and profitability of insurance companies in Kenya, but there was no indication on the direction of the relationship.

Table 4.12 below shows the statistical result of correlation between total CSRD and profit before tax in the insurance industry in Kenya for the eight years period.

**Table 4-12: Correlation Between Total CSD and Profit Before Tax**

| Year | Spearman's Rho<br>Correlation<br>Coefficient | Significance |
|------|----------------------------------------------|--------------|
| 2004 | 0.661                                        | 0            |
| 2005 | 0.508                                        | 0.004        |
| 2006 | 0.39                                         | 0.033        |
| 2007 | 0.221                                        | 0.24         |
| 2008 | 0.462                                        | 0.01         |
| 2009 | 0.15                                         | 0.428        |
| 2010 | 0.334                                        | 0.071        |
| 2011 | 0.399                                        | 0.029        |

*Source: Computed from data extracted from CARs of Insurance Companies*

The statistical results show that there is a positive relationship between CSRD and profit before tax in the sample insurance companies in Kenya during the period under consideration



and they are significantly related. This implies that in this industry, the more profitable a company is the more disclosure it makes in terms of CSR.

Table 4-13 below shows the the Spearman rank correlation results between total CSRD and profitability of insurance companies in Kenya measured in terms of ROA and ROE for each of eight years under study.

**Table 4-13: Correlation between CSRD and ROA and ROE**

| Year | Return on Assets                     |                 | Return on Equity                     |                 |
|------|--------------------------------------|-----------------|--------------------------------------|-----------------|
|      | Spearman Rho Correlation Coefficient | Sig. (2-tailed) | Spearman Rho Correlation Coefficient | Sig. (2-tailed) |
| 2004 | -0.024                               | .899            | 0.169                                | .372            |
| 2005 | 0.328                                | .077            | 0.227                                | .227            |
| 2006 | 0.234                                | .214            | 0.326                                | .079            |
| 2007 | 0.418                                | .028            | 0.02                                 | .917            |
| 2008 | 0.152                                | .422            | 0.019                                | .922            |
| 2009 | 0.049                                | .798            | -0.449                               | .013            |
| 2010 | -0.047                               | .803            | -0.233                               | .215            |
| 2011 | -0.385                               | .036            | 0.378                                | .400            |

*Source: Computed from data extracted from CARs of Insurance Companies*

The statistcal results show that ROA and ROE are not significantly related to disclosure on CSR in the annual reports of the sampled insurance companies. This implies that profitability of insurance companies measured in terms of ROA and ROE do not significantly influence insurance companies' decision regarding disclosure on CSR.

#### **4.4.3 Relationship Between CSRD and Ownership Structure**

It was proposed that there is a positive relationship between the proportion of shares held in blocks by institutional investors and CSRD. The findings of the study revealed that ownership structure of insurance companies is a significant predictor and is positively associated with CSRD.

The findings therefore confirm the proposition that the proportion of shares held in blocks by institutional investors in the insurance industry in Kenya is positively related to CSRD during the period under study.

#### 4.4.4 Relationship Between CSRD and Board Composition

This study proposed that companies whose boards consist of a high number of independent directors tends to disclose more information relating to CSR. The results of this study found out that the proportion of independent directors in the boards of the sample insurance companies is negatively related to CSRD and it is not a significant predictor. This implies that board composition during the period under study did not influence the sample insurance companies in making disclosure related to CSR.

The findings of the study therefore reject the null hypothesis that there is a positive relationship between CSRD and the proportion of independent directors in the boards of the sample insurance companies in Kenya.

#### 4.4.5 Relationship Between CSRD and Board Audit Committee

It was proposed that the presence of a board audit committee is positively related to CSRD. Table 4-14 below shows the statistical results of correlation between total CSRD and board audit committee in the sampled insurance companies in Kenya for the eight years' period under consideration.

**Table 4-14: Correlation Between CSRD and Board Audit Committee**

| Year | Spearman's Rho<br>Correlation Coefficient | Significance |
|------|-------------------------------------------|--------------|
| 2004 | 0.776                                     | 0.001        |
| 2005 | 0.628                                     | 0            |
| 2006 | 0.616                                     | 0            |
| 2007 | 0.611                                     | 0            |
| 2008 | 0.356                                     | 0.054        |
| 2009 | 0.649                                     | 0            |
| 2010 | 0.448                                     | 0.013        |
| 2011 | 0.542                                     | 0.002        |

*Source: Computed from data extracted from CARs of Insurance Companies*

The results in the table above indicate that the existence of an audit committee at the board level is positively associated with disclosure on CSR in the annual reports of the sampled insurance companies. The results also indicate that existence of a board audit committee is a significant predictor. The results therefore strongly support the proposition during the period under review.

#### 4.4.6 Relationship Between CSRD and Audit Firm

It was proposed that the size of audit firm is positively related CSRD in the CARs of insurance companies in Kenya. In the initial stages of analysing the data, it seemed that CSRD was mostly made by companies audited by 'Big Four' auditing firm during the eight years period from year 2004 to 2011. Further testing however demonstrated that there is no significant difference.

Table 4-25 below shows that though there is a positive relationship between CSRD and size of audit firm, however the size of the audit firm is not a significant factor in determining CSRD in the insurance industry in Kenya. Thus CSRD was not influenced by the size of the audit firm in the insurance industry in Kenya during the period under consideration. The hypothesis is therefore rejected and it can be concluded that there is no significant association between CSRD and audit firm.

**Table 4-15 – Correlation Between CSRD and Audit Firm**

| Year | Spearman's Rho<br>Correlation Coefficient | Significance |
|------|-------------------------------------------|--------------|
| 2004 | 0.161                                     | 0.394        |
| 2005 | 0.235                                     | 0.211        |
| 2006 | 0.132                                     | 0.487        |
| 2007 | 0.22                                      | 0.243        |
| 2008 | 0.23                                      | 0.221        |
| 2009 | 0.328                                     | 0.206        |
| 2010 | 0.27                                      | 0.148        |
| 2011 | 0.258                                     | 0.168        |

*Source: Computed from data extracted from CARs of Insurance Companies*



The results of the testing of the propositions show that gross premiums written, total assets, ownership structure, existence of board audit committee and return on assets significantly influenced companies' decisions on the disclosure of CSR information in the annual reports during the period under consideration. Table 4-16 below is a summary of the predicted and actual direction of the relationships between the dependent variable and the independent variables.

**Table 4-16: Expected and Actual Direction of the Relationship in the Regression**

| <b>Independent Variables</b> | <b>Expected sign from literature review and relationship</b>                                                                                      | <b>Actual Sign and Relationship</b>                                                                                                                                 |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| $\beta_1$ TSE                | (+) total sales is associated positively with Corporate Social Responsibility Disclosure.                                                         | (+) Total sales is associated positively with Corporate Social Responsibility Disclosure and is significant.                                                        |
| $\beta_2$ TA                 | (+) total assets is positively associated with Corporate Social Responsibility Disclosure.                                                        | (-) Total assets is negatively associated with Corporate Social Responsibility Disclosure. but is significant.                                                      |
| $\beta_3$ PBT                | None                                                                                                                                              | (-) Profit before tax is negatively associated with Corporate Social Responsibility Disclosure and is not significant.                                              |
| $B_4$ OWN                    | (+) the proportion of shares held in blocks by institutional investors is positively associated with Corporate Social Responsibility Disclosure.. | (+) the proportion of shares held in blocks by institutional investors is positively associated with Corporate Social Responsibility Disclosure and is significant. |
| $B_5$ BIND                   | (+) ratio of independent directors in the board is positively associated with Corporate Social Responsibility Disclosure.                         | (-)ratio of independent directors in the board is negatively associated with Corporate Social Responsibility Disclosure and is not significant.                     |
| $B_6$ BAC                    | (+) existence of board audit committee is associated positively with Corporate Social Responsibility Disclosure..                                 | (+) existence of board audit committee is associated positively with Corporate Social Responsibility Disclosure and is significant.                                 |
| $B_7$ SAF                    | (+) the size of audit firm is positively associated with Corporate Social Responsibility Disclosure.                                              | (+) the size of audit firm is positively associated with Corporate Social Responsibility Disclosure but is not significant.                                         |
| $B_8$ ROA                    | None                                                                                                                                              | (+) return on asset is associated positively with Corporate Social Responsibility Disclosure and is significant.                                                    |
| $B_9$ ROE                    | None                                                                                                                                              | (-) return on equity is associated negatively with Corporate Social Responsibility Disclosure and is not significant.                                               |

Generally, the findings of the pooled regression analyses are that company attributes influence disclosure of information on CSR in the annual reports of the sample insurance companies during the period under study.

## **CHAPTER FIVE**

### **5.0 Discussion of Findings, Conclusion And Recommendations**

#### **5.1 Introduction**

The objective of this chapter is to discuss the findings of the study, make conclusion and the necessary recommendations / suggestions for future research. The chapter will also state the limitations that were encountered during the study. The chapter is organized as follows: discussion, summary and implications of the study are presented; recommendations and suggestions for future research are made and lastly limitations experienced during the study are presented.

#### **5.2 Discussion of Findings**

##### **5.2.1 Incidences of Corporate Social Responsibility Disclosure**

The results of this study are consistent with the results on the study on CSRD amongst companies listed on the NSE (Ponnu and Okoth, 2009) which established that 87.2 per cent of the companies in the sample have some form of CSRD in their annual reports and websites. The study also revealed that amongst the various industrial sectors, finance and investment sectors have the highest percentage of CSR disclosure at 91.7%, although Industrial Allied is the largest contributor towards CSR disclosure in the sample with 37.8%. The results of the current study are consistent with the results of the study by Ponnu and Okoth (2009) since the insurance industry is in the finance sector.

The results of this study are consistent with the results of the study done on CSRD on companies listed in the NSE which reported that most companies made CSRD from the year 2004 (Kalunda, 2012). The study also established that 81% of the companies in the sample included information on CSR in the CARs which is consistent with the results of the current study.

The results of this study are consistent with a study done amongst Indian banks. The study revealed that Indian banks disclose a considerable amount of voluntary information (Hossain and reaz, 2007).

A study by Gamerschlag, Möller and Verbeeten (2010) on companies in Germany revealed that companies in the service sector (such as insurance, software, and the technology industry) generally tend to disclose less CSR information. This is contrary to the results of the current study which shows that insurance companies in Kenya made CSRD in the CARs during the period under study.

### **5.2.2 Themes**

The results of this study and particularly on themes' ranking are consistent with previous studies in the developing countries such as Malaysia and Singapore (Andrew et al., 1989), South Africa (Savage, 1994) and Kenya (Ponnu and Okoth, 2009).

A study by Ponnu and Okoth (2009) shows that most of the companies (53.2%) made CSRD on community involvement. This was followed by information on products and consumers while the least preferred theme was human resources. The results of the current study also show that information on community development is the most preferred theme of disclosure. This however is followed by information on human resources contrary to the study by Ponnu and Okoth (2009) where information on human resources was the least preferred theme. Insurance is a service industry and is technical thus requiring a lot of investment in human resources. This could be the reason why insurance companies in Kenya made disclosures on human resources as opposed to companies listed on the NSE which is dominated by manufacturing and agricultural companies.

The results of this study are consistent with the results of the study conducted by Kalunda (2012) which found out that the most favoured theme by firms listed in the NSE is community involvement (education at 64.7%; health at 58.8% and social and charity activities at 41.7%). The activities covered under community involvement are provision of education, medical, youth empowerment and poverty alleviation such as provision of water through drilling of boreholes.

Abu-Baker and Naser (2000) found that the majority of companies disclosed social responsibility information concerning human resources and community involvement, followed by product, environment and energy. Whereas, Thompson and Zakaria (2004) reported that



most companies made disclosures on human resources followed by product, consumer, community involvement and the environment.

A study by Tsang (1998) on selected industries in Singapore found that most of the companies in the sample disclosed information on human resources and community involvement with little difference in the amount of information disclosed under the two categories. Unlike companies in the developed countries where disclosure by companies tends to be more balanced (Ernst and Ernst, 1978; Guthrie and Parker, 1990), the findings of the current study shows that disclosure is more skewed towards information on community involvement and human resources.

This is supported by Jamali and Mishak (2007) who argue that firms in developing countries tend to focus on CSR activities that are geared towards the community. This could be due to the fact that most of the developing countries are faced with various social problems where most of the population live below the poverty line. Most companies normally find themselves engaged in projects aimed at uplifting the living standards of the communities in which they operate. Companies therefore tend to make detailed disclosures in the CARs on their involvement in projects such as provision of clean water, providing scholarships to bright needy students and provision of medical services to the surrounding communities. Through CSRD companies send a signal to the government and the community that they are socially responsible (Ponnu & Okoth, 2009).

This is in line with legitimacy theory. So as to maintain their business legitimacy, firms have to show their commitment to society and the CSR activities have to conform to society's needs and demands (Hamid and Atan, 2005).

The results of this study are inconsistent with the results of the study done by Ponnu and Okoth (2009) which revealed that none of the companies in finance and investment, where the insurance industry falls, did not make disclosures on environment. Disclosures on environment by the insurance industry during the period under consideration has been ranked third out of the four theme categories.

The findings on themes contradict with previous disclosure studies in multiple industries which found that the mostly disclosed theme was human resources. The reason for this could be that concentrating on a specific industry may reveal specific patterns that relate to that industry (Griffin and Mahon, 1997; Hamid, 2004). Another reason could be the extension of

CSR concept on corporate citizenship where firms engage in various community programs. Smith (2003) has labelled these acts as a “new corporate philanthropy”.

The results of this study tend to support the idea that industry has an effect on CSR practices and disclosures. The results are consistent with the findings of Sweeney and Coughlan (2008) which indicate that firms make CSRD to conform with the expectations of the behaviour within their industry. The study also highlighted the importance of industry as a control variable for studies investigating the CSR activities of a group of firms.

This is however, inconsistent with the study done by Ponnu and Okoth (2009) on companies listed in the NSE. The result indicate that there is no difference in the level of disclosure between the various industry groupings.

The results of this study tend to support Belal (2008) opinion that CSR practices and CSRD has the potential of promoting equality, social justice, transparency and accountability by holding businesses accountable. Since most of the developing economies are faced with widespread poverty, wide gap between the rich and the poor, human rights violations, corruption, inequalities and social exploitations, businesses operating in such economies are expected to address some of these challenges.

Unlike companies in the developed countries where disclosure by companies tends to be more balanced (Ernst and Ernst, 1978; Guthrie and Parker, 1990), the findings of the current study shows that disclosure is more skewed towards information on community involvement and employees. This is in line with legitimacy theory. So as to maintain their business legitimacy, firms have to show their commitment to society and the CSR activities have to conform to society's needs and demands (Hamid and Atan, 2005).

Though disclosures on human resources seemed the most preferred theme by insurance companies in Kenya, disclosures on the other content-categories were reasonable. The findings of the study support the findings of the study by Ponnu and Okoth (2009) in Kenya and Ahmad et al (2003) in Malaysia which showed that there is no distinct emphasis on any particular theme. This could be because CSRD is voluntary, hence insurance companies are not obliged make specific disclosures on CSR.



### 5.2.3 Methods of Disclosure

The findings of this study in respect of methods of disclosure are inconsistent with studies done in other developing countries which shows that declarative statements dominated CSR in CARs (i.e., Abu-Baker and Naser, 2000; Belal, 2001; Imam, 2000; Tsang, 1998; Ahmad et al, 2003; Kalunda, 2012).

A study by Kalunda (2012) on the listed companies in Kenya show that 50% of the companies presented information in qualitative form, 38% of the companies combined both qualitative while 32% combined qualitative, pictorial and quantitative. None of the companies presented information in a purely quantitative format. The results of the current study are consistent with the results of the study done by Kalunda (2012) as insurance companies combined monetary, non-monetary quantitative, declarative and pictorials to make CSR. None of the insurance companies disclosed CSR information in a purely monetary format.

According to Ernst and Ernst (1978), quantification of disclosed information improves its quality as it states the amount of effort put by the company in CSR initiatives. As already stated, insurance companies in Kenya utilized a combination of monetary, non-monetary quantification and declarative as well as pictorial to make CSR. Insurance companies made disclosures on donations and sponsorship made by the company as well as the number of man-hours spend by employees of the company in attending to communities' needs and participating in cleaning the environment and planting trees. This is contrary to the results of the study by Tsang (1998) which was dominated by qualitative disclosures.

### 5.2.4 News Type

The results are consistent with similar studies in developing countries (Belal, 2001; Imam, 2000; Tsang, 1998). The disclosures could be PR-driven since their presence would enhance a company's image "(Tsang, 1998).

These findings of this study could be an indication that companies make CSR as a tool for improving company's image than to fulfill stakeholders' information needs (Ahmad, Sulaiman and Siswantoro, 2003). Companies would want to be viewed as 'good corporate citizens', thus disclose 'good' and 'neutral' information only and choose not to disclose the 'bad news'. This is consistent with legitimacy theory.



### **5.2.5 Location of CSRD**

The results are consistent with the results of Kalunda (2012) which showed that the most popular location for CSRD is the corporate governance section followed by chairman's statement and director's statement.

A study by Tsang (1998) found that social information was usually reported in the review of operations section and there was no mention of CSRD in the Chairman's statement. According to Tsang (1998), there is no structure in the way CSRD were presented. Also, Eljido-Ten (2004) found that most of the companies under study made disclosures in the chairman's statement. To the contrary, the findings of this study revealed that most insurance companies made CSRD in the Corporate Governance statement and / or CSR report or statement. The Chairman's statement and Managing Director's statement gave an overview of the CSR activities.

A study by Ahmad et al (2003) found that there is no distinct specific locations for CSRD in the annual reports of Malaysian companies. This is contrary to the results of the current study.

### **5.2.6 Longitudinal Analysis**

Studies that have examined CSRD within CARs over time have shown that there is a steady increase both in terms of companies making disclosures and the amount of information being disclosed (Harte and Owen, 1991; Gray et. al., 1995a; Patten, 1995; Deegan and Gordon, 1996 and Gray, 2001). Consistent with previous studies, the results of this study show that there is a general trend of increasing total CSRD as well as number of companies making the disclosures over time.

## **5.3 Factors Influencing Corporate Social Responsibility Disclosure**

### **5.3.1 Regression Results**

The adjusted R square of 0.37 compares favorably with similar studies using disclosure indices. A study on banks in India had an adjusted R square of 0.256 (Hossain and Reaz, 2007). An empirical investigation on the extent of both mandatory and voluntary disclosure by listed banking companies in India had an adjusted R square of 0.411 (Hossain, M, 2008). A study by Monteiro and Aibar-Guzmán (2009) on large companies operating in Portugal had adjusted R-squared of 0.271.

#### **5.3.1.1 Company Size**

In terms of company size, the results of this show mixed results. The proposition that there is a positive relationship between company size and CSRD is supported in five of the eight years' study.

These results are consistent with the study of Ponnu and Okoth (2009) which indicates that there is no significant relationship between firm size and CSR disclosure in Kenya. Also, the findings of an earlier study by Barako, Hancock and Izan (2006) support this. In their study they found that liquidity, profitability and type of external audit firm do not have a significant influence on the level of voluntary disclosure by companies in Kenya.

These results are also consistent with the findings of studies done in other developing countries. For instance the study done by Rouf (2011) which showed that both total assets and total sales are positively related to CSRD, though total sales is not significant at 1% or 5% level. This result is similar to Hossain et al. (2006); Suwaidan, M.S. (2004).

The results of this study however, contradict the results found in Barako (2007); Cowan, Ferreri and Parker (1987); Trotman and Bradley (1981) and in Malaysia by Mohamed Zain (1999) and Romlah et. al (2003) which found that there is a positive relationship between total CSRD and company size.

A study amongst Indian banks revealed that size of the banks measured using assets is statistically related to the level of voluntary information disclosed in the annual reports (Hossain and Reaz, 2007). A study on large companies operating in Portugal revealed that company size

is a possible explanatory variable for the companies to make disclosure on CSR in the annual reports (Monteiro and Aibar-Guzmán, 2009).

#### **5.3.1.2 Profitability**

In terms of profit before tax, the results of the current study revealed that profitability is neither significant nor positively associated with CSR. These results are consistent with the findings of other studies done in Kenya by Ponnu and Okoth (2009) and Barako, Hancock and Izan (2006) which established that neither profitability nor liquidity variables are significant in explaining corporate disclosure of companies.

The results of this study are consistent with the results of studies done in other developing countries. For example Zain and Janngu (2006) on the construction industry in Malaysia, Hossain et al (2006) in Bangladesh, Cowen et al (1992), Wallace et al (1994) and Belkaoui-Riahi and Kahl (1978) who found no relationship between profitability and disclosure.

The results however contradict the results of the studies conducted by Ponnu and Okoth (2009) and Barako, Hancock and Izan (2006) on companies listed on the NSE. No relationship is found by Robert (1992); Hackston and Milne (1996); Mohamed Zain (1999) and Monteiro and Aibar-Guzmán, 2009.

In terms of ROA and ROE, the results of this study are consistent with the findings of earlier study on companies listed on the NSE by Barako, Hancock and Izan (2006) and Ponnu and Okoth (2009). The non-significance of ROA and ROE reinforces the findings in prior studies by Patten, 1991; and Richardson and Welker, 2001; Abdul Hamid, 2004. These results appear to confirm Patten's (1991) and William's (1999) view that social disclosure are more closely related to public pressure rather than the market place or economic pressure.

The results however contradict results of studies done in other developing countries such as Suwaidan, M.S. (2004); Saleh, M. et al. (2008); Rouf (2011); Dulacha, G. B. (2007); Karim (1996); Ho and Wong (2001); McKinnon and Dalimunthe (1993).

The reason for this could probably be that firms in developing economies engage in CSR initiatives so as to be seen as 'giving back something to the society'. Some may do so for strategic purposes so as to position themselves within the society for future economic advantages. Insurance companies in Kenya would want to be seen to be contributing



immensely and supplementing Government's efforts towards poverty alleviation (Ponnu and Okoth, 2009).

The results of the current study deviate from the results of the other studies in terms of return on equity which established that ROE is negatively associated with CSRD and is not statistically significant.

#### **5.3.1.3 Ownership Structure**

In the current study, ownership structure is not a strong predictor, but there is a positive association and it is significant. These results are inconsistent with the study by Barako, Hancock and Izan (2006). The results of the study established that though shareholder concentration is a significant predictor, it is negatively associated with voluntary disclosures. The results of this study are inconsistent with the results of the study done by Abdullah, Mohamad and Mokhtar (n.d.) on large Malaysian firms. The findings of the study revealed that family owned firms are negatively associated with the level and the quality of CSR disclosure.

A study by Ho and Wong (2001) in Hong Kong revealed that there is a negative association between family-owned firms and voluntary disclosure. The results of this also contradict the results of the study by Hossain *et al.* (1994). Donnelly and Mulcahy (2008) conducted a cross-sectional in Ireland and found no relationship between firm ownership and voluntary disclosure.

#### **5.3.1.4 Board Composition**

In respect of board composition (proportion of non-executive directors in the board), the results of this study contradict with the findings of the study by Barako, Hancock and Izan (2006) in Kenya and Eng and Mak (2002) in Singapore. The studies established that board composition variable is significant but negative.

A possible explanation for the current results in Kenya could be that while many directors may be outside the company, they may not be truly independent. Recent reforms by the Insurance Regulatory Authority through the Corporate Governance guidelines are aimed at tightening the definition of an independent non-executive director. Another possible

explanation is that the independent directors are normally chosen by the major shareholder(s). The directors will therefore play by the 'rules of the major shareholder(s)'.

A study by Rouf (2011) also established that a higher proportion of independent non-executive directors on a board is positively related to the level of corporate social responsibility disclosure.

Similar studies in Malaysia revealed that independent directors do not discharge their duties effectively and do not oppose other board members (Abdullah, Mohamad and Mokhtar, n.d.). For instance studies by Mohd-Saleh, Mohd-Iskandar and Rahmat (2005), Abdullah and Mohd-Nasir (2004) and Abdul-Rahman and Ali (2006) in Malaysia.

The results of the current study are inconsistent with the study done by Donnelly and Mulcahy (2008) in Ireland. The results of the study revealed that the extent of voluntary disclosure increases with the number of nonexecutive directors on the board.

#### **5.3.1.5 Board Audit Committee**

In terms of existence of board audit committee, the results of the current study are in line with the findings of Barako, Hancock and Izan (2006) and Rouf (2011). The study in Kenya by Barako, Hancock and Izan (2006) found that the presence of a board audit committee is positively and strongly associated with companies' voluntary disclosure practices. The results are similar with Suwaidan, M.S. (2004); Saleh, M. et al. (2008); Dulacha, G. B. (2007); Karim (1996); Ho and Wong (2001); McKinnon and Dalimunthe (1993).

The results are consistent with Barako (2007) in Kenya and Ho and Wong (2001) who found a positive association between the existence of an audit committee and the level of voluntary disclosure. The results however contradict Akhtaruddin et al (2009) who found a negative association between existence of a board audit committee and the level of voluntary disclosure in Malaysia.

#### **5.3.1.6 Audit Firm**

In respect of size of the audit firm, the results of this study are consistent with that of Cowen et al (1987) and previous studies in Malaysia by Tan, Kidman and Cheong, (1990); Mohamad and Ahmad, (2001) and Zain and Janggu (2006).

Previous studies on the association between CSRD and audit firm have found mixed results on this relationship. Hossain et al. (1994); and Ng and Koh (1993) found a positive relationship between audit firm and total CSRD while Mohamad and Ahmad (2001) found a negative relationship. Hossain (2001) conducted an empirical study on 25 banks in Bangladesh on the associations between company size, profitability, and audit firm with disclosure level. The findings of the study revealed that the audit firm variable was not significant.

Previous studies however were generalized based on cross-sectoral and were not specific to insurance companies. Moreover, the studies were only based on one year data.

The external audit firm variable lacks statistical significance to show its impact on the extent of CSRD in the multivariate analysis. A possible reason for this finding is that there may be an association between the establishment of an audit committee and utilisation of the big-four audit firm service.

## **5.4 Summary of the Findings**

This study is a response to Ponnu and Okoth (2009) that a longitudinal study may provide further insights into some reporting patterns. Prior studies on CSRD revealed that companies in developing countries lagged behind their counterparts in the developed countries. According to Gray et al. (2002), cultural and national differences shape the CSR practices. Also, industry has an impact on CSR practices as well as disclosures. This study therefore hoped to make two contributions to the existing CSR literature by investigating CSR practices in a highly regulated industry, insurance, in a developing country.

The study covered 30 insurance companies in Kenya during the period 2004 to 2011. The period chosen was appropriate as most companies in Kenya started making social disclosures in the first half of 2000 (Kalunda, 2012). Furthermore, advocates of good corporate governance were vocal at around the same time in Kenya and the CCG in Kenya developed guidelines on corporate governance incorporating disclosures on both financial and non-financial issues in 2005 (Barako, 2007).

The study provided two types of data analysis; namely descriptive analysis and inferential analysis. The descriptive analysis revealed that insurance companies in Kenya make CSRD in their CARs during the years 2004 to 2011. Unlike prior studies in the area in



developing countries, the level of CSRD in the insurance industry is quite high with 83.3% of the companies in the sample making CSRD in their CARs. The number of insurance companies making CSRD as well as amount of disclosures increased over time during the period under consideration.

A review of the amount of CSRD made reveals that the most preferred theme is community involvement closely followed by human resources. This is contrary to CSRD by firms in developed countries which pay greater attention to aspects related to human resources and environment than to the disclosure of social aspects (Guthrie and Parker, 1989). It is interesting that insurance companies made disclosures on environmental issues though it is a service industry and does not have a direct impact on the environment.

Disclosure on community involvement reflects that CSR initiatives by insurance companies in Kenya is skewed more towards the community as compared to other stakeholders. It can be argued that insurance companies aimed at influencing the public's perceptions on the firm's social performance. Results of this study suggest that legitimacy theory is an explanation of CSRD by Kenyan insurance firms.

Insurance companies used a combination of monetary, non-monetary, declarative and pictorials to make CSRD. This is an improvement from prior studies in Kenya (Barako, Hancock and Izan, (2006; and Ponnu and Okoth, 2009) who found that companies make CSRD on an ad hoc basis.

The inferential analysis revealed that CSRD is influenced by corporate governance characteristics such as existence of board audit committee as well as corporate characteristics such as firm size and profitability.

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## **5.5 Recommendations**

The nature and focus of the present study is different from previous studies. First, this study focused on financial institutions and in particular insurance companies. Second, there has been little study in the insurance industry on voluntary disclosure and also in a developing country. Finally, the outcome of the study will provide the status of the level of voluntary information of the financial institutions, which act as corporate citizens in the world.

In order to improve the image of the insurance industry in Kenya, insurance companies have to comply with the rules and regulations of the regulatory authority as well as provide voluntary information. This ensures that companies maintain high quality disclosure and transparency as well as build up investors' and policyholders' confidence.

Most insurance companies voluntarily make disclosures on CSR therefore if disclosure on social and environmental aspects were to be made mandatory, most insurance companies will be more than willing to disclose. It is important to note that several insurance companies that engage in CSR initiatives did not make disclosure on Corporate Social Responsibility as there is no standard or regulation requiring them to make the disclosure.

The standards setter in Kenya, ICPAK, may consider developing a standard that deals with environmental and social disclosure. Though companies may perceive that society demands more disclosure, they may be reluctant as there is no standard. Moreover, such a standard will benefit all stakeholders by making the disclosure consistent and more comparable. Due to the extreme diversity and lack of comparability among existing annual report content and presentation, investors may have difficulty in determining which companies are more socially responsible.

## **5.6 Limitations and Suggestions for Future Research**

Like most research, this study has its limitations. This study focused on one avenue of company disclosure, namely corporate annual reports and the extent to which companies voluntarily release information through other means such as the media and the internet, represent a limitation of this study. The study focused on disclosure in corporate annual reports of insurance companies in Kenya. This introduced bias since some insurance companies may be engaged in CSR initiatives but do not disclose in their annual reports.

The number of Corporate Social Responsibility items was limited to 33 and the results may be different if the numbers of social information were increased or another set of items was examined. It is important to note that the instrument used was adopted from studies done in developed countries.

The results of the study show that to some extent the independent variables considered in the study do not influence disclosure on Corporate Social Responsibility in the sampled

insurance companies. Studies can be done which incorporate more factors so as to determine why insurance companies in Kenya voluntarily disclose information on Corporate Social Responsibility.

The results of this study cannot be generalized to other sectors as it concentrated on a single industry. Further studies can be carried out in the entire financial services sector with the aim of comparing disclosure amongst the different industries.

Research can also be conducted with the aim of developing an instrument to be used for measuring the nature and extent of Corporate Social Responsibility Disclosure in the country or developing countries. Most of the measurement instruments that exist have been tested and applied in the developed countries which may not be relevant to the developing countries.



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## List of Appendices

### Appendix A – Registered Insurance Companies for the year 2012 - Population

1. A P A Insurance Limited
2. Africa Merchant Assurance Company Limited
3. Apollo Life Assurance Limited
4. British-American Insurance Company (K) Limited
5. Cannon Assurance Limited
6. Capex Life Assurance Company Limited
7. CFC Life Assurance Limited
8. Chartis Kenya Insurance Company Limited
9. CIC Insurance Group Limited
10. CIC Life Assurance Limited
11. Concord Insurance Company Limited
12. Continental Reinsurance Company Limited
13. Corporate Insurance Company Limited
14. Directline Assurance Company Limited
15. East Africa Reinsurance Company Limited
16. Fidelity Shield Insurance Company Limited
17. First Assurance Company Limited
18. GA Insurance Limited
19. Gateway Insurance Company Limited
20. Geminia Insurance Company Limited
21. ICEA LION General Insurance Company Limited (Lion of Kenya)
22. ICEA LION Life Assurance Company Limited (Insurance Company of East Africa)
23. Intra Africa Assurance Company Limited
24. Invesco Assurance Company Limited
25. Kenindia Assurance Company Limited
26. Kenya Orient Insurance Limited
27. Kenya Reinsurance Corporation Limited
28. Madison Insurance Company Kenya Limited
29. Mayfair Insurance Company Limited
30. Mercantile Insurance Company Limited
31. Metropolitan Life Kenya Limited
32. Occidental Insurance Company Limited
33. Old Mutual Life Assurance Company Limited
34. Pacis Insurance Company Limited
35. Pan Africa Life Assurance Limited
36. Phoenix of East Africa Assurance Company Limited
37. Pioneer Assurance Company Limited
38. Real Insurance Company Limited
39. Takaful Insurance of Africa
40. Tausi Assurance Company Limited
41. The Heritage Insurance Company Limited
42. The Jubilee Insurance Company of Kenya Limited

43. The Kenyan Alliance Insurance Company Limited
44. The Monarch Insurance Company Limited
45. Trident Insurance Company Limited
46. Sheild Assurance Company Limited
47. UAP Insurance Company Limited
48. UAP Life Assurance Company Limited

*Source: Insurance Regulatory Authority*



## **Appendix B – Registered Insurance Companies during year 2004 – 2011**

1. A P A Insurance Limited
2. Africa Merchant Assurance Company Limited
3. Apollo Life Assurance Limited
4. British-American Insurance Company (K) Limited
5. Cannon Assurance Limited
6. CFC Life Assurance Limited
7. CIC Insurance Group Limited
8. Concord Insurance Company Limited
9. Corporate Insurance Company Limited
10. East Africa Reinsurance Company Limited
11. Fidelity Shield Insurance Company Limited
12. First Assurance Company Limited
13. GA Insurance Limited
14. Gateway Insurance Company Limited
15. Geminia Insurance Company Limited
16. ICEA LION General Insurance Company Limited (Lion of Kenya)
17. ICEA LION Life Assurance Company Limited (Insurance Company of East Africa)
18. Intra Africa Assurance Company Limited
19. Kenindia Assurance Company Limited
20. Kenya Orient Insurance Limited
21. Kenya Reinsurance Corporation Limited
22. Madison Insurance Company Kenya Limited
23. Mercantile Insurance Company Limited
24. Occidental Insurance Company Limited
25. Old Mutual Life Assurance Company Limited
26. Pan Africa Life Assurance Limited
27. Phoenix of East Africa Assurance Company Limited
28. Pioneer Assurance Company Limited
29. Real Insurance Company Limited
30. Tausi Assurance Company Limited
31. The Heritage Insurance Company Limited
32. The Jubilee Insurance Company of Kenya Limited
33. The Kenyan Alliance Insurance Company Limited
34. The Monarch Insurance Company Limited
35. Trident Insurance Company Limited
36. UAP Insurance Company Limited

*Source: Insurance Regulatory Authority*

## Appendix C – Corporate Social Responsibility Disclosures Instrument

Name of Company: \_\_\_\_\_ Year: \_\_\_\_\_

| Text Disclosures /<br>Sentence<br>characteristics | Community<br>Development | Human<br>Resources | Market<br>Place | Physical resources<br>and environmental<br>contribution | General | Total |
|---------------------------------------------------|--------------------------|--------------------|-----------------|---------------------------------------------------------|---------|-------|
| Monetary/good news                                |                          |                    |                 |                                                         |         |       |
| Monetary/bad news                                 |                          |                    |                 |                                                         |         |       |
| Monetary/neutral                                  |                          |                    |                 |                                                         |         |       |
| Non-monetary/good<br>news                         |                          |                    |                 |                                                         |         |       |
| Non-monetary/bad<br>news                          |                          |                    |                 |                                                         |         |       |
| Non-monetary/neutral                              |                          |                    |                 |                                                         |         |       |
| Declarative/good news                             |                          |                    |                 |                                                         |         |       |
| Declarative/bad news                              |                          |                    |                 |                                                         |         |       |
| Declarative/neutral                               |                          |                    |                 |                                                         |         |       |
| Total (number of<br>sentences)                    |                          |                    |                 |                                                         |         |       |
| Pictorial                                         |                          |                    |                 |                                                         |         |       |

First rater: \_\_\_\_\_ Second rater: \_\_\_\_\_

Ambiguities/Problems?

Signature: \_\_\_\_\_ Signature \_\_\_\_\_

\_\_\_\_\_ Yes \_\_\_\_\_ No

Date: \_\_\_\_\_ Date: \_\_\_\_\_

Need to be re-rated?

\_\_\_\_\_ Yes \_\_\_\_\_ No

*Adapted and modified from Hackston and Milne (1996) and Williams and Ho (1999).*

## Appendix D - Categories of Corporate Social Responsibility Disclosures by Insurance Companies

|    |                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|----|---------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| A. | COMMUNITY DEVELOPMENT                             | <ol style="list-style-type: none"> <li>1. Donations of cash, products or employee services to support established community activities, events, organizations, education and the arts.</li> <li>2. Sponsoring education related projects e.g constructing or rehabilitating classrooms,, laboratories, etc.</li> <li>3. Part-time employment of students or the disabled</li> <li>4. Sponsoring public health, education, sporting and recreational projects</li> <li>5. Funding scholarship programs or activities</li> <li>6. Sponsoring national pride government sponsored project campaigns</li> <li>7. Sponsoring communities programs and activities</li> <li>8. Other special community-related activities, e.g., opening the company's facilities to the public</li> </ol> |
| B. | HUMAN RESOURCE                                    | <ol style="list-style-type: none"> <li>9. Employee's development (e.g. Training Programme /Scheme)</li> <li>10. Employees' appreciation</li> <li>11. Health and safety</li> <li>12. Industrial relation</li> <li>13. Employee assistance, remuneration and benefits.</li> <li>14. Employment of minorities/woman/disabled</li> <li>15. Employees' welfare/assistance/benefits</li> <li>16. Providing recreational activities/facilities</li> <li>17. Provision of health care services for employees and their families</li> <li>18. Providing assistance or guidance to employees who are in the process of retiring or who have been made redundant</li> </ol>                                                                                                                    |
| C. | MARKET PLACE                                      | <ol style="list-style-type: none"> <li>19. Product quality</li> <li>20. Product safety</li> <li>21. Customer service improvement/awards/ratings</li> <li>22. Customer complaints</li> <li>23. Specific consumer relations (over and beyond "our duty to the consumer")</li> <li>24. Provision for the disabled, aged, vulnerable (HIV/AIDS) etc., customers</li> <li>25. Ethical principle/stakeholder engagement</li> </ol>                                                                                                                                                                                                                                                                                                                                                        |
| D. | PHYSICAL RESOURCES and ENVIRONMENTAL CONTRIBUTION | <ol style="list-style-type: none"> <li>26. Commitment to minimize/avoid environmental pollution</li> <li>27. Environmental policy statement</li> <li>28. Environmental education programs, awards and studies</li> <li>29. Participation in activities aimed at conservating natural environment and biodiversity</li> <li>30. Energy related commitment</li> <li>31. Conservation of natural environment &amp; biodiversity</li> <li>32. Wildlife conservation</li> <li>33. Landscaping</li> </ol>                                                                                                                                                                                                                                                                                 |

*Sources: (Belkaoui and Karpik, 1989; Guthrie and Parker, 1989; Gray et al., 1995a, 1995b, 2001; Hackston and Milne, 1996; Imam, 2000; Newson and Deegan, 2002; Hamid, 2004; Hamid and Attan, 2011; Rouf, 2011)*



## **Appendix E - Decision Rules for Social Disclosures**

- Discussions of directors' activities are not to be included as a discussion on employees.
- All sponsorship activity is to be included no matter how much it is advertising
- All disclosures must be specifically stated and they cannot be implied.
- Good/neutral/bad classifications to be determined from perspectives of the stakeholder groups involved.
- If any sentence has more than one possible classification, the sentence should be classified as the activity most emphasized in the sentence.
- Tables (monetary and non-monetary), which provide information, which is on the checklist, should be interpreted as one line equals one sentence and classified accordingly.
- Innovations in products or service should not be included unless they are beyond what is necessary to compete in the market place or attract business.
- Any discussion of pension funds or employee share schemes would be classified as good news unless it was clearly to the contrary, e.g., that the schemes had been scrapped.
- Any disclosure which is repeated shall be recorded as a CSR sentence each time it is discussed.
- Discussions relating to the quality of goods and services will not be a CSRD unless it contains notice of a verifiable change in quality, e.g., accreditation to the International Standards Organization ISO9000 quality series standard.

*Source: Hackston and Milne (1996).*

## **Appendix F – List of Insurance Companies in the Sample**

1. A P A Insurance Limited
2. Africa Merchant Assurance Company Limited
3. Apollo Life Assurance Limited
4. British-American Insurance Company (K) Limited
5. Cannon Assurance Limited
6. CFC Life Assurance Limited
7. CIC Insurance Group Limited
8. East Africa Reinsurance Company Limited
9. Fidelity Shield Insurance Company Limited
10. First Assurance Company Limited
11. G A Insurance Limited
12. Gateway Insurance Company Limited
13. Geminia Insurance Company Limited
14. ICEA LION General Insurance Company Limited (Lion of Kenya)
15. ICEA LION Life Assurance Company Limited (Insurance Company of East Africa)
16. Intra Africa Assurance Company Limited
17. Kenindia Assurance Company Limited
18. Kenya Reinsurance Corporation Limited
19. Madison Insurance Company Kenya Limited
20. Mercantile Insurance Company Limited
21. Occidental Insurance Company Limited
22. Old Mutual Life Assurance Company Limited
23. Pan Africa Life Assurance Limited
24. Pioneer Assurance Company Limited
25. Tausi Assurance Company Limited
26. The Heritage Insurance Company Limited
27. The Jubilee Insurance Company of Kenya Limited
28. The Kenyan Alliance Insurance Company Limited
29. The Monarch Insurance Company Limited
30. UAP Insurance Company Limited

## Appendix G – Results of the Study

### Number and Percentages of Insurers Disclosing Corporate Social Responsibility

| Year | No. of Companies | 0 - 9.9 |       | 10 - 19.9 |       | 20 - 29.9 |       | 30 - 39.9 |       | 40 - 49.9 |       | 50 - 59.9 |       | 60 - 69.9 |       | > 70 |      |
|------|------------------|---------|-------|-----------|-------|-----------|-------|-----------|-------|-----------|-------|-----------|-------|-----------|-------|------|------|
|      |                  | No      | %     | No.       | %     | No.       | %     | No.       | %     | No.       | %     | No.       | %     | No.       | %     | No   | %    |
| 2004 | 11               | 4       | 36.36 | 3         | 27.27 | 2         | 18.18 | 2         | 18.18 | 0         | -     | 0         | -     | 0         | -     | 0    | -    |
| 2005 | 11               | 5       | 45.45 | 2         | 18.18 | 1         | 0.09  | 2         | 18.18 | 1         | 9.09  | 0         | -     | 0         | -     | 0    | -    |
| 2006 | 13               | 3       | 23.08 | 5         | 38.46 | 2         | 15.38 | 2         | 15.38 | 1         | 7.69  | 0         | -     | 0         | -     | 0    | -    |
| 2007 | 14               | 5       | 35.71 | 2         | 14.29 | 3         | 21.43 | 1         | 7.14  | 2         | 14.29 | 0         | -     | 1         | 7.14  | 0    | -    |
| 2008 | 15               | 2       | 13.33 | 4         | 26.67 | 2         | 13.33 | 3         | 20.00 | 1         | 6.67  | 2         | 13.33 | 0         | -     | 1    | 6.67 |
| 2009 | 20               | 6       | 30.00 | 5         | 25.00 | 2         | 10.00 | 1         | 5.00  | 2         | 10.00 | 1         | 5.00  | 2         | 10.00 | 1    | 5.00 |
| 2010 | 21               | 7       | 33.33 | 4         | 19.05 | 2         | 9.52  | 2         | 9.52  | 2         | 9.52  | 2         | 9.52  | 1         | 4.76  | 1    | 4.76 |
| 2011 | 23               | 5       | 21.74 | 6         | 26.09 | 3         | 13.04 | 2         | 8.70  | 3         | 13.04 | 1         | 4.35  | 2         | 8.70  | 1    | 4.35 |

### Corporate Social Responsibility Disclosure by Themes

| CSR Themes / Year     | 2004   | 2005   | 2006   | 2007   | 2008   | 2009   | 2010   | 2011   |
|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Community development | 40.63  | 39.39  | 42.35  | 43.90  | 44.08  | 38.46  | 38.80  | 37.85  |
| Human resources       | 34.38  | 33.33  | 36.47  | 30.89  | 30.92  | 34.07  | 35.52  | 32.71  |
| Market place          | 14.06  | 15.15  | 11.76  | 17.07  | 15.13  | 16.48  | 12.57  | 14.49  |
| Environment           | 10.94  | 12.12  | 9.41   | 8.13   | 9.87   | 10.99  | 13.11  | 14.95  |
| Total                 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |



### Methods of Disclosure

| Text Disclosures | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|------------------|------|------|------|------|------|------|------|------|
| Monetary         | 8    | 5    | 9    | 13   | 16   | 18   | 17   | 20   |
| Non-monetary     | 12   | 10   | 13   | 14   | 14   | 15   | 16   | 20   |
| Declarative      | 13   | 10   | 15   | 17   | 19   | 21   | 22   | 24   |
| Total            | 33   | 25   | 37   | 44   | 49   | 54   | 55   | 64   |
| Pictorial        | 6    | 6    | 4    | 8    | 8    | 12   | 12   | 14   |

### News-type of Disclosure

| Text Disclosure | 2004 |        | 2005 |        | 2006 |        | 2007 |        | 2008 |        | 2009 |        | 2010 |        | 2011 |        |
|-----------------|------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|
|                 | No.  | %      | No.  | %      | No.  | %      | No.  | %      | No.  | %      | No.  | %      | No.  | %      | No.  | %      |
| Good news       | 13   | 86.67  | 13   | 92.86  | 13   | 92.86  | 19   | 100.00 | 19   | 90.48  | 21   | 77.78  | 22   | 78.57  | 25   | 78.13  |
| Bad news        | 1    | 6.67   | 0    | -      | 0    | -      | 0    | -      | 0    | -      | 1    | 3.70   | 2    | 7.14   | 2    | 6.25   |
| Neutral         | 1    | 6.67   | 1    | 7.14   | 1    | 7.14   | 0    | -      | 2    | 9.52   | 5    | 18.52  | 4    | 14.29  | 5    | 15.63  |
| Total           | 15   | 100.00 | 14   | 100.00 | 14   | 100.00 | 19   | 100.00 | 21   | 100.00 | 27   | 100.00 | 28   | 100.00 | 32   | 100.00 |

### Pages Devoted to Corporate Social Responsibility Disclosure

| Pages devoted                       | 2004 |        | 2005 |        | 2006 |        | 2007 |        | 2008 |        | 2009 |        | 2010 |        | 2011 |        |
|-------------------------------------|------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|
|                                     | No.  | %      | No.  | %      | No.  | %      | No.  | %      | No.  | %      | No.  | %      | No.  | %      | No.  | %      |
| One sentence – one fourth of a page | 3    | 25.00  | 4    | 33.33  | 5    | 33.33  | 6    | 37.50  | 5    | 26.32  | 6    | 28.57  | 7    | 30.43  | 9    | 37.50  |
| One fourth of a page – half page    | 3    | 25.00  | 1    | 8.33   | 5    | 33.33  | 3    | 18.75  | 4    | 21.05  | 3    | 14.29  | 3    | 13.04  | 1    | 4.17   |
| Half page – three fourths of a page | 3    | 25.00  | 1    | 8.33   | 0    | -      | 1    | 6.25   | 3    | 15.79  | 0    | -      | 0    | -      | 1    | 4.17   |
| Three fourths of a page – one page  | 0    | -      | 1    | 8.33   | 2    | 13.33  | 2    | 12.50  | 2    | 10.53  | 6    | 28.57  | 7    | 30.43  | 3    | 12.50  |
| More than 1 page                    | 3    | 25.00  | 5    | 41.67  | 3    | 20.00  | 4    | 25.00  | 5    | 26.32  | 6    | 28.57  | 6    | 26.09  | 10   | 41.67  |
| Total                               | 12   | 100.00 | 12   | 100.00 | 15   | 100.00 | 16   | 100.00 | 19   | 100.00 | 21   | 100.00 | 23   | 100.00 | 24   | 100.00 |

#### Location of Corporate Social Responsibility Disclosure

| Location / Year                | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|--------------------------------|------|------|------|------|------|------|------|------|
| Chairman's statement           | 6    | 2    | 8    | 7    | 4    | 7    | 5    | 8    |
| CEO's statement                | 2    | 3    | 3    | 4    | 4    | 7    | 7    | 7    |
| Corporate governance statement | 7    | 6    | 8    | 12   | 14   | 12   | 13   | 13   |
| CSR statement                  | 2    | 4    | 4    | 7    | 7    | 11   | 9    | 10   |
| Others                         | 0    | 2    | 1    | 0    | 0    | 1    | 2    | 1    |

#### Number of Companies making Disclosure as per the Disclosure Index

| Year/Percentages | No. of Companies | 0 - 9.9 | 10 - 19.9 | 20 - 29.9 | 30 - 39.9 | 40 - 49.9 | 50 - 59.9 | 60 - 69.9 | > 70 |
|------------------|------------------|---------|-----------|-----------|-----------|-----------|-----------|-----------|------|
| 2004             | 11               | 4       | 3         | 2         | 2         | 0         | 0         | 0         | 0    |
| 2005             | 11               | 5       | 2         | 1         | 2         | 1         | 0         | 0         | 0    |
| 2006             | 13               | 3       | 5         | 2         | 2         | 1         | 0         | 0         | 0    |
| 2007             | 14               | 5       | 2         | 3         | 1         | 2         | 0         | 1         | 0    |
| 2008             | 15               | 2       | 4         | 2         | 3         | 1         | 2         | 0         | 1    |
| 2009             | 20               | 6       | 5         | 2         | 1         | 2         | 1         | 2         | 1    |
| 2010             | 21               | 7       | 4         | 2         | 2         | 2         | 2         | 1         | 1    |
| 2011             | 23               | 5       | 6         | 3         | 2         | 3         | 1         | 2         | 1    |