THE RELATIONSHIP BETWEEN FINANCIAL PERFORMANCE AND
CORPORATE SOCIAL RESPONSIBILITY FOR OIL MARKETERS IN KENYA

By

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DECLARATION

This research project is my original work and has not been presented for any degree award in any university.

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This research project has been submitted for examination with my approval as university supervisor.

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DEDICATION

I dedicate my research work to my family and many friends. A special feeling of gratitude to my loving parents, Peter and Elizabeth Chege whose words of encouragement and push for tenacity ring in my ears.
ACKNOWLEDGEMENT

I thank God for the gift of life, health, strength and knowledge that he bestowed upon me and for enabling me complete this research study.

The success of this study has been a result of combined support and cooperation from several people to whom I owe my gratitude.

I am highly indebted to Dr. Lishenga for his guidance and constant supervision as well as for providing necessary information regarding the project and also for the support in completing the project.

I would like to express my special gratitude and thanks to the Oil Marketers for giving me such attention and time and for providing the necessary data and information regarding this project.

I would like to appreciate all those who made this research project a success. God bless you all.
ABSTRACT

This project attempts to establish the relationship between CSR and financial performance of Oil Marketers in Kenya. The study was conducted in Nairobi in September 2013, and data was collected through Financial Statements obtained from the various oil Marketers in Nairobi as well as from the ERC. The researcher used secondary data in conducting the research. Data was analyzed using regression analysis. The findings showed that CSR activities are correlated to profitability of Oil Marketers in Kenya. The results of regression analysis showed that there is a significant positive relationship between CSR and financial performance of the Oil Marketers of Kenya as shown by P value of 0%, adjusted R Squared (R-Sq (adj)) figure. Financial performance of Oil Marketers depends on social responsible behaviors of the Firms. In addition, socially responsible companies have an enhanced brand image and a positive reputation among consumers; they also have the ability to attract more accomplished employees and business partners. High financial performance is attributed to the benefits of being socially responsible. Further the study carried out the hypothesis testing between CSR variable and financial performance. A Pearson coefficient measure showed a strong, significant, positive relationship between CSR and financial performance of Oil companies in Kenya. Therefore basing on these findings the study rejected the null hypothesis that there is no relationship between CSR and financial performance of companies and accepted the alternative hypothesis that there exists a relationship between Corporate Social Responsibility and financial performance of Oil companies in Kenya. Corporate social responsibility is recommended for all organizations whether profit or non-profit organization. From this research conducted there are several benefits to a company engaging in social responsibility. An organization is able to improve the image of the firm, improve share prices if quoted in stock exchange and it is profitable in the long run. Also it is ethical to be socially responsible and it aims at improving the community at large. Also the market share is improved and also customer satisfaction can be met.
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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

1.1.1 Corporate Social Responsibility

The nature and the scope of corporate social responsibility has changed over time. The concept of the CSR has been in wide use since the 1960s. But, while economic, legal, ethical, and discretionary expectations placed on organizations may differ, it is probably accurate to say that all societies at all points in time have had some degree of expectations that organizations would act responsibly (Barney, 2010; Ruff, 2009).

In the eighteenth century, the great economist and the philosopher Adam Smith expressed traditional or classical economic model of business which suggested that the needs and desires of the society could first be met by unrestricted interaction of individuals and organizations in the market place. In 1960s and 1970s the civil rights movement.

Consumerism and environmentalist through raising awareness affected society’s expectation of business. Based on the general idea that those with great power have great responsibility, many called for the business world to be more proactive in: ceasing to cause societal problems and starting to participate in solving societal problems (Barney, M, 2010; Tuzzolindo and Armandi, 1981).

The first publication on CSR dates back to 1953 by Bowen. Bowen (1953) established the base of CSR by suggesting that the concept of CSR emphasizes that: Businesses exist at the mercy of the society and that their policies and practices must be align to guidelines.
set by the society; and businesses act as moral agents in the society (George Balabanis, Jonathan Lyall, 1998).

Wood (1991) further elaborated these ideas by factoring in driving principles of social responsibility, which are; Business is a social institution and thus obliged to use its power responsibly; Businesses are responsible for the outcomes relating to their areas of involvement with society; and individual managers are moral agents who are obliged to exercise discretion in their decision making (Hugh C. Phillips 1998).

According to Parent and Eibert (1975), Ullmann (1985) and Roberts (1992), if corporate social responsibility is seen as a substantial cost, firms with somewhat high past financial performance may be more willing to absorb these costs in the future. It is also likely that poor performers would seek more instant results and subsequently they may prefer short-term and high-yield investments to the uncertain and in general longer-term CSR investments.

A similar interpretation is that policies and expenditures in optional areas such as social programs may be especially sensitive to the presence of “slack” resources in the firm (McGuire et al., 1988). Ullmann (1985) argued that corporations must reach a satisfactory level of economic performance before allocating company resources to meet social demands. This is supported by the assertion that corporations with strong past economic performance appear to be more likely to have high current company social performance. Ullmann (1985) also suggested that companies with less stable stock market patterns would be relatively less likely to devote resources to social activities.
CSR focus and form is very much influenced by the normative pressures arising from a numerous stakeholders who advocate different values and expectations that encourage the endorsement of CSR activities. The African values of community spirit and social responsibility explain the type of behavior that is considered appropriate for Oil Marketers operating in Kenya and to remain legitimate, firms must respond to different stakeholders’ needs and expectations (Houghton, 2005). The supremacy of philanthropic process reveals the importance of the local community a stakeholder group and the institutionalization of the social norm of philanthropy in Kenya (KCDF, 2006). It would be absurd for corporations not to conform to these values and norms as their validity would be questioned (see Muthuri et al., 2008). Furthermore, companies are progressively conscious that a healthy business depends on a healthy society and are responding to local needs arising from governance shortfalls in a strategic manner. These governance deficits largely emanate from the inadequate capacity of the Kenyan government to provide adequately for her citizens.

1.1.2 Financial Performance

Financial performance is subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

The level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a
business allows decision-makers to judge the results of Business strategies and activities in objective monetary terms.

Any of many different mathematical measures to evaluate how well a company is using its resources to make a profit. Common examples of financial performance include operating income, earnings before interest and taxes, and net asset value. It is important to note that no one measure of financial performance should be taken on its own. Rather, a thorough assessment of a company's performance should take into account many different measures.

There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt.

1.1.3 CSR & Financial Performance

Research into the relationship between corporate social responsibility and financial performance has been based on several theoretical arguments. Those who have suggested a negative relation between social responsibility and financial performance have argued that high responsibility results in additional costs that put a firm at an economic disadvantage compared to other, less socially responsible firms (Bragdon & Marlin, 1985; Vance, 1975).
These added costs may stem from actions like making widespread charitable contributions, sponsoring community development plans, keeping plants in economically depressed locations, and establishing environmental safeguard procedures. In addition, concern for social responsibility may limit a firm's strategic alternatives. For example, a firm may sacrifice certain product lines, such as weapons or pesticides, and avoid plant relocations and investment opportunities in certain locations (e.g., South Africa).

In contrast, other scholars studying corporate social responsibility and performance have argued for a positive association. Several authors have mentioned improved employee and customer goodwill as a vital outcome of social responsibility (Davis, 1975; Soloman & Hansen, 1985). For example, a firm perceived as high in social responsibility may encounter relatively few labor problems, and customers may be positively inclined to its products. Socially responsible activities may also improve a firm's standing with such important constituencies as, investors, and government officials.

Enhanced relationships with these constituencies may bring about economic benefits (Moussavi & Evans, 1986). Indeed, oil marketers and other institutional investors have testified social considerations to be an aspect in their investment decisions (Spicer, 1978). High corporate social responsibility may therefore improve a firm's access to sources of capital.
1.1.4 Oil Marketers in Kenya

The sector also boasts of over 30 oil importing and marketing companies comprising of five major companies namely Shell, Total, Kenol/Kobil, Oil Libya, Chevron, and other emerging oil companies which include the Government owned National Oil Corporation of Kenya (NOCK).

The sector, which was liberalized in 1994, has since seen a lot of growth and improvements in quality and level of service. However, without an appropriate regulatory environment being in place at the time of liberalization (the existing legislation at the time was the Petroleum Act Cap 116 of 1948 with latest revision of 1972), several challenges face the sector which include proliferation of substandard petroleum dispensing and storage sites which pose environment health and safety risks; diversion of petroleum products destined for export into the local market by unscrupulous business people to evade tax and a dominance of the market by a few companies among others.

Petroleum fuels constitute the main source of commercial energy in Kenya. Kenya is a net importer of petroleum products and has a refinery owned and managed by the Kenya Petroleum Refineries Ltd (KPRL), an 800 km cross country oil pipeline from Mombasa to Nairobi and Western Kenya with terminals in Nairobi, Nakuru, Eldoret and Kisumu, run by the Kenya Pipeline Company (KPC).

The Government noted these challenges in its energy policy contained in Session Paper No. 4 of 2004 on Energy and recommended review of the Petroleum Act Cap 116 and
other energy sector statutes and the introduction of a new energy sector legislation to cover petroleum, electricity and renewable energy. It also recommended the formation of a single energy sector regulator to regulate electricity, downstream petroleum, renewable energy and other forms of energy.

1.2 Problem Statement

There is a prolonged discussion about the validity and value of corporate responses to CSR concerns (Tsoutsoura, 2004). CSR activities come into contact with many of the problems conventionally solved by the democratically elected government, like community investing, and human rights. The resources of a corporation are poorly suited.

For solving these social problems, because, it is argued that it diverts economic efficiency and levying “illegal tax” on the organization (Frederick et al., 1992). The cost of being socially responsible might put the firm at an economic disadvantage compared to others, less socially responsible firms (Aupperel et al., 1985; McGuire et al. 1988).

The introduction of stakeholder theory facilitates these seemingly opposing views of management’s responsibility to be combined (Freeman, 1984). Stakeholder theory acknowledges shareholders as one of the multiple stakeholder groups managers must consider in their decision making process (Clarkson, 1995a; Donaldson and Preston, 1995; Jones, 1995; Mitchell, Agle and Wood, 1995; Wood and Jones, 1995). According to the stockholder perspective, corporate performance is assessed in terms of a company meeting the demands of the multiple stakeholders.
Being socially responsible involves cost and in order to be sustainable business practice it should add value to the firm. However, in most cases, it seems that the time frame of the costs and benefits can be out of alignment—the costs are immediate, and the benefits are not often realized in short-term (Soloman and Hansen, 1985).

Previous research has largely considered the potential for CSR activities to create incremental gain to the firm, for instance increased sales, motivated employees, and improved image of the organization (Chaston, 1997; Peloza, 2008; Moir, 2001; Meechan et al 2006). However, the potential for CSR to enhance financial performance in the oil industry has largely been unexplored (Adulogu & Folake, 2010). The oil sector plays a significant role in the economic development and business sustainability because it is the dominant factor for industrial and commercial activities, thus they are most likely endowed with slack resources to deal with social problems (Shrama and Talwar, 2005; Khan et al, 2009; McGuire et al., 1988).

The purpose of this research is to establish whether the resources of the company are suited for addressing the social problems in the society, and the financial performance improvements associated to being socially responsible.

1.3 Research Objectives

1. To determine the relationship between annual profits and the annual cost allocated towards CSR by the oil marketers.

1.4 Research Questions

1. Using stakeholder theory framework, what are the antecedents of commencing CSR initiatives in the community? What are the company objectives?
2. How can the involvement in CSR activities affect financial performance of Oil Marketers in Nairobi?

3. What are the reasons why some of the Oil Marketers hesitate in conducting CSR initiatives in community involvement?

1.5 Scope of the study

The scope of study is limited to Oil Marketers and the employees at different positions of these firms in Nairobi city. The researcher will be able to collect information regarding the involvement and non-involvement in CSR activities, and the financial performance of their oil companies. The information would help to address the three objectives mentioned above.

1.6 Justification of the Study

The results of the study will help corporate managers in the decision making process, because the study will establish whether there is a linkage between the CSR and financial performance of the organization.

The outcome of this research helps the employees to identify oil companies which are environmentally and socially responsible when looking for prospective employers. The results will also assist the society in finding firms with strong CSR practices to support.

The results of the study will benefit the mass media in the following ways; initiate evaluating systems to assess and publize CSR performance, raise awareness of issues and opportunities surrounding CSR.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter presents a review of the literature related to the purpose of the study. The chapter is organized according to the specific objectives in order to ensure relevance to the research problem. The literature is based on authoritative, recent and original sources such as journals, books, theses and desertions.

2.2 Theoretical Orientation

2.2.1 Carroll’s framework
Carroll is renowned representative among scholars researching on CSR. Carroll (1979) suggests that CSR is economic, legal, ethical and discretionary demands that society places on the business. Society not only expects companies to achieve their economic objectives, but also to adhere to the laws and regulations, value the ethics, and does charity work (Akgun. AE, Heskin).

Thus, CSR should be the aggregate of economic responsibility, legal responsibility, ethical responsibility and philanthropy responsibility (Carrol, 1979, 1991). Carroll (1979) also contended that economic responsibility was the most crucial responsibility of a company because it mirrors the company as a profit-making business organization and the rest of other forms of social responsibility are grounded on. In the non-appearance of economic responsibility, it would be virtually impossible to undertake other responsibilities. Ethical responsibility not only reveals the company’s concern for the
value of justice among employees, customers and local community, but also shows its moral spirit of respecting and protecting the interest of stakeholders (Carroll, 1991).

2.2.2 Theoretical Framework

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In contrast, other scholars studying corporate social responsibility and performance have argued for a positive association. Several authors have mentioned improved employee and customer goodwill as a vital outcome of social responsibility (Davis, 1975; Soloman & Hansen, 1985). For example, a firm perceived as high in social responsibility may encounter relatively few labor problems, and customers may be positively inclined to its
products. Socially responsible activities may also improve a firm's standing with such important constituencies as, investors, and government officials.

Industrialization, in many developing countries, is booming as a result of both technology and globalization. Consumers are becoming more aware of the environmental and social implications of their day-to-day consumer decisions and are therefore beginning to make purchasing decisions related to their environmental and ethical concerns. However, this practice is far from consistent or universal. As corporations pursue growth through globalization, they have encountered new challenges that impose limits to their growth and potential profits. Government regulations, tariffs, environmental restrictions and varying standards of what constitutes "labor exploitation" are problems that can cost organizations millions of dollars.

Some view ethical issues as simply a costly hindrance, while some companies use CSR methodologies as a strategic tactic to gain public support for their presence in global markets, helping them sustain a competitive advantage by using their social contributions to provide a subconscious level of advertising. (Fry, Keim, Meiners 1986, 105) Global competition places a particular pressure on multinational corporations to examine not only their own labor practices, but those of their entire supply chain, from a CSR perspective that all government is controlling. The role among corporate stakeholders is to work collectively to pressure corporations that are changing. Shareholders and investors themselves, through socially responsible investing are exerting pressure on corporations to behave responsibly.
The extension of SRI bodies driving corporations to include an element of ‘ethical investment’ into their corporate agenda’s generates socially embedded issues. The main issue correlates to the development and overall idea of ‘ethical investing’ or SRI, a concept that is constructed as a general social perspective. The problem becomes defining what is classified as ‘ethical investing’. The ethics or values of one SRI body will likely different from the next since ethical opinions are inherently paradoxical. For example, some religious investors in the US have withdrawn investment from companies that fail to fulfill their ethical expectations. The Non-governmental organizations are also taking an increasing role, leveraging the power of the media and the Internet to increase their scrutiny and collective activism around corporate behavior. Through education and dialogue, the development of community awareness in holding businesses responsible for their actions is growing.

In recent years, the traditional conception of CSR is being challenged by the more community-conscious Creating Shared Value concept (CSV), and several companies are refining their collaboration with stakeholders accordingly. The rise of ethics training inside corporations, some of it required by government regulation, is another driver credited with changing the behavior and culture of corporations. The aim of such training is to help employees make ethical decisions when the answers are unclear. Tullberg believes that humans are built with the capacity to cheat and manipulate, a view taken from Trivers (1971, 1985), hence the need for learning normative values and rules in human behavior.
The most direct benefit is reducing the likelihood of "dirty hands" (Grace and Cohen 2005), fines and damaged reputations for breaching laws or moral norms. Organizations also see secondary benefit in increasing employee loyalty and pride in the organization. Caterpillar and Best Buy are examples of organizations that have taken such steps. Increasingly, companies are becoming interested in processes that can add visibility to their CSR policies and activities.

One method that is gaining increasing popularity is the use of well-grounded training programs, where CSR is a major issue, and business simulations can play a part in this. One relevant documentary is *The Corporation*, the history of organizations and their growth in power is discussed. Corporate social responsibility, what a company does in trying to benefit society, versus corporate moral responsibility (CMR), what a company should morally do, are both important topics to consider when looking at ethics in CSR.

For example, Ray Anderson, in *The Corporation*, takes a CMR perspective in order to do what is moral and he begins to shift his company's focus towards the biosphere by utilizing carpets in sections so that they will sustain for longer periods. This is Anderson thinking in terms of Garret Hardin's "The Tragedy of the Commons," where if people do not pay attention to the private ways in which we use public resources, people will eventually lose those public resources. In a geographical context, CSR is fundamentally an intangible populist idea without a conclusive definition. Corporations who employ CSR behaviors are empirically dissimilar in various parts of the world.
The issue of CSR diversity is produced through the perpetual differences embedded in the social, political, cultural, and economic structures within individual countries. The immense geographical separations feasibly contribute to the loosely defined concept of CSR and difficulty for corporate regulation. CSR has inspired national governments to include CSR issues into their national public policy agendas. The increased importance driven by CSR, has prompted governments to promote socially and environmentally responsible corporate practices.

Over the past decade governments have considered CSR as a public issue that requires national governmental involvement to address the very issues relevant to CSR. The heightened role of government in CSR has facilitated the development of numerous CSR programs and policies. Specifically, various European governments have implemented public policies on CSR enhancing their competence to develop sustainable corporate practices. CSR critics such as Robert Reich argue that governments should set the agenda for social responsibility by the way of laws and regulation that will allow a business to conduct themselves responsibly. Actors engaged in CSR:

The issues surrounding corporate regulation pose several problems. The concept of regulation is inherently difficult to address because of the numerous corporations that exist are vastly dissimilar in terms of corporate behavior and nature. Thus, regulation in itself is unable to cover every aspect in detail of a corporation's operations. For example, this leads to burdensome legal processes bogged down in interpretations of the law and debatable grey areas (Sacconi 2004). For example, General Electric failed to clean up
the Hudson River after contaminating it with organic pollutants. The company continues to argue via the legal process on assignment of liability, while the cleanup remains stagnant. (Sullivan & Schiafo 2005). Government regulation or public institutional regulation is difficult to achieve.

Depending on the political regime and form of government democracy, parliamentary, presidential – issues of governmental ineffectiveness may transpire. As a result, attempts at CSR policy development and implementation may be unattainable. The second issue is the financial burden that regulation can place on a nation's economy. This view shared by Bulkeley, who cites the Australian federal government's actions to avoid compliance with the Kyoto Protocol in 1997, on the concerns of economic loss and national interest. The Australian government took the position that signing the Kyoto Pact would have caused more significant economic losses for Australia than for any other OECD nation (Bulkeley 2001, pg 436).

The method of developing and implementing CSR policies was achieved through government-company consultation and government stakeholder cooperation. The successful relationship between the CSR actors within Canada’s government and country, may advocate that cooperation amongst constituencies is the most imperative element to CSR regulation. The European Union has recently done extensive work to try and find the best form of regulation. Some critics argue that the creation of a CSR organization with a democratically appointed minister focused solely on monitoring and enforcing socially responsible behaviour will be extremely effective.
The laws legally binding the corporation’s behavior and activity are quite insignificant in relation to the global consequences. Only recently have countries included CSR policies in government agendas legislature. Common types of countries who have implemented legislation and CSR laws generally consist of socio-economic and politically sophisticated countries. The level of political stability and effectiveness is inextricably linked to a country’s capacity to ensure national CSR policies.

The increasing ability and influence corporations have on the economic, political, and social dynamics of society correlate to the recent studies by the UN Commission on Human Rights.[55] More research and international political instruments are being explored to protect and prevent corporations from violating human rights. Denmark has a law on CSR. On 16 December 2008, the Danish parliament adopted a bill making it mandatory for the 1100 largest Danish companies, investors and state-owned companies to include information on corporate social responsibility (CSR) in their annual financial reports.

The reporting requirements became effective on 1 January 2009. The required information includes: information on the companies’ policies for CSR or socially responsible investments (SRI), information on how such policies are implemented in practice, and information on what results have been obtained so far and management expectations for the future with regard to CSR/SRI.
CSR/SRI is still voluntary in Denmark, but if a company has no policy on this it must state its positioning on CSR in their annual financial report. Often it takes a crisis to precipitate attention to CSR. One of the most active stands against environmental mismanagement is the CERES Principles that resulted after the Exxon Valdez incident in Alaska in 1989 (Grace and Cohen 2006).

Other examples include the lead poisoning paint used by toy giant Mattel, which required a recall of millions of toys globally and caused the company to initiate new risk management and quality control processes. In another example, Magellan Metals in the West Australian town of Esperance was responsible for lead contamination killing thousands of birds in the area. The company had to cease business immediately and work with independent regulatory bodies to execute a cleanup. Odwalla also experienced a crisis with sales dropping 90%, and the company’s stock price dropping 34% due to several cases of E. coli spread through Odwalla apple juice.

The company ordered a recall of all apple or carrot juice products and introduced a new process called "flash pasteurization" as well as maintaining lines of communication constantly open with customers. Increasingly, corporations are motivated to become more socially responsible because their most important stakeholders expect them to understand and address the social and community issues that are relevant to them.

Understanding what causes are important to employees is usually the first priority because of the many interrelated business benefits that can be derived from increased employee engagement (i.e. more loyalty, improved recruitment, increased retention, higher productivity, and so on). Key external stakeholders include customers, consumers,
investors (particularly institutional investors), communities in the areas where the corporation operates its facilities, regulators, academics, and the media.

Branco and Rodrigues (2007) describe the stakeholder perspective of CSR as the inclusion of all groups or constituents (rather than just shareholders) in managerial decision making related to the organization’s portfolio of socially responsible activities. This normative model implies that the CSR collaborations are positively accepted when they are in the interests of stakeholders and may have no effect or be detrimental to the organization if they are not directly related to stakeholder interests.

The stakeholder perspective suffers from a wheel and spoke network metaphor that does not acknowledge the complexity of network interactions that can occur in cross sector partnerships. It also relegates communication to a maintenance function, similar to the exchange perspective. Several industries are often absent from CSR research. The absence is due to the *presumption* that these particular industries fail to achieve ethical considerations of their consumers. Typical industries include tobacco and alcohol producers (“sin industry” manufacturers), as well as defense firms.

Lastly, modern corporate stakeholder theory (Cornell & Shapiro, 1987) argues that the value of a firm depends on the cost not only of explicit claims but also of implicit claims. From this perspective, the set of claimants on a firm's resources goes beyond the stockholders and bondholders to include stakeholders who have explicit claims on the firm like wage contracts and others with whom the firm has made implicit contracts,
including, for instance, quality service and social responsibility. If a firm does not act in a socially responsible manner, parties to implicit contracts concerning the social responsibility of the firm may attempt to transform those implicit agreements into explicit agreements that will be more costly to it.

For example, if a firm fails to meet promises to government officials in regard to actions that affect the environment (dumping, etc.), government agencies may find it necessary to pass more stringent regulations, constituting explicit contracts, to force the firm to act in a socially responsible manner. Moreover, socially irresponsible actions may spill over to other implicit stakeholders, who may doubt whether the firm would honor their claims. Thus, firms with an image of high corporate social responsibility may find that they have more low-cost implicit claims than other firms and thus have higher financial performance (Cornell & Shapiro, 1987).

Although theory and research have dedicated primarily on the relationship between corporate social responsibility and measures of financial performance, an argument for a relationship between social responsibility and such measures of financial risk as variance in earnings and in stock returns can also be made (Spicer, 1978; Ullmann, 1985). First, low levels of social responsibility may increase a firm's financial risk. Investors may consider less socially responsible firms to be riskier investments because they see management skills at the firm as low (Alexander & Bucholtz, 1978; Spicer, 1978). Investors and other constituencies may also envision an increase in firm costs owing to lack of social responsibility.
For example, the government may levy fines, and law suits, such as those recently filed against pharmaceutical, chemical, and asbestos firms, that may threaten a firm's going concern. Insights of low social responsibility may also decrease a firm's ability to obtain capital at favorable rates. In contrast, a high degree of corporate social responsibility may permit a firm to have relatively low financial risk as the result of more established good relationships with the government and the financial community.

Furthermore, to the degree that a firm has high social responsibility, it may also have a low percentage of total debt to total assets. A low total debt ensures that a firm can easily continue to satisfy implicit claims. Thus, compared to other firms, firms with high social responsibility may have lower market and accounting-based total risk because they are less sensitive to certain exterior events, like governmental actions, and have a lower debt. The impact of social responsibility on measures of a firm's systematic risk may, however, be minimal, since most events affecting a firm's level of social responsibility do not methodically affect all other firms in the marketplace (Cornell & Shapiro, 1987).

Most studies have related social responsibility and concurrent financial performance. The theoretical arguments suggested regarding the simultaneous relationship between corporate social responsibility and financial performance also apply to the relationship with succeeding financial performance. The benefits of social responsibility cited earlier (e.g., employee motivation, customer goodwill) may carry over into future periods. To the extent that a firm with somewhat high social responsibility can implement implicit contracts, its financial performance may improve and variability in market and accounting-based performance measures may decline.
Corporate social responsibility may also be related to past firm performance. Its financial performance may impact a firm’s evolving social policy and actions (Ullmann, 1985). Policies and expenditures, particularly in optional areas such as social programs, may be especially sensitive to the existence of slack resources (Cyert & March, 1963). If corporate social responsibility is perceived as a significant cost, firms with relatively high past financial performance may be more willing to absorb these costs in the future (Parket & Eibert, 1975; Ullmann, 1985). In contrast, less profitable firms may be less willing to undertake socially responsible actions.

**2.2.3 Mapping the Territory Theory**

The Corporate Social Responsibility (CSR) field presents not only a landscape of theories but also a proliferation of approaches, which are controversial, complex and unclear.

CSR theories and related approaches in four groups: (1) instrumental theories, in which the corporation is seen as only an instrument for wealth creation, and its social activities are only a means to achieve economic results; (2) political theories, which concern themselves with the power of corporations in society and a responsible use of this power in the political arena; (3) integrative theories, in which the corporation is focused on the satisfaction of social demands; and (4) ethical theories, based on ethical responsibilities of corporations to society. In practice, each CSR theory presents four dimensions related to profits, political performance, social demands and ethical values. The findings suggest the necessity to develop a new theory on the business and society relationship, which should integrate these four dimensions.
2.2.4 Instrumental theories

In this group of theories CSR is seen only as a strategic tool to achieve economic objectives and, ultimately, wealth creation. Representative of this approach is the well-known Friedman view that ‘‘the only one responsibility of business towards society is the maximization of profits to the shareholders within the legal framework and the ethical custom of the country’’ (1970). Instrumental theories have a long tradition and have enjoyed a wide acceptance in business so far. As Windsor (2001) has pointed out recently, ‘‘a leitmotiv of wealth creation progressively dominates the managerial conception of responsibility’’ (Windsor, 2001, p. 226).

Concern for profits does not exclude taking into account the interests of all who have a stake in the firm (stakeholders). It has been argued that in certain conditions the satisfaction of these interests can contribute to maximizing the shareholder value (Mitchell et al., 1997; Odgen and Watson, 1999).

An adequate level of investment in philanthropy and social activities is also acceptable for the sake of profits (McWilliams and Siegel, 2001). We will return to these points afterwards. In practice, a number of studies have been carried out to determine the correlation between CSR and corporate financial performance. Of these, an increasing number show a positive correlation between the social responsibility and financial performance of corporations in most cases (Frooman, 1997; Griffin and Mahon, 1997; Key and Popkin, 1998; Roman et al., 1999; Waddock and Graves, 1997) However, these findings have to be read with caution since such correlation is difficult to measure (Griffin, 2000; Rowley and Berman, 2000).
Three main groups of instrumental theories can be identified, depending on the economic objective proposed. In the first group the objective is the maximization of shareholder value, measured by the share price. Frequently, this leads to a short-term profits orientation. The second group of theories focuses on the strategic goal of achieving competitive advantages, which would produce long-term profits. In both cases, CSR is only a question of enlightened self-interest (Keim, 1978) since CSRs are a mere instrument for profits. The third is related to cause-related marketing and is very close to the second. Let us examine briefly the philosophy and some variants of these groups.

### 2.2.5 Political theories

A group of CSR theories and approaches focus on interactions and connections between business and society and on the power and position of business and its inherent responsibility. They include both political considerations and political analysis in the CSR debate. Although there are a variety of approaches, two major theories can be distinguished: Corporate Constitutionalism and Corporate Citizenship.

Davis (1960) was one of the first to explore the role of power that business has in society and the social impact of this power. In doing so, he introduces business power as a new element in the debate of CSR. He held that business is a social institution and it must use power responsibly. Additionally, Davis noted that the causes that generate the social power of the firm are not solely internal of the firm but also external. Their locus is unstable and constantly shifting, from the economic to the social forum and from there to the political forum and vice versa. Davis attacked the assumption of the classical
economic theory of perfect competition that precludes the involvement of the firm in society besides the creation of wealth. The firm has power to influence the equilibrium of the market and therefore the price is not a Pareto optimum reflecting the free will of participants with perfect knowledge of the market.

Davis formulated two principles that express how social power has to be managed: ‘‘the social power equation’’ and ‘‘the iron law of responsibility’’. The social power equation principle states that ‘‘social responsibilities of businessmen arise from the amount of social power that they have’’ (Davis, 1967, p. 48). The iron law of responsibility refers to the negative consequences of the absence of use of power. In his own words: ‘‘Whoever does not use his social power responsibly will lose it. In the long run those who do not use power in a manner which society considers responsible will tend to lose it because other groups eventually will step in to assume those responsibilities’’ (1960, p. 63). So if a firm does not use its social power, it will lose its position in society because other groups will occupy it, especially when society demands responsibility from business (Davis, 1960).

According to Davis, the equation of social power responsibility has to be understood through the functional role of business and managers. In this respect, Davis rejects the idea of total responsibility of business as he rejected the radical free-market ideology of no responsibility of business. The limits of functional power come from the pressures of different constituency groups. This ‘‘restricts organizational power in the same way that a governmental constitution does.’’ The constituency groups do not destroy power. Rather they define conditions for its responsible use. They channel organizational power in a
supportive way and to protect other interests against unreasonable organizational power (Davis, 1967, p. 68). As a consequence, his theory is called ‘‘Corporate Constitutionalism’’.

2.2.6 Integrative social contract theory

Donaldson (1982) considered the business and society relationship from the social contract tradition, mainly from the philosophical thought of Locke. He assumed that a sort of implicit social contract between business and society exists. This social contract implies some indirect obligations of business towards society. This approach would overcome some limitations of deontological and teleological theories applied to business. Afterwards, Donaldson and Dunfee (1994, 1999) extended this approach and proposed an ‘‘Integrative Social Contract Theory’’ (ISCT) in order to take into account the socio-cultural context and also to integrate empirical and normative aspects of management. Social responsibilities come from consent. These scholars assumed two levels of consent.

Firstly a theoretical macrosocial contract appealing to all rational contractors, and secondly, a real microsocial contract by members of numerous localized communities. According to these authors, this theory offers a process in which the contracts among industries, departments and economic systems can be legitimate. In this process the participants will agree upon the ground rules defining the foundation of economics that will be acceptable to them.
The macrosocial contract provides rules for any social contracting. These rules are called the “hyper-norms”; they ought to take precedence over other contracts. These hyper-norms are so fundamental and basic that they “are discernible in a convergence of religious, political and philosophical thought” (Donaldson and Dunfee, 2000, p. 441). The microsocial contracts show explicit or implicit agreements that are binding within an identified community, whatever this may be: industry, companies or economic systems. These microsocial contracts, which generate ‘authentic norms’, are based on the attitudes and behaviors of the members of the norm-generating community and, in order to be legitimate, have to accord with the hyper-norms.

2.2.7 Ethical theories

There is a fourth group of theories or approaches focus on the ethical requirements that cement the relationship between business and society. They are based on principles that express the right thing to do or the necessity to achieve a good society. As main approaches we can distinguish the following.

Normative stakeholder theory Stakeholder management has been included within the integrative theories group because some authors consider that this form of management is a way to integrate social demands. However, stakeholder management has become an ethically based theory mainly since 1984 when Freeman wrote Strategic Management: a Stakeholder Approach. In this book, he took as starting point that “managers bear a fiduciary relationship to stakeholders” (Freeman, 1984, p. xx), instead of having exclusively fiduciary duties towards stockholders, as was held by the conventional view
of the firm. He understood as stakeholders those groups who have a stake in or claim on the firm (suppliers, customers, employees, stockholders, and the local community). In a more precise way, Donaldson and Preston (1995, p. 67) held that the stakeholder theory has a normative core based on two major ideas (1) stakeholders are persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity (stakeholders are identified by their interests in the corporation, whether or not the corporation has any corresponding functional interest in them) and (2) the interests of all stakeholders are of intrinsic value (that is, each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group, such as the shareowners).

Following this theory, a socially responsible firm requires simultaneous attention to the legitimate interests of all appropriate stakeholders and has to balance such a multiplicity of interests and not only the interests of the firm’s stockholders. Supporters of normative stakeholder theory have attempted to justify it through arguments taken from Kantian capitalism (Bowie, 1991; Evan and Freeman, 1988), modern theories of property and distributive justice (Donaldson and Preston, 1995), and also Libertarian theories with its notions of freedom, rights and consent (Freeman and Philips, 2002).

A generic formulation of stakeholder theory is not sufficient. In order to point out how corporations have to be governed and how managers ought to act, a normative core of ethical principles is required (Freeman, 1994). To this end, different scholars have proposed differing normative ethical theories. Free-man and Evan (1990) introduced


Stakeholder normative theory has suffered critical distortions and friendly misinterpretations, which Freeman and co-workers are trying to clarify (Phillips et al., 2003). In practice, this theory has been applied to a variety of business fields, including stakeholder management for the business and society relationship, in a number of textbooks Some of these have been republished several times (Carroll and Buchholtz, 2002; Post et al., 2002; Weiss, 2003; among others).
2.3 Empirical Review

The relationship between CSR and CFP mainly exist in the following three versions: positive correlation, no correlation and negative correlation. The first outcome of the research showed that there was a significant relationship between CSR and profitability and financial performance of the company, investing in socially responsible behaviours such as philanthropy will enhance the company’s financial performance and its profitability (Calpaldi, 2005; Van der Laan et al., 2008; Ruff et al., 2001; Anderson and Frankle, 1980).

The second results of the study showed that company’s financial performance make the company to undertake Corporate social responsibility, because the company with good financial performance had more resources to deal with social problems (McGuire et al., 1988). Other research results indicate that there is a negative correlation (Davidson and Ciciretti, 2006). Abbot and Monse, (1979) found no correlation between CSR and financial performance.

Griffin and Mahon (1997) summarized 62 research results of the relationship between CSR and CFP in 51 earlier papers. They found that there were 33 research results support the positive correlation, 20 of them support the negative correlation, and nine of them got no definite results. Roman et al. (1999) modified and developed the research results of Griffin and Mahon (1997). They deleted some papers with low validity, and added four papers latest published, finally they got 46 papers and 51 research results. A total of 63 percent of them (22 results) support the positive correlation, 10 percent of them (5 results) support the negative correlation, and 27 percent of them (14 results) failed to
reach any conclusion. Margolis and Walsh (2003) reviewed the empirical research of predecessors.

People planet profit, also known as the triple bottom line, are words that should be used and practiced in every move an organization makes. People relates to fair and beneficial business practices toward labour, the community and region where corporation conducts its business. Planet refers to sustainable environmental practices. A triple bottom line company does not produce harmful or destructive products such as weapons, toxic chemicals or batteries containing dangerous heavy metals for example. Profit is the economic value created by the organization after deducting the cost of all inputs, including the cost of the capital tied up. It therefore differs from traditional accounting definitions of profit.

A CSR program can be an aid to recruitment and retention, particularly within the competitive graduate student market. Potential recruits often ask about a firm's CSR policy during an interview, and having a comprehensive policy can give an advantage. CSR can also help improve the perception of a company among its staff, particularly when staff can become involved through payroll giving, fundraising activities or community volunteering. CSR has been found to encourage customer orientation among frontline employees.

Managing risk is a central part of many corporate strategies. Reputations that take decades to build up can be ruined in hours through incidents such as corruption scandals or environmental accidents. These can also draw unwanted attention from regulators,
courts, governments and media. Building a genuine culture of 'doing the right thing' within a corporation can offset these risks. In crowded marketplaces, companies strive for a unique selling proposition that can separate them from the competition in the minds of consumers.

CSR can play a role in building customer loyalty based on distinctive ethical values. Several major brands, such as The Co-operative Group, The Body Shop and American Apparel are built on ethical values. Business service organizations can benefit too from building a reputation for integrity and best practice. An engagement plan will assist in reaching a desired audience. A corporate social responsibility team, or individual is needed to effectively plan the goals and objectives of the organization. Determining a budget should be of high priority.

The function of corporate social responsibility planning include; to add discussion and analysis of a new set of risks into corporate decision-making, to represent issues within the corporation that watchdogs, NGOs and advocates represent within society, to assess the future, An organizations long term and short term future needs to be thought of, to help prioritize consideration of socially and environmentally friendly projects that might otherwise lack a corporate advocate, to keep corporations aware of potential major societal impacts even when a negative impact may not be immediate, and thus lessen liability and to positively influence decision making where societal impacts are maximized, whilst ensuring efforts are within a given budget.
Commit to coming up with and improving on your companies goals. CSR commitments communicate the nature and direction of the firm's social and environmental activities and, will help others understand how the organization is likely to behave in a particular situation. Do a scan of CSR commitments, hold discussions with major stakeholders, create a working group to develop the commitments, prepare a preliminary draft, consult with affected stakeholders, revise and publish the commitments and consider what is feasible within the budget.

To ensure employee buy-in, include employees in the process of developing the vision and values. To spark the process, create a CSR working group or hold a contest for the best suggestions, encouraging employees and their representatives to put some thought into their submissions. Host a visioning session and ask participants to think about what the firm could look like in the future as a CSR leader. Review the CSR priorities to determine which codes of ethics or conduct fit best with the firm's goals.

Consultants are recommended when planning for CSR activities involving small, medium and large sized corporations. All levels of management should be on board, and the support of high ranking corporate officials should be given. SR is a concept born of the premise that both for profit and not for profit organizations have various stakeholders whose different interests are affected one way or the other by an organization's goals, operations or the behaviour of its members.
An organization's managers for instance are more concerned and interested in the size and growth of the organization, its profitability, job security, social status, power and prestige. Business owners on the other hand have profitability of the organization as their primary interest. No wonder in business, the profit is simply called "the bottom line". The community in which the organization operates will be interested in employment opportunities, increased economic activity, improved development and good environmental management.

Stakeholders in an organization include employees, providers of finance, government, community and environment, consumers of the organization's products and special interest organizations or groups. CSR demands that good corporate leadership and governance should therefore strive to maintain a balance between the organizational interests and those of stakeholders in order for the organization's business to be conducted in a profitable and sustainable manner. This requirement transcends across both for profit and not for profit organizations whether public or private.

A good example of abdication of CSR is the City Council of Nairobi, a public organization that has over many years continued to gravely pollute the environment through its unsuitable Dandora Refuse Dump Site and neglect to death of the Nairobi River. Cleaning the Nairobi River and translocation of the Dandora Site will cost Kenyans billions of shillings at the expense of other highly needed development. In the meantime, Kenyans living in the vicinity of the dumpsite and the environment in the city will have suffered irreparable damage due to long standing pollution.
Even people as far away as Machakos and Kitui will be affected because they use water from the Athi River, into which the polluted Nairobi River empties. If the City Council of Nairobi had taken its CSR seriously, citizens and the environment would have been saved the pain and cost of pollution through gradual improvements of the Council's cleansing operations.

Examples of good practice of CSR in the country abound, more so with for profit corporations, pioneered by those affiliated to American, European and Japanese multinationals. Companies in Kenya have taken to CSR with gusto in the last about five years improving staff welfare and work environment, embracing transparency and accountability in their business transactions, ethically improving profitability, self regulation and implementing community development programs.

However, it is the community component that is highly visible to most people and gives companies the much sought after enviable public image. Companies have been involved in various activities in sports, environment, health, education and training, the needy in society and even national leadership and governance.

CSR therefore is not just a goodwill gesture by organizations wanting to look good to the public in order to hike their profits. It is a prerequisite for good corporate leadership and governance as well as sustained operation and profitability. CSR is in fact a corporate competitive marketing strategy that ensures high organizational and product visibility thereby branding the business as an organization that cares about its consumers, the
community it does business with and other stakeholders. That is why in many cases, an organization will prefer to sponsor a CSR activity with one of the company's products such as "Tusker Project Fame" or the "Dettol Heart Run".

Organizations require implementing partners for their CSR programs since the activities are often not within the company's core competence. Many organizations such as the Kenya Commercial Bank (KCB), Safaricom and the East African Breweries have formed foundations to help them implement their respective CSR programs. Not all organizations may have the resources to set up foundations and in any case, successful CSR programs essentially have to have community implementing partners. Communities should therefore form their own credible structures to partner with organizations in their implementation of CSR projects and programs. Such structures include non-governmental organizations (NGOs), community based organizations (CBOs), women, youth and self-help groups, special interest groups such as environmental, HIV/AIDS, town management committees and village development committees. Individuals could also form credible for profit CSR implementation organizations.

CSR activities are likely to be more effective both to the target beneficiaries and the initiating organization when carried out either as high impact projects, timed or open ended programs than when done as one off events. Some organizations just carry out one time or many uncoordinated high media profile events erroneously believing that the members of the public will remember the events, hold the organization in high esteem and increase their business transactions with the company.
Unfortunately, such events are a waste of resources because their impact is like a grass fire- quick, short-lived and quickly forgotten. They neither effectively benefit the organization nor the targeted beneficiaries. Programmatic CSR activities eventually cultivate loyal partners and a grateful clientele thereby developing a highly a organization with CSR programs. Good examples of such relationships are the Dettol Heart Run, Safaricom Marathon and the Rhino Charge where individual and corporate Kenyans as well as some foreigners book the activities in their diaries and set aside funds to participate.

International government aid to developing countries has a component of CSR. However, because of the cold war era tendency of developed country governments to use aid as a political weapon, most people in underdeveloped countries did not realize when international aid changed mainly from being a political weapon to CSR. Current international aid from developed country governments to underdeveloped countries has three main components namely CSR, humanitarian and political. That however, is a topic for another day.

They found that most scholars set CSR as independent variable but not dependent variable. While CSR was set as independent variable, 50 percent support the positive correlation, about 25 percent support the negative correlation, 20 percent support hybrid correlation, and 5 percent support no correlation. If CSR was set as dependent variable, two thirds support the positive correlation.
2.4 Conceptualization

Institutional determinants of CSR

The institutional environments take into account institutions (i.e. culture, regulation and social norms) which influence and which are influenced by actors’ interactions in a governance system. Institutions are social constructs defined as “formal rules and taken for granted cultural frameworks, cognitive schema, and routinized processes of reproduction; and assumes that actors are motivated more by a logic of appropriateness whereby action is constrained and enabled by cultural frames, schema, and routines.” (Campbell, 2006, p. 926). Different societal actors in the profit, non-profit and public sectors encounter, define and influence the institutional norms, values and regulations in the institutional environments they operate; and only when these actors accept a shared definition of ‘socially responsible behavior’ can we say that institutionalization has occurred (DiMaggio and Powell, 1983).

Institutions provide the logics of appropriateness and instrumentality for implementation and evaluation of CSR (Sethi, 1979). They promote and sustain orderly behavior that provides stability to society. Examples of institutional determinants for socially responsible corporate behavior include: public and private regulation; the presence of NGOs and other independent organizations that monitor behavior; associative behavior amongst corporations themselves; and organized dialogues amongst corporations and their stakeholders (Campbell, 2007; Matten and Moon, 2008).

These institutional determinants affect the uptake and practice of CSR, and serve to promote or temper CSR agendas. We draw on Scott’s (2001) three ‘elements’ of
institutions – regulatory, normative and cognitive – to illustrate how institutions can define the nature and the extent of socially responsible corporate behaviors.

There are three propositions suggesting that these institutional determinants could influence the focus and form of CSR practice in Kenya.

**Regulative systems**

Regulative elements include rules, sanctions and regulations which tend to codify socially accepted corporate behavior. The state establishes hard regulations which act as a coercive mechanism for CSR uptake whilst industries establish ‘soft’ regulation to which their members voluntarily adhere (Campbell, 2007; Marquis et al., 2007). The capacity of the government and industry associations to monitor behaviors and enforce regulations where they exist is of crucial importance as these institutions do not always enforce regulations effectively (Matten and Moon, 2008).

**Normative elements**

Normative elements are the values and social norms that define the ‘rules of the game’ – i.e. ‘‘what is right to do around here’’ (Marquis et al., 2007, p. 934). The normative frameworks set the standards for, and encourage conformity to, that which is deemed to be acceptable corporate behavior (Campbell, 2006). Corporations become socialized into role-expectations (e.g. acting as ‘good corporate citizens’) to which they must conform in order to remain socially relevant (Brammer and Millington, 2004). Normative values are set by a variety of social actors including the media, institutional investors, NGOs, educational and professional associations and social movement organizations.
Cognitive elements

Cognitive elements include cultural principles, philosophy and identity. Cognitive backgrounds encompass common or shared beliefs about what institutes responsible corporate behavior. Managers interpret these cognitive schemas and create common definitions of socially responsible behavior (Galaskiewicz, 1997). Corporations that adapt to established cognitive frameworks reveal behaviors that are culturally acceptable in the institutional environments in which they operate (Kostova and Zaheer, 1999).
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines how the researcher collected the data, methods used to collect the data, the target population, research design and how the data was analyzed.

3.2 The Research Design

A research design is a master plan specifying the methods and procedures for collecting and analysing the needed information (William, 2002).

This is a plan of procedures used by researcher to collect data. The study used descriptive design because it allowed for comprehensive and extensive data collection of the information required to achieve the objectives of the study. Regression analysis was also be used to establish relationship between CSR activities and financial performance.

3.3 Population and Sampling

The term population refers to the universe of units from which the researcher wishes to draw his sample. The study will focus on the key managers of Oil Marketers in Nairobi city. Nairobi city was chosen since it is the commercial nerve center of Kenya. According to information gathered from Energy Regulatory Authority as at 13th December 2012, there are about 30 licensed Oil Marketers in Kenya. Population encompasses all companies within Nairobi city center. The sample population composes of all the 30 companies situated in Nairobi city. However, for purposes of regression analysis 10
randomly selected companies are used to establish relationship between CSR and financial performance. The financial performance of these companies in terms of profitability over a period of 10 years, i.e. 2003-2012 was collected and compared with amount spent on CSR for the respective years to determine the relationship.

3.4 Data Collection

The data was basically primary data collected through the audited financial statements of the oil marketing firms. This was clear from the Income statement that shows the Profit Before Tax as well as under the Chairman’s report on Corporate Social Responsibility.

3.5 Data Analysis and presentations

Data analysis is the process of looking at, analyzing and summarizing data with the intent to extract useful information and develop reliable conclusions (Bryman & Bell, 2002).

This chapter gives an analysis, interpretation and discussion of all the data collected from the field. The data collected was coded and analyzed by use of SPSS (Statistical Package for Social Studies). The findings will be represented in chapter 4 in form of tables, and percentages.

Regression analysis was used and a panel data for the Oil Marketers sampled for years 2003-2012. The financial data used was profits before tax for randomly selected Marketers.
CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

According to information gathered from Energy Regulatory Commission, there are about 30 government approved and duly registered Oil marketing firms operating Nairobi. The data retrieved for the study were gathered by obtaining the audited Financial statements of the Oil Marketing Firms . Data from the survey were statistically analyzed using regression analysis.

4.2 Financial Performance

Regression Analysis

Regression analysis were used on a panel data for the 10 Oil marketing firms for years 2003-2012. The financial data used are profits before tax for 10 randomly selected Oil Marketers. For the measurement of CSR, amounts spent on CSR activities over ten years were used. Table 1 presents the results of regression analysis using financial performance (profit before tax) as the dependent variable and amounts spent on CSR as independent variable.

In order to establish the relationship between independent and dependent variables, a simple regression was conducted. The analysis applied the statistical package for social sciences (SPSS) to compute the measurements of the multiple regressions for the study. The findings were as shown in the table 4.1 below.
Table 4.1: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.991*</td>
<td>.983</td>
<td>.974</td>
<td>29311.94531</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Corporate Social Responsibility (Million Kenya shillings)

Author: Research data (2013)

In order to explain the percentage of variation in the dependent variable (Profit before Tax) that is explained by the independent variable, the researcher used coefficient of determination obtained from the model summary in table 4.1. Coefficient of determination explains the extent to which changes in the dependent variable (Profit before Tax) can be explained by the change in the independent variable or the percentage of variation in the dependent variable that is explained by the variable (Corporate Social responsibility). From the analysis, the independent variable (CSR) in this study contributed to 98.3% of the variation in Profit before Tax as explained by adjusted $R^2$ of 0.983.

The study conducted an Analysis of Variance, in order to test the significance of the model. The findings were as shown below:

Table 4.2: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>1</td>
<td>9.675E10</td>
<td>112.612</td>
<td>.000*</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>2</td>
<td>8.592E8</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>4</td>
<td>2.954E11</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Corporate Social responsibility
b. Dependent Variable: Profit Before Tax (Million Kenya Shillings)

Author: Research data (2013)
From the ANOVAs results, the probability value of 0.000 was obtained implying that the regression model was significant in predicting the relationship between profit before tax and the predictor variables as it was less than $\alpha=0.05$. By use of the $F$-table, the $F_{(5\%, 1, 2)}$ tabulated was 4.7571 which was less than $F= 112.612$ as well indicated that the model was significant.

**Table 4.3: Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>0.839</td>
<td>1.063</td>
<td>8.710</td>
</tr>
<tr>
<td></td>
<td>CSR</td>
<td>1.283</td>
<td>.395</td>
<td>.702</td>
</tr>
</tbody>
</table>

a. Dependent Variable: PBT(Million Kenya Shillings)

Author: Research data (2013)

The researcher conducted a regression analysis so as to determine the relationship between annual profits (dependent variable) and the annual cost allocated towards CSR (independent variable) by the oil marketers. The following regression equation was obtained:

$$Y = 0.839 + 1.283X + \epsilon$$

From the regression model obtained above, holding all the other factors constant, profit before tax measures would be 0.839. A unit change in corporate social responsibility holding the other factors constant will lead to change in profit before tax by 1.283. These imply that corporate social responsibility has a significant influence on profit before tax in respect to the current performance of Oil marketers and the level of CSR.

The obtained regression equation further implied that there was a direct relationship between CSR and profit before tax of oil Companies.

The analysis was undertaken at 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing the corresponding
probability value obtained and $\alpha=0.05$. If the probability value was less than $\alpha$, then the predictor variable was significant otherwise it wasn’t. Corporate social responsibility was significant in the model as its corresponding predictor variables was 0.017.

Further the study carried out the hypothesis testing between CSR variable and financial performance. A Pearson coefficient measure showed a strong, significant, positive relationship between CSR and financial performance of Oil companies in Kenya. Therefore basing on these findings the study rejected the null hypothesis that there is no relationship between CSR and financial performance of companies and accepted the alternative hypothesis that there exists a relationship between Corporate Social Responsibility and financial performance of Oil companies in Kenya.
CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter aims at answering the research questions, comparing the findings with the previous studies and making conclusions based on the research. This section also includes areas for further research based on questions left unanswered and new issues which are important for others to address.

5.2 Linkage between CSR and Financial Performance
CSR activities are correlated to profitability of Oil marketing firms in Kenya. This is revealed by the amounts spent by the firms towards the Corporate Social Responsibility activities.

The results of regression analysis showed that there is a significant positive relationship between CSR and financial performance of the Oil marketing firms of Kenya as shown by P value of 0%, adjusted R Squared (R-Sq(adj)) figure and the positive coefficients in the Table 1.

Previous research indicates that undertaking CSR will improve the company’s profitability and financial performance (Van der Laan et al., 2008; Ruff et al., 2001). Wu (2006) applied multiple regressions to analyze data of 197 samples, and the result showed that there was a significant correlation between CSR and companies’ financial performance.
5.3 Conclusions

There is far-reaching debate as to the legitimacy and value of being a socially responsible business. There are diverse views of the role of a firm in society and disagreement as to whether wealth maximization should be the sole goal of a corporation. Most people recognize certain benefits for a business being socially responsible, but most of these benefits are still hard to quantify and measure. This study attempts to address the question whether corporate social performance is linked to financial performance. The study used extensive data covering a ten year period, 2003-2012. Results indicate that the sign of the relationship is positive, which supports those studies that found positive relationships in the past (Waddock and Graves, 1997; McGuire, et al., 1988, 1990; Auperle, et al., 1985).

There are arguments which propose that financial performance depends on good or socially responsible performance. According to Waddock and Graves (1997), meeting stakeholder expectations before they become problematic indicates a proactive attention to issues that otherwise might cause problems or litigation in the future.

In addition, socially responsible companies have an enhanced brand image and a positive reputation among consumers; they also have the ability to attract more proficient employees and business partners. Socially responsible companies also have less risk of negative rare events. Companies that adopt the CSR principles are more transparent and have less risk of bribery and corruption.

5.4 Recommendation

The following are recommendation to the organizations, management and the researchers who intend to improve on the same area of study.
5.4.1 To organizations

Corporate social responsibility is recommended for all organizations whether profit or non-profit organization. From this research conducted there are several benefits to a company engaging in social responsibility. An organization is able to improve the image of the firm, improve share prices if quoted in stock exchange and it is profitable in the long run. Also it is ethical to be socially responsible and it aims at improving the community at large. Also the market share is improved and also customer satisfaction can be met. The organizations to be in the heart of consumers they have to identify what fully satisfy them and get ways to retain the existing customers and also attract the potential customers.

5.4.2 Management

As for the top management since they make all the decisions and decide on what is done in most organizations, social responsibility should be of importance like any other marketing mix in consideration. There should be special consideration to how to participate in social responsibility profit maximization is the objective of any organization but having social responsibility is also important towards the general performance of the firm.

5.5 Future Research

Further research is needed to explore what levels of investment in CSR are beneficial. These studies could provide information for management on apportioning scarce resources to competing stakeholders’ demands and on evaluating cost in CSR investments. It is also important to suggest the timing in the relationship, since it would be valuable to investigate and to discover how long it takes for the impact of CSR on financial performance to be revealed.
REFERENCES


Bowen R: (1953), Orientation towards societal values and expectations P. g. 7


Moussavi E, (1986)Corporate Social Responsibility, Corporate Restructuring P. g. 275-276


Preston (1995) Corporate Governance and Business Ethics


APPENDICES

APPENDIX 1: LETTER OF INTRODUCTION

ANDREW NJEHIA

UNIVERSITY OF NAIROBI

P.O BOX 61872 – 00200

NAIROBI, KENYA.

To whom it may concern,

RE: RESEARCH STUDY

I am a student at the University of Nairobi, currently Pursuing my Master in Business Administration. I am conducting a research study on the “Relationship between financial performance and Corporate Social Responsibility for Oil Marketers in Nairobi, Kenya.

I kindly request for your audited financial report for the years 2003 to 2012. All information provided will be used purely for academic purposes and will be treated with strict confidentiality. The findings of the study will be availed to you upon request.

Yours Faithfully,

Andrew Njehia
### APPENDIX 2: RAW DATA PROFITS BEFORE TAX FOR THE OIL MARKETERS

<table>
<thead>
<tr>
<th>Name</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<td>486,042,000.00</td>
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<td>142,488,527.72</td>
<td>235,721,414.91</td>
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<td>322,275,118.48</td>
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<td>230,351,658.77</td>
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<td>135,769,230.77</td>
<td>61,937,358.91</td>
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<td>Vivo Energy/Shell</td>
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<td>701,305,000.00</td>
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<td>781,935,000.00</td>
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<td>733,699,000.00</td>
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<td>103,378,571.43</td>
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<td>91,078,571.43</td>
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<td>69,434,571.43</td>
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## APPENDIX 3: AMOUNTS SPENT ON CSR BY THE OIL MARKETERS

<table>
<thead>
<tr>
<th>Name</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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</thead>
<tbody>
<tr>
<td>Gulf Energy Limited</td>
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<td>2,325,172.17</td>
<td>2,707,110.15</td>
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<tr>
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<td>2,588,235.29</td>
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<td>Gapco Kenya Ltd</td>
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<td>1,497,263.48</td>
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<td>2,891,562.54</td>
<td>2,578,266.26</td>
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<tr>
<td>Kenol Kobil</td>
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<td>15,632,000.00</td>
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<td>14,300,000.00</td>
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<tr>
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<td>4,131,055.89</td>
<td>18,757,566.22</td>
<td>16,725,213.25</td>
<td>20,150,260.00</td>
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<tr>
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