EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF INSURANCE FIRMS IN KENYA

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16/05110

A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS OF THE AWARD OF MASTER OF SCIENCE IN COMMERCE (FINANCE AND ECONOMICS) DEGREE IN THE SCHOOL OF BUSINESS AND PUBLIC MANAGEMENT AT KCA UNIVERSITY.

NOVEMBER, 2018

DECLARATION

This research dissertation is my original work and has not been presented for award of degree or any other award in any other institution of higher learning.

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EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF INSURANCE FIRMS IN KENYA

ABSTRACT

The study sought to investigate the effects of CSR on the financial performance of insurance firms in Kenya. The study considered the three forms of CSR – Environmental CSR (ECSR), Philanthropic CSR and Community Development CSR as the independent variables and financial performance as the dependent variable. The study employed a descriptive research design to test for the effects of CSR on financial performance of insurance firms in Kenya measured by ROA. Investment in CSR was measured using monetary expenditure on CSR initiatives. Secondary data was obtained from audited financial statements, websites, publications and annual reports for the years 2008 to 2017. The objectives of the study were; to examine the effect of environmental CSR on the financial performance of insurance firms in Kenya, to establish the effects of philanthropic CSR on the financial performance of insurance firms in Kenya and to determine the effects of community development CSR on the financial performance of insurance firms in Kenya. Exploratory analysis, descriptive analysis and regression analysis using STATA version 12 was used to test the research hypotheses at 5% level of significance. Results were presented using tables and graphs. The Pooled OLS regression results revealed that environmental CSR had a statistically insignificant negative effect on the financial performance of insurance firms as measured by return on assets. The results indicated that philanthropic CSR had a statistically insignificant negative effect on the financial performance of insurance firms as measured by return on assets. The results showed that community development CSR had a statistically insignificant positive effect on the financial performance of insurance firms as measured by return on assets. The study findings revealed that CSR had mixed statistically insignificant effects on financial performance of insurance firms in Kenya. Therefore, the study concluded that CSR has no effects on the financial performance of insurance firms in Kenya. The researcher recommended that scholars and practitioners in Kenya and elsewhere in the developing world should rethink the concept of CSR to make it relevant, practicable and applicable to the prevailing contexts; insurance firms in Kenya should develop clear comprehensive company policies and implementation frameworks to guide their CSR operations and reporting on the same. The researcher also recommended that there is need for the Government develop comprehensive legal, regulatory and policy framework to guide CSR activities in the country so that the CSR movement can be focused on the country's development agenda in their CSR initiatives.

Key words: Corporate Social Responsibility, Financial performance, Insurance firms, Environmental CSR, Philanthropic CSR, Community development CSR.

ACKNOWLEDGEMENTS

The writing of this dissertation is the culmination of concerted efforts of many people. Of note are my lecturers in the School of Business and Public management of KCA University. In a special way, i appreciate the tireless effort through guidance, counsel and corrections of my research supervisor Dr. Michael Njogo. To all of you I say, thank you very much and I pray for God's blessings upon you. And to Almighty God, I give all the Glory.

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DEDICATION

To Juliana my mother, my friend John and my children Brian and Albertina whose encouragement in life has brought me this far.

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ACRONYMS AND ABBREVIATIONS

AKI – Association of Kenya Insurers

COI – Commissioner of Insurance

CSR – Corporate Social Responsibility

FE - Fixed effects

IRA – Insurance Regulatory Authority

MNCs – Multi-National Corporations

NFP – Non-Financial Performance

NGOs- Non-Governmental Organizations

NSE – Nairobi Securities Exchange

POLS – Pooled ordinary least square

RE - Random Effects

ROA- Return on Asset

ROE – Return on Equity

OPERATIONAL DEFINITION OF TERMS

Financial performance – It is the measure of how well a firm can use assets from its primary mode of business and generate revenue. (Malik & Nadeem, 2014)

Corporate Social Responsibility –This is the continuous commitment by a business on its own volition to go beyond meeting the expected economic, legal and ethical standards and contribute to the environmental, social and economic development of the immediate community and the society at large. (Kamatra & Kartikaningdyah, 2015)

Insurance firms – They are companies licenced as insurers to carry out the business of insurance in Kenya. (Macharia, 2009)

Environmental CSR –It is companies' integration of environmental concerns in their business operations and their interactions with stakeholders without compromising economic performance. (Rashid, Rahman & Khalid, 2014)

Philanthropic CSR – This is the voluntary giving by a company for public purpose with the intention of meeting a public need which CSR initiatives contribute to meeting a charitable need or alleviating suffering of members in the society but will not improve the economic state of the beneficiaries. Includes such Company initiatives such as donations in cash or resources to disaster victims, employee volunteerism, education scholarships. (Van Til, 1990)

Community development CSR – These are the company CSR initiatives aimed at improving the socio-economic conditions of the beneficiaries in areas of education, health, and income generation, public–private partnerships, community relationships, and participation in social and economic development issues. (Zhang, 2014)

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Corporates should look beyond profitability in their quest for success. In order to survive in the competitive global marketplace, most corporates have adopted CSR as part of their strategy. (Kimberly, 2018). Danigelis (2018) warns that Corporate Social Responsibility (CSR) is gaining importance in America and that leaders who fail to adopt CSR risk getting left behind. Corporate Social Responsibility has many definitions as there are researchers. It is the undertaking of activities beyond the legal dictates of those countries in which the corporates carry on their business and which activities are primarily for the benefit of the society rather than the business (Mc Williams & Siegal, 2001). Dahlsrud (2008) defines corporate social responsibility as the management of environmental and societal impacts by all types of organisations by surpassing the legal obligations of their operations. Corporate social responsibility (CSR) is therefore all those activities undertaken by corporations in cognizance of responsibility to the society and the environment, in which they operate (Kamatra & Kartikaningdyah, 2015).

Corporate Social Responsibility is the voluntary dedication to contribution of business resources t to improve the community (Kotler & Lee, 2011). Stromberg (2016) defines CSR as companies' voluntary community responsibility and groups it into three categories: economic, environmental and social responsibility. Thus Corporate Social Responsibility in this study is considered as a continuous commitment by a business on its own volition to go beyond meeting the expected economic, legal and ethical standards and contribute to the environmental, social and economic development of the immediate community and the

society at large. In the context of this study, CSR is expected to include environmental, philanthropic as well as community development CSR initiatives.

According to Kamatra & Kartikaningdyah (2015), the corporate ought to have a balanced relationship with external stakeholders so as to undertake corporate social responsibility. Moura-leite and Padgett (2011) as cited in Zhang (2014) asserts that Bowen Howard was one of the earliest thinkers in CSR. From an institutional viewpoint, Bowen argued that companies are have a duty to provide extensive benefits to society as regards economic development, living conditions and social order. He advises that companies should focus on value and demand of society in their operational policies so as to contribute to society. The CSR concept has evolved over time in meaning and practice depending on authors and practitioners globally. While a lot of social issues exist, Zhang (2014) advises that companies should identify only those social issues that are in alignment with the company's growth strategy and based on the company's resources at disposal, design a mutually beneficial model of action as the company's CSR program or project.

Some of the corporate social responsibility activities undertaken by Kenyan insurance firms include; Britam Insurance Company sponsors Tennis Kenya as well as organises awards for its employees as part of its CSR. Kenya Re insurance company supports hospitals, environmental conservation, sports sponsorship as well as persons with disabilities. UAP Insurance Company supports environmental conservation through the Ndakaini Half Marathon, sponsors rugby, student mentorship and road safety as part of its CSR. Jubilee Insurance Company supports the practice of clean and sustainable business for private companies through their Blue Company certification initiative and donates to hospitals. CIC Insurance company supports CSR projects through its CIC foundation that funds ecology, youth empowerment, church and school projects.

From the afore outlined examples, Kenyan insurance firms CSR activities can be broadly grouped into three main categories for the purpose of this study: Environmental CSR which entails activities such as, energy conservation, afforestation, environmental clean-up exercises and conservation of water sources and water towers; Philanthropic CSR which entails contributions in cash and kind to needy individuals through such activities as fundraising and contributions in cash and kind in cases of disasters, education scholarships, bursary and mentorship for needy students and lastly, Community development CSR initiatives that are targeted to benefit many people in the society such as road safety programmes, sports sponsorship, school projects as well as church projects. Youth training and business entrepreneurship mentorship for women, youth and persons with disabilities, community economic empowerment programmes as well as infrastructural development and supply of machinery and equipment also fall under this category. (Insurance companies' websites, 2018)

1.1.1 Financial Performance of Insurance Firms

Financial performance is the measurement and analysis of how well the financial objectives of the firms have been accomplished (Malik & Nadeem, 2014). Financial performance refers to the measure of how prudent a firm uses its assets to generate revenue. Mishra and Suar (2010) examined whether corporate social responsibility (CSR) towards primary stakeholders influences the financial and the non-financial performance (NFP) of Indian firms. Using a questionnaire developed for assessing CSR with respect to six stakeholder groups – employees, customers, investors, community, natural environment, and suppliers. A composite measure of CSR was obtained by aggregating the six dimensions. Findings suggest that responsible business practices towards primary stakeholders can be profitable and beneficial to Indian firms. Insurance firms are expected to gain entry into new but volatile markets, stay competitive, maintain their customers apart from increased profits,

and maintain a better brand image in the eyes of their customers, better understanding of customers' wants and how to turn those wants into needs. Insurance firms' financial performance depends directly with how they engage in corporate social responsibilities at their area of operations.

Katamba, Tushabomwe, Babiiha, Nkiko, Nabatazi and Kekaramu (2012) state that CSR creates an environment for growth of profits of a company. Marcela of the West Bohemia University, Czech Republic, identifies attraction by investors, good reputation and strong market position, decreasing expenses on risk management, distinguishing from rivals and attraction for quality and talented potential employees. Siegel and Vitaliano (2007) in their works on the role of CSR in the mining industry cited that the nature of competition within the retail environment has shifted and this has made it hard for organizations to distinguish themselves from others. According to them, about 82% of consumers seek out and evaluate organizations on the basis of their ethical attributes instead of the traditional consideration of their location or the product prices. A survey by Jenny Dawkins for MORI (2003) reveals that 70% of consumers were willing to pay a premium for ethically superior product which results to profit maximization. Profit-making motives arise from managerial beliefs that social initiatives engagement by corporates can directly impact on profitability.

McWilliams and Siegel (2001) state that CSR reduces social and environment costs thus increasing corporate profit. Customers are motivated to buy the product of a business that has good CSR (Meijer & Schuyt, 2005). Mohr and Webb (2005) support this view by claiming that a high level of CSR results in customers' willingness to buy at premium products with specific ethical features. CSR is also attributed to customer loyalty which in the long run increases interests for the organization. Both Heskett (1994) and Hallowell (2000) as cited in Nazeer, Zahid and Azim (2014) state that profitability is driven by customer loyalty since it reduces a company's marketing costs. Akindele (2011) examined the extent to which

corporate social responsibilities practices by retail banking industries help achieve sustainable growth and development in the local communities. The results revealed that there is a significant relationship between bank profitability and CSR practices.

Similarly, Olayinka and Temitope (2011) examined the relationship between corporate social responsibility and financial performance in Developing Economies. The findings revealed that CSR has a positive and significant relationship with the financial performance. Amole and Muyideen (2012) tested the relationship between CSR and firms' financial performance using ordinary least square (OLS) model of regression. The findings revealed a positive relationship between banks CSR activities and profitability. Murage (2016) carried out a study on the effect of CSR on the profitability of insurance companies in Kenya. The study had CSR costs as the independent variable, interest rate, firm size and leverage as control variables and profitability measured in ROA as the independent variable. Using descriptive research design and secondary data for the years 2011 to 2015 and multivariate regression analysis using SPSS, the study results revealed a fairly significant relationship between CSR and profitability.

Financial performance of firms is measured using financial ratios. Kabajeh, Nu'aimat and Dahmash (2012), define a financial ratio as a relationship between two individual quantitative financial information which are connected with each other in some logical manner, and which connection, is considered as a meaningful financial indicator by the different users of financial information. They assert that financial ratios are the oldest simple and practical financial and planning analysis tool that have always been used by accountants and financial analysts as well as internal and external financial data users for their decision making such as investing and performance evaluation. There are different types of financial ratios which can be grouped into five categories: liquidity ratios, solvency ratios, profitability

ratios, financial efficiency ratios and market ratios. Profitability is a measure of the ability of a business to generate profit (income) from use of its assets.

According to Kabajeh, Nu'aimat and Dahmash (2012), the return on assets (ROA) and the return on owner's equity (ROE) are the most commonly used profitability ratios in financial analysis. The researchers define Return on assets (ROA) ratio: Net profit after taxes/Total assets. They state that ROA ratio is calculated as net profit after tax divided by the total assets. The ratio is a measure of the operating efficiency for the company based on the profits generated by the firm from its total assets. According to Mirae Asset Knowledge Academy, return on Assets (ROA) is an indicator of how profitable a company is considering its total assets. ROAs over 5% are generally considered good. This study will adopt Kabajeh, Nu'aimat and Dahmash (2012) definition of ROA as the research is about insurance firms as their study was. Besides, it is convenient for the researcher to get the financial information from IRA website to calculate the ROA financial ratio.

1.1.2 Insurance Firms in Kenya

According to Kenyatta (1962) as cited in Macharia (2009), insurance as a concept has been practiced in Africa for a long time. Rand (2004) citing Kenyatta (1962) states that 'social insurance programmes' existed where community members pooled their resources to create a sort of 'social insurance fund' from which drawings to support the few unfortunate members who suffered perils. would be made. Azevedo (1993) as cited in Rand (2004) states that the "premiums" were material, moral support or other payments in kind. Throup (1988) as cited by Rand (2004), the development of commercial insurance in Kenya is linked to the occupation of Kenya during the scramble for Africa by colonialists. Huxley, (1990) as cited in Rand (2004) contends that the need for insurance in Kenya arose from the business activities of colonial agriculturists and extractive industrialists to which British insurers responded by setting up agency insurance offices in the colony.

With increased prosperity in the colony, the insurance agencies transformed into fully fledged insurance branch network in the country to handle the increased insurance business needs. (Rand, 2004). With the completion of the Kenya –Uganda railway, the Indian railway workers set up businesses in the country and with time, Indian insurers established branches in Kenya. According to Maxon (1993) as cited by Rand (2004), at independence most branches bad become insurance companies, dominated by European and Indian companies. After independence, the Government of Kenya needed to control the insurance industry, which had operated under Companies Act of 1960, based on United Kingdom legislation. In 1978, the finance Minister directed that all foreign insurance branches should incorporated locally (Macharia, 2009).

In 1986, the Insurance Act was enacted, the Office of the Commissioner of Insurance was established as the regulator of the insurance industry. The act specified the mandate and functions of the office, as a department in the Ministry of Finance mandated to supervise the insurance industry. The department was delinked from the Ministry to give it some autonomy and to enhance its supervisory capacity the insurance industry regulator. In 2006, the Insurance Act was amended creating the Insurance Regulatory Authority (IRA) with the Commissioner of Insurance as the Managing Director and the Chief Executive Officer to regulate, supervise and develop the insurance industry in Kenya. IRA thus replaced the functions of the Commissioner of Insurance. (Macharia, 2009). The insurance industry has grown since independence and at the end of 2016, there were 55 insurance companies registered by IRA in Kenya; three dealing with re-insurance business while the others handle life or general insurance or a composite of both. According to the IRA, the insurance industry has grown in the last decade.in terms of gross premium income, general insurance business, industry asset base and income - generating investments. With its growth, the insurance industry in Kenya faces several challenges that hamper the uptake of insurance products in

the economy. Kwach (2018) identified existing cultural setups, increased insurance fraud, lack of trained personnel, failure to pay genuine claims, overpricing of insurance products by brokers and middle men, poor marketing strategy and lack of market research as the major challenges facing the insurance industry in Kenya. He called for Government involvement in order to alleviate the issues and spur the growth of the sector.

According to Brainard (2008), insurance serves important economic functions that are separate from those of other types of financial businesses. Insurers undertake indemnification and pooling of risks which mitigates losses, measure and manage non-diversifiable risk thus facilitating commercial transactions and the provision of credit. Insurance has income smoothing effects which help avoid excessive and costly bankruptcies which ensures business continuity and facilitates lending to business. Availability of insurance promotes risk taking by risk-averse entrepreneurs into higher risk-higher return activities thus promoting higher productivity and growth in the economy. Insurers provide expertise in identifying and measuring of risks thus enabling them to do proper risk pricing than non-specialists. In their collection and analysis of information on risk exposures to precisely measure the cost of risk for their growth, insurers generate market price signals for the whole economy. This helps in optimal allocation of resources to the most productive uses. Insurers control losses through the conditions in their contracts and other means which is a great social benefit as lives are saved and injuries reduced (Brainard, 2008)

Khan (1996) in his article on the importance of insurance Pakistan economy outlines three basic roles of insurance as risk transfer, provision of information and capital market involvement. According to him, risk transfer promotes investment and domestic production and trade by reducing the investment risk faced by companies and the state. Information provided by insurers helps companies in optimal allocation of resources. As institutional investors in the capital markets, insurers enable the stabilization of the individuals, companies

and the state financials. Insurers also contribute to the development of capital markets. This results to better risk pricing, efficient allocation of capital and greater mix of economic activities and superior productivity in the economy. (Brainard, 2008)

Just like the insurance industry globally, insurance firms in Kenya play the same roles in our country. They pool risk and indemnify thus mitigating losses by facilitating commercial transaction, provision of credit and ensure business continuity after perils. For instance, banks and other business have continued operations after grand robberies and loss of hefty sums of money as well as factory fires due to availability of insurance in the country. Insurance underwriters have contributed to successful initial public offers in the Nairobi Securities Exchange (NSE). Insurance firms are major institutional investors in the NSE, contributing to its stability and proper management to some extent. From their financial returns, insurance firms are investors in real estate and in infrastructural projects which helps spur economic development in the country. According to IRA (2017), the insurance industry makes a great contribution to the economy by enhancing mobilization savings and investments in the different financial markets.

1.2 Statement of the Problem

According to both academics and practitioners, CSR has become the new imperative for businesses in the current competitive global market place (Maracine, 2018; Danigelis, 2018). Whereas the main goal of the firm is to maximize shareholders' wealth, proponents of corporations should focus on much more than economic motives. Khamah (2014) as cited in Gichohi (2016) asserts that pressure mounted on corporations by stakeholders to fulfil different societal roles has resulted to firms engaging in CSR. Okiro, Kinyua and Omollo (2014) as cited in Gichohi (2016) state that managers have accepted CSR expenses as they do for operational expenses. Finances is a major concern for businesses as it determines their ability to invest in long term projects and research and development which increase profit.

Considering that CSR expenses reduce the profits of the firm, questions arise on whether firms engaging in CSR have better performance and what level of effort and resources should be allocated to CSR.

Research on CSR and firm performance has attracted immeasurable interest among researchers (Mishra & Suar, 2010). Available empirical studies have divergent findings about the effect of Corporate Social Responsibility on financial performance. Though a positive relationship between CSR and firm performance has been reported in many studies, results still remain inconclusive. The inconclusiveness creates good ground for further investigation, which gap this study intends to fill. Some studies (Mungai, 2015; Kipruto ,2014; Nyamute, 2014; Ngatia,2014)) have been done on the effect of CSR on Financial performance in Kenya. Even fewer are studies on the effect of CSR on the financial performance of insurance companies in Kenya. This study was intended to add to the few studies on CSR done in Kenya, by establishing whether expenditure in CSR is a gift or an investment for insurance firms in Kenya.

1.3 Research objectives

1.3.1 General objective

The general objective of this study is to investigate the effects of corporate social responsibility (CSR) activities on the financial performance of insurance firms in Kenya.

1.3.2 Specific objectives

The study will be guided by the following specific objectives:

i. To examine the effect of environmental CSR on the financial performance of insurance firms in Kenya;

ii. To establish the effect of philanthropic CSR on the financial performance of insurance firms in Kenya and;

iii. To determine the effect of community development CSR on the financial performance of insurance firms in Kenya.

1.4. Research hypotheses

Ho_1: Environmental CSR has no significant effect on the financial performance of insurance firms in Kenya?

Ho_2: Philanthropic CSR has no significant effect on the financial performance of insurance firms in Kenya?

Ho_3: Community development CSR has no significant effect on the financial performance of insurance firms in Kenya.

1.5 Significance of the study

The findings of the study will provide a new body of knowledge; a simple framework for conceptualization and measurement of the CSR construct, that will provide a reference point for future researchers in the area of corporate social responsibility. Educationists in the area of finance, corporate management and insurance will find a valuable teaching resource from the findings of the study. The study findings will guide managers of insurance firms and by extension in other sectors of the economy in deciding which corporate social responsibility activities their firms should engage in so as to improve their returns. The findings of the study will guide the Government of Kenya and its policy makers as well as others in the developing world in drafting legal, regulatory and policy framework to guide the practice of Corporate Social Responsibility in their jurisdictions.

1.6 Scope of the study

The study targeted all insurance firms in that are licensed by the Insurance Regulatory Authority (IRA) and which are required by law to file returns to the Commissioner of

Insurance (COI). The study focused on the insurance firms that had been in existence for at least ten years which must have filed their returns for ten years up to the year 2017 with IRA. This was important so as to enable the researcher to conveniently obtain data on their financial performance and their investment in corporate social responsibility activities.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter contains a review of literature regarding Corporate Social Responsibility practices in insurance firms. In this chapter, the researcher highlight various theories related to corporate social responsibility and empirical studies on how CSR is related with financial performance of an organization. The chapter also includes the conceptual framework and the summary of literature review.

2.2 Theoretical Review

2.2.1 The Shareholder Primacy Theory

According to Rock (2013) the origin of the shareholder primacy theory can be attributed to the Nobel laureate Friedman, who in 1970 stated that the only social responsibility a business has is to make profits for its shareholders while adhering to law. The traditional shareholder primacy theory asserts that a corporation is primarily responsible to its shareholders to maximize wealth, and social issues should not interfere in a corporation's business operations. Proponents of the theory such as neoclassical economists and agency theorists assert that the function of business is to contribute to economy and society and that, social functions should be left to other organizations. They contend that profit maximization is the most effective resource allocation mechanism in a free market economy.

Proponents of the theory argue that the corporations' owners are the shareholders and that managers and the stakeholders have a duty to serve the shareholders' interests as a priority rather their own. To the proponents, profit maximization is the only and most valuable corporate responsibility and corporate social obligations are strategies for enhancing corporate competitiveness for greater profit gain (Rock 2013). In the modern business setting

however, proactive approach to CSR underpins a company's core objective of profit maximization in order to manage and mitigate many risk factors. Risk management through community engagement and the implementation of socially responsible strategies lead to business success and stakeholder confidence.

According to Kotler & Lee (2011), businesses have released a lot of innovation and inventions in the west in in the last two millennia. While such developments the industrial revolution, the rise of consumerism, and the dawn of the global marketplace have improved the life of humanity, they have brought about economic inequalities among people, within and across countries and consequences as environmental degradation, increase of less privileged groups, and the unequal economic opportunities. These have resulted to global warming, global financial crises, and global terrorism causing instability in the world socio-economic and political order. There is need for corporations to act to better the world by focusing on the good of the wider community. (Visser et al, 2010).

The theory is relevant in this study since it implies that if the expectations of the shareholder are not met in terms of profitable returns, the business may not have the capacity to engage in CSR. Thus businesses should be of primary concern be guided by business sense for them to engage in CSR sustainably – which theory in essence promotes CSR. By acknowledging that CSR obligations can be used as strategies for increasing corporate competitiveness and profitability and better investment returns to the shareholders, the theory provides an appropriate theoretical basis for this study. Bird, Hall, Momentè, and Reggliani (2007) assert that there should be no conflict between shareholders and stakeholders as long as CSR investment leads to neutral or positive effects on financial performance.

2.2.2 The triple bottom line theory

Another theoretical approach to CSR is the three aspects of sustainability known as the triple bottom line theory. According to Zak (2015) as cited in Yang (2017), the triple

bottom line (TBL) theory was proposed by John Elkington in an article in California Management Review in 1997. The term Triple Bottom Line, basically tries to combine the three spheres of sustainability: the economic, the social and the environmental (Elkington, 1997; Edvardsson, Enquist and Hay, 2005). The triple bottom line is based on the assumption that companies do not only have profitability as their only objective but that they also have other objectives such as adding environmental and social value to society (Crane & Matten, 2004). Thus, Triple Bottom Line is also known as People, Planet and Profit, or the three P's (Marrewijk, 2003).

The theory states that companies should prepare three different bottom lines; the measure of corporate profit, the measure of how socially responsible the company has been throughout its operations and measure of how environmentally responsible the company has been. TBL theory is relevant to this study since it encourages businesses to take a broader approach to business for long term Sustainability. Companies must pursue objectives that are not only economically justified, but also ecologically acceptable and socially expected. The concept of sustainability originated from the environmental perspective. From an environmental perspective, sustainability is management and conservation of physical resources for the future. Economic sustainability is concerned with the economic performance of the organization and its impact on the general economic framework. (Elkington, 1997)

The Triple Bottom Line's despite its popularity has critics such as Norman and MacDonald (2004) who refer to Triple Bottom Line as veil which blocks companies from effective CSR, terming the model as an outdated vague commitment to social and environmental concerns. Hammer and Divo (2006) in a study on The Triple Bottom Line and sustainable economically Development - Theory and Practice found out that a gap exists between theory and practice in consideration of triple Bottom line concept in economic

development investments and attributed it to be as a result of interrelated factors such as insufficient capacity, low understanding and support of key organizational and political leaders, to infuse TBL concepts into practice. Onyali, Okafor and Onodi (2015) in an empirical study, of the effectiveness of Triple Bottom Line Disclosure Practice in Nigeria found that stakeholders were dissatisfied with the level of firms TBL disclosure in Nigeria and recommended that companies should disclose more quantifiable TBL indicators encompassing social, environmental and economic performance indicators.

Tashiba (2014) in a study on the Triple Bottom Line in Houston, Texas found positive correlations between company image and stakeholders' relations as well as increased profitability due to integration of CSR initiatives throughout the organization. The emphasis of the theory on planet and people besides the profits implies that businesses should also focus the socio-economic needs and environmental conservation of the communities they operate in to ensure sustainability – thus promotion of CSR. By encouraging corporations to have a broader perspective to business operations beyond the profit motive, this theory encourages business to be socially and environmentally responsible. As such, it will provide an appropriate theoretical underpinning for this study on the effect of CSR on financial performance of insurance firms in Kenya.

2.2.3 Stakeholder Theory

The popularity of the stakeholder theory can be attributed to Freeman who popularized it as a business management strategy although the concept has its origins in the early 20th Century. According to Schilling (2000), the concept of stakeholder can be traced back to as early as 1918 with the work of Follet. Some companies were practicing the stakeholder concept before 1960's. However, it was Freeman (1984) who is accredited for popularizing the stakeholder concept through his work; strategic management; a stakeholder concept. He highlights that the stakeholder's concept is used as a strategic approach from the

perspective of the company based on the thoughts of Ian Mitroff & Richard Mason (1982) and James Emshoff (1978). The definition of stakeholder seems to have evolved overtime since its first use in 1963. Stanford Research Institute define stakeholder as those groups without whose support the organization would cease to exist. Freeman (2004) redefines stakeholders as “those groups who are vital to the survival and success of the organization. Friedman (2006) identifies different groups of stakeholders with clear relationships with the business organizations. It is these stakeholders’ relationships that business managers have to manage strategically for the success of the organization. The stakeholders’ theory developed as a strategy for improving firm performance. The theory is relevant to the study as it promotes the idea of corporations focusing on stakeholders’ interests to ensure good relations as a way of cutting downs costs associated with negative externalities and ensure smooth operations for higher profitability.

A theoretical analysis by Harrison and Wicks (2013) on stakeholder theory and firm performance concluded that the stakeholder theory provided a good approach for considering the value sought by stakeholders and new ways of measuring, the value goes beyond the economic benefits sought by stakeholders and the value accrued by one group of stakeholders is depended on the value of other stakeholders. At theoretical Analysis by Harrison, Freeman and Abreu (2015) titled “Stakeholder as an ethical approach to effective management: Applying the theory of multiple contexts” found the theory to be useful in addressing the important issues in business internationally and that the theory offers an opportunity to interpret various concepts, models and phenomena in many different disciplines. This theory considers engagement in CSR activities as an operational management strategy to make investments to benefit the stakeholders, ensure business sustainability and improve the corporate returns for the benefit of the stockholders. As such it will be appropriate as a theoretical underpinning for this study.

2.3. Empirical Review

Maracine (2018) in his study CSR and Insurance companies in Romania and rest of Europe states that CSR should be valued as a sustainable investment within the community where the business develops. He notes that Romanian involvement in CSR has expanded in recent years due to realization that firms that help the community help themselves. This implies that firms that engage in CSR benefit in the long run. Smith (2010) in a study of CSR in the healthcare insurance industry in the USA found that insurance companies engaging in CSR programmes benefitted from decreased claims which improved their financial performance. CSR initiatives of the insurance companies studied focussed mainly on environmental issues, philanthropy and community programmes that were aligned to health. Epstein (2008) states that evaluation of social, environmental and economic impacts can be evaluated using corporate performance systems that include both financial and non –financial measures.

Deev and Khazalia (2017) in their study of social responsibility and financial performance found that insurers in Europe who had higher community spending had better financial performance. This reveals that insurers can be financially successful even when they are socially responsible. In their study, they used the amount of money spend by the company on community building activities in millions as a measure of Social responsibility. This study will adopt the same measurement criteria to measure CSR involvement of insurance firms in Kenya, since the study is similar to that of Deev and Khazalia (2017). Olowokudejo (2011) in a study on CSR and Organizational effectiveness of insurance companies in Nigeria found that insurers undertook all forms of CSR activities. The study revealed that the participating insurance companies had satisfactory organizational effectiveness. The study results showed that involvement in CSR correlates positively with organizational effectiveness.

Ngatia (2014) undertook a study on effect of CSR on financial performance of insurance companies in Kenya using descriptive research design and inferential statistics, with a sample of 20 insurance companies and secondary data for the years 2009 to 2013. Multivariate regression analysis using SPSS was used to find out whether relationship existed between CSR and financial performance of insurance companies. The regression model used CSR as the independent variable and financial performance as the dependent variable. The model also included inflation rate, 91-day Treasury bill rate and interest rate on deposits as other independent variables. The study concluded that CSR had a negative relationship with financial performance of insurance companies in Kenya as measured using ROA.

2.3.1. Environmental CSR and Financial Performance

Hawrysz and Foltys (2016) define corporate environmental responsibility (CER) as incorporation of responsibility assumptions towards the environment in the strategic policy of the organization. They assert that environmental responsibility is one of the dimensions of CSR. Rashid, Rahman and Khalid (2014) define environmental CSR (ECSR) as a concept in which companies combine environmental concerns in their daily business operations and their interactions stakeholders' interactions without compromising on their economic performance. They conceptualized three dimensions of ECSR: E-customer welfare which involved providing ecologically friendly products to their customers, E- community is the second which entails CSR initiatives accomplished through involving the community in any CSR programs such as environmental education workshops, tree planting exercises, environmental cleanups and environmental conservation sports. The third dimension is E-philanthropy which entails provision of resources to implement activities aimed at creating environmental awareness and responsibility among the public. E-philanthropy entails direct financial or in-kind contributions to community social groupings such as NGOs, CBOs and FBOs involved in environmental protection activities. This study adopted Rashid, Rahman

and Khalid (2014) definition of environmental CSR. This is because the study is considering CSR focused on external stakeholders. Besides, the definition also gives a logical means of measuring ECSR through the financial or in-kind resources spend.

Dobre, Stanila and Brad (2015) in a study on the influence of environmental CSR on financial performance of Romanian listed entities reported mixed results. They found that there is a significant negative effect of environmental protection expenditure on financial performance measured using ROE and ROA. Other environmental improvement factors had no influence on financial performance measured by ROE and ROA, among the mainly manufacturing and service industries. A study by Russo and Fouts (1997) investigated whether investment by commercial bank in environmental conservation as a CSR activity to attract customers' influences bank financial performance. The results suggested that environmental policy plays had a great effect in generating broader organizational advantage enabling firms to realize better profits. Besides, it guides a firm on decisions on what it has the ability to do and what it has the opportunity to do.

Morteza and Raechel (2014) in their Study of Environmental CSR on corporate profitability found the ECSR has positive effect on corporate brand reputation and profitability. A study by Huang, Wu and Gaya (2017) on Chinese shareholders' reactions to the disclosure of environmental violations found that shareholders react negatively to an environmental violation. The study by Rashid, Rahman and Khalid (2014) on Environmental CSR as a strategic social marketing initiative found that ECSR increases customer loyalty and improves corporate image and that commitment to environment and sustainability issues is not a public relations exercise but has long-term positive financial benefits. This is because of consumers' willingness to buy from companies that had stronger commitment to environmental protection. Besides, positive corporate image enhances the trust of customers

owards the products and services of the company, which builds customer loyalty which ensures long-term profitability and growth of the company.

Ssisimoda (2016) investigated the relationship between CSR and financial performance of firms listed in the Nairobi Securities Exchange. The study focused on the CSR activities done and documented by the firms listed in the NSE. He concluded that environmental CSR had effect on the performance of firms listed at the NSE as measured using profit before income tax (EBIT). The results revealed that Environmental CSR had the greatest influence on performance of firms and had positive influence on performance of firms. Environmental conservation has positive effects on the financial performance businesses generally.

2.3.2. Philanthropic CSR and Financial Performance

Sulek Marty (2010) in his article on philanthropy asserts that the term philanthropy has its origin in greek and has transformed in its meaning over the years and across the globe by various authors. Salamon (1992) defines philanthropy as private giving by entities for public purposes while Van Til (1990) defines philanthropy as voluntary giving by individuals and institutions with meeting a charitable need as the main objective. Epstein and Rejc (2014) define corporate philanthropy as a direct contribution by a company charity or a cause. They state that philanthropic initiatives can range from cash or in-kind service donations to cause related marketing to collaborations with Non-Governmental Organizations (NGOs).

Iwannanda, Sudamiatru and Adiputra (2017) assert that corporate philanthropy takes three forms: corporate giving, corporate volunteering and corporate foundations. Corporate giving comprises all kinds of contributions in cash or kind by the corporations. Corporate volunteering is the supporting and fostering employees' efforts to perform service and activities to community during their working time, whose aim is to enhance the company and community relations. On the other hand, corporate foundations are charitable organizations

formed as separate entities by companies and predominantly funded by the company from its resources. In the context of this study, philanthropic CSR is defined as voluntary giving by a company for public purpose with the intention of meeting a public need. This implies that the philanthropic CSR initiatives will contribute to meeting a charitable need or alleviating suffering of members in the society but will not improve the economic state of the beneficiaries. Company initiatives such as donations in cash or resources to disaster victims, employee volunteerism, education scholarships, will be considered to be Philanthropic CSR for the purposes of this study. This is because they contribute to meeting the needs of members of the public without improving their economic status.

Vaidyanathan (2008), in a theoretical analysis summarises that philanthropy offers a competitive advantage and that several scholars present corporate philanthropy as a cost-effective means for companies to improve their broader competitive context. He suggests that there is need for thorough empirical research because proponents of corporate philanthropy have not provided sound evidence in its support. Vaidyanathan (2008) found evidence for positive and negative relationships where, empirical studies exploring the relationship between a firm's social performance and financial performance are mostly inconclusive.

Recent studies suggest an inverse U-shaped relationship: philanthropy contributes to financial performance up to a certain point, after which agency costs and direct costs come into play. He calls for the need for further research because recent reviews have criticized the variability and inconsistency in methods and measures used in these studies. He states that further work needs to be done to also examine and explain the relationship between corporate giving and financial performance in both directions.

Wang Heli (2009) in his study on corporate philanthropy and corporate financial performance undertook an empirical analysis using data on Chinese firms that were listed on stock exchanges from 2001 to 2006. He argues that corporate philanthropy has positive effect

on firm financial performance because it enables firms gain sociopolitical legitimacy, which makes them to trigger positive stakeholder responses and to gain political access. The study revealed a positive philanthropy-performance relationship which was stronger for firms which had greater public visibility and those with better past performance, since philanthropy by these firms gains more positive stakeholder responses. For firms that are private and lacking political connections, they were seen to benefit more from philanthropy, as gaining political resources is more critical for such firms.

Epstein and Rejc (2014) state that volunteerism by employees can increase corporate value. This is because companies' volunteer programmes receive increased media publicity resulting to increased sales related to community activities. Volunteerism creates positive impression in the community and enhances customer loyalty which is important for long term profitability and growth of the company. Ssisimoda (2016) in his investigation the relationship between CSR and performance concluded that philanthropic CSR affected the performance of firms listed at the NSE. He found that philanthropic activities had positive influence on performance of firms listed on the NSE. Generally, philanthropy has positive effect on the financial performance of corporations.

2.3.3 Community Development CSR and Financial Performance

CSR practices contribute to the core competencies of a company and improve the economic and social conditions of the local community (Zhang, 2014). According to Supriti Mishra and Damodar Suar (2010), community CSR involvement of business may be in areas of education, health, and income generation. CSR towards community is seen in terms of philanthropic giving and public–private partnerships It could also be in community relationships and participation in social and economic development issues of the community. Companies have of late been engaging in serious partnerships with non-governmental organizations (NGOs) to empower the local community. Naidenova, Parshakov and

Chmykhov (2015): investigated how football sponsorship influences the financial performance of sponsors. Using instrumental variable (IV) regression framework combined with a fixed effects model, the results of analysis of top European Leagues showed that football sponsorship is more of a charity than commercial investment.

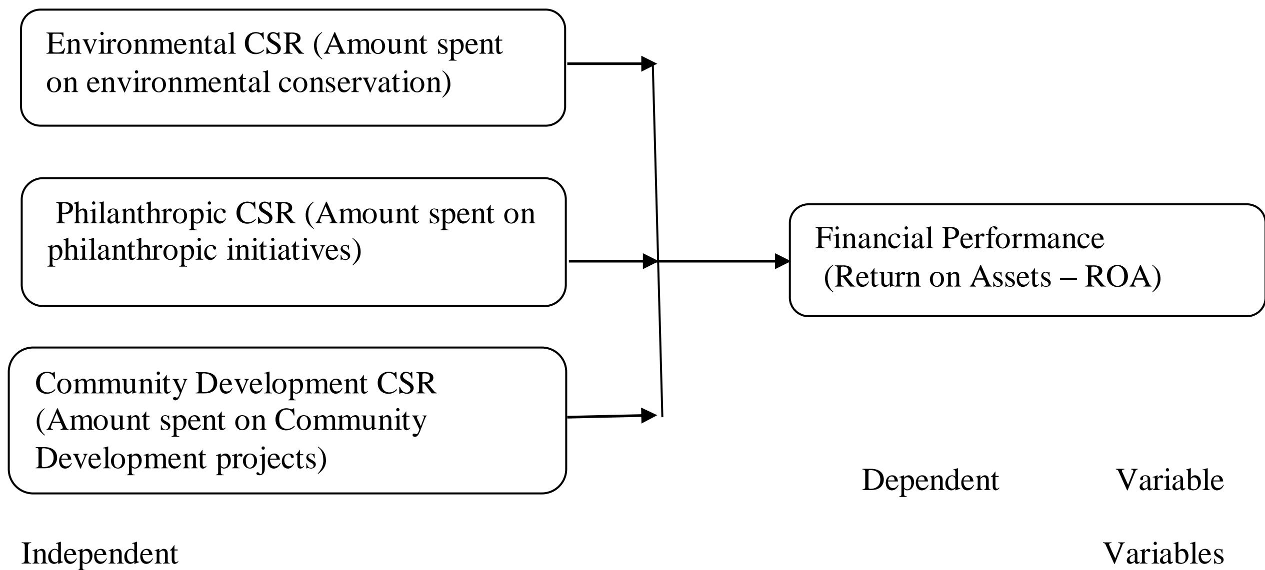
Jim-Woo Kim (2015) studied the relationship between sports-related event sponsorship and financial rewards of sponsorship using World Cup and PGA tour sponsor data. The results of the event study revealed a positive relationship between sponsorship for World Cup and PGA and abnormal stock return for sponsors. Kavitha (2016) in his study on CSR and Insurance companies in India asserts that CSR is the commitment by companies to provide resources that support activities focussed on enhancing economic and social development by improving the living conditions of the local community in which they operate and the society at large. He states that in India, insurance companies are obligated towards community and society.

Maracine (2018) in a study of CSR practice among Romanian insurance companies and those in rest of Europe asserts that CSR should be considered as a sustainable investment within the community where the business develops. He concludes that Romanian Insurance companies' involvement in CSR has expanded in recent years due to the realization that firms that help the community benefit indirectly. Kavitha (2016) in a study on CSR and insurance companies in India states that the companies provide resources and support activities aimed at enhancing economic and social development by improving the living conditions of the local area in which they operate and the society at large. He states that in India insurers are obligated towards community and society. Community development CSR has a positive effect on the financial performance of corporations generally.

2.4 Conceptual Frame Work

Environmental CSR, Philanthropic CSR and Community Development CSR are the three main forms or categories of CSR (Stromberg, 2016; Hawrysz & Foltys, 2016; Kimberlee, 2018). They are key ingredients of profitability in Corporate Social Responsibility. Most companies have their CSR activities based on the three variables. Investment in Environmental conservation programs improves the living standards of the society and a healthy society leads to increased uptake of insurance products and services. Philanthropic activities increase the societal confidence level toward the management and opens way for many to access insurance products, while community projects endear the insurance Company to the society by creating a moral contract between the insurance firms and the community thereby increasing uptake of insurance products. Abbot and Manson (1979) as cited by Gichohi (2016) identified content analysis, reputation index and social accounting as the three methods of measuring CSR. This study employed social accounting as the framework for measuring CSR investments using the financial expenses on CSR initiatives. The following conceptual frame work shows the relationship between the independent variables and Net profit.

FIGURE 1
Conceptual Framework



Dependent Variable

Independent Variables

(Source: Author, 2018)

2.5 Summary of Literature Review and Research gaps

The literature reviewed reveals that CSR activities have become popular among businesses including insurance firms in Kenya. The empirical studies have indicated that there is a link between CSR and financial performance. Majority of the early studies that sought to identify the relationship between CSR and financial performance used subjective methods to measure CSR. The studies have not shown how insurance firms' financial performance would be affected by investing in CSR activities and how to objectively measure CSR. The studies have not explained the motive for insurance firms to aggressively invest in CSR activities. Besides, the few studies done on effects of CSR on financial performance of insurance firms have been ambiguous in their operationalization of CSR construct and its measurement. This constitutes a research gap which this study is seeking to bridge.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology used to undertake the study. Research Methodology sets out the research design of the study. This includes the study design, target population, sample size and how the sample was selected, tools for data collection and the data collection technique employed, method used for data analysis as well as the description of how presentation of research study results was done.

3.2 Research Design

Research design refers to the way the study is planned, that is, the pattern or strategy the researcher intends to follow in carrying out the research (Oso & Onen, 2009). They highlight the two main research strategies when investigating and collecting data as quantitative and qualitative; within which are various research designs such as experimental, ex-post –facto, correlation among others. A quantitative approach is strongly linked to deductive testing of theories through hypotheses, while a qualitative approach to research generally is concerned with inductive testing (Saunders et al, 2003). The main focus of this study was quantitative. However, some qualitative approach was used in order to gain a better understanding and possibly enable a better and more insightful interpretation of the results from the quantitative study. Orodho (2009) advises where appropriate both research approaches should be employed as a way to maximize their strengths and minimize their limitations. He asserts that the choice of research approach and methods to use depends on the information needed, who the information is meant for and how the information is to be used.

The study adopted a correlational research design. (Oso & Onen, 2009:76) define correlational research design as a study plan that determines the nature and extent of association between two or more paired and quantifiable variables and which collects data on the quantifiable variables from the same subjects to compare how they vary. Orodho (2009) defines Correlation research as all those studies in which the purpose is to discover relationship between variables through the use of correlational statistics, which statistics are used in extensively in test construction and analysis. The purpose of correlation research is to express in mathematical term any two variables. It is useful in analyzing data of relationships between multiple variables in a single study and provides information concerning degree of relationship between variables being studied (Orodho, 2009). Since the study sought to establish how CSR affects financial performance of insurance firms in Kenya, the correlation research design was deemed appropriate for the study.

3.3 Target Population

Mugenda, and Mugenda (2003) define population as the entire set of individual cases or objects having common observable characteristics that differentiate it from others. They assert that the determination of the survey population (accessible population) should be influenced by convenience. Further, Ngechu (2004), defines a population as a well-defined set of items, people, elements, or things to be investigated. The target population of the study was all the 55 licensed insurance companies in Kenya. From the data available from the Insurance Regulatory Authority, there are 55 insurance companies in Kenya.

3.4 Sample and Sampling Procedure

Mugenda and Mugenda (2003) define a sample as a smaller group that is obtained from the accessible population and that each case or member in the sample is called a subject. On the other hand, Kothari (2002) states that a sample is a unit portion of the target population which has sufficient characteristics of the entire population. Judgmental sampling

procedure was used to select a sample of 12 insurance firms involved in environmental conservation, philanthropy and community projects.

3.5 Data collection

Even though 12 insurance firms that engage in the three forms of CSR had been sampled for data collection, only 5 of them had disaggregated data on the three forms of CSR which was used in the data analysis. Secondary data on financial performance and expenditure on environmental CSR, philanthropic CSR and community development CSR initiatives was obtained from audited financial statements, annual reports and the respective companies' websites and databases from the year 2008 to 2017. This is due to the fact data for some of the years has been used in a number of studies and again there was need to collect current data to see if any changes have occurred in recent times. Besides, the duration chosen would provide a long enough duration for a sizable dataset to allow for analysis using STATA.

3.6 Model specification

Panel data regression model for the analysis was specified as follows:

$$Y_{it} = \beta_0+\beta_1 X_1it +\beta_2 X_2it +\beta_3 X_3it + \mu it \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots$$

(i) Where: **Yit** = Financial Performance

X_1it = CSR investment in environmental conservation

X_2it = CSR investment in philanthropy

X_3it = CSR investment in community development projects

μit = Error term

β_0 = intercept

β_1, β_2, β_3 = coefficients of the independent variables

3.6.1 Data organization and summary

The started by declaring the data to be a panel dataset by defining the individual researcher undertook data organization and summary using various operations. Data was first keyed into Microsoft excel worksheet and then copied into STATA., then organized and analysed. The researcher identifier *i* and time identifier *t.* This enabled the use of panel commands and some time series operators. To accomplish this, the researcher used the command *xtsetfirm1 year.*

After *xtset,* the researcher used the following specialized panel commands to explore the data:

xtline roa to draw the trend plot for each individual firm on one chart, to show the behavior of individual firms over time.

Xtline roa, overlay to draw an overlain plot of the dependent variable to explain if the firms have significant differences and if they have different intercepts.

xtsum: to separate within (over time) and between (over individuals) variation of the data

3.6.2 Diagnostic Tests

The researcher carried out four diagnostic tests on the data namely: multicollinearity test, autocorrelation test, hausman test and heteroscedasticity test.

3.6.2.1 Autocorrelation Test

To test for if there was Serial Correlation, the researcher used *Wooldridge test,* whose STATA command is: *xtserial "varlist*". The null hypothesis (Ho:) is that there is no first-order auto- correlation (no serial correlation). The test statistic value for rejecting the null hypothesis (Ho:) is if Prob > F > 0.05. To correct for serial correlation in the analysis, the researcher used the Prais–Winsten procedure using the STATA command *xtpcse.*

3.6.2.2 Multicollinearity Test

In Linear Regression methodology, there should be no two variables with very high correlation. To preclude the problem of multicollinearity, the researcher would carry out a multicollinearity test by drawing a correlation matrix for study variables. The researcher did this by using the STATA command collin "varlist" to help preclude multicollinearity. The researcher used joint hypothesis tests to do an F-test for a group of coefficients - Variable Incremental F-test (VIF- test) for coefficients. The null hypothesis is $\beta_1 = \beta_2 = \beta_3 = 0$. The test statistic value for rejecting the null hypothesis (Ho:) is if the mean VIF >10. The testbreult showed there was no multicollinearity.

3.6.2.3 Hausman test

The researcher used Hausman test to choose between RE and FE Models. The test checks if correlation exists between the regressors and error terms in the model. The null hypothesis is that the chosen model is random effects while the alternative hypothesis is that the chosen model is fixed effects. The test statistic value for rejecting the null hypothesis (Ho:) is (p-value <0.05)- reject the null hypothesis if p-value is small. The RE model was chosen The researcher then use Breusch – Pagan LM test of independence to make a choice between RE and POLs model. This tests for random effects. The null hypothesis in the Breusch – Pagan LM test is that there is homoscedasticity, that variance does not depend on auxiliary regressors. The test statistic value for rejecting the null hypothesis (Ho:) is if p-value is small (p-value < 0.05). The POLs model was chosen.

Next, the researcher used *Modified Chow test* to choose between FE and POLS Model. The null hypothesis is that there is no breakpoint- the dataset can be with a single regression line. The test statistic value for rejecting the null hypothesis (Ho:) is if the calculated F-value falls into the rejection area- the calculated F-value is greater than the F-

critical value in the tables. The POLs model was chosen. Because the POLS model was chosen, the researcher used POLS for robustness checks to fit the model when reporting results.

3.6.2.4 Heteroscedasticity Test

To test for heteroskedasticity, the researcher used the *modified Wald test* for the FE (or POLS) model. The null hypothesis is homoscedasticity exists in the data set (constant variance), Ho: Sigma (1) 2= Sigma 2^ for all i. The test statistic value for rejecting the null hypothesis (Ho:) is if Prob > chi2 =0.0000. When RE Model was chosen, the researcher used the Breusch Pagan LM test. This is done using the following STATA commands. The pooled OLS model was eventually chosen and fitted with robust standard error as the model used to report the results. To check if the residuals are normally distributed the researcher plotted histogram and found that the residuals were normally distributed.

3.7 Data Presentation

Data from the STATA output was presented using tables and graphs (Lipps & Kuhn, 2016; Birkenbach, 2017; Park, 2011).

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

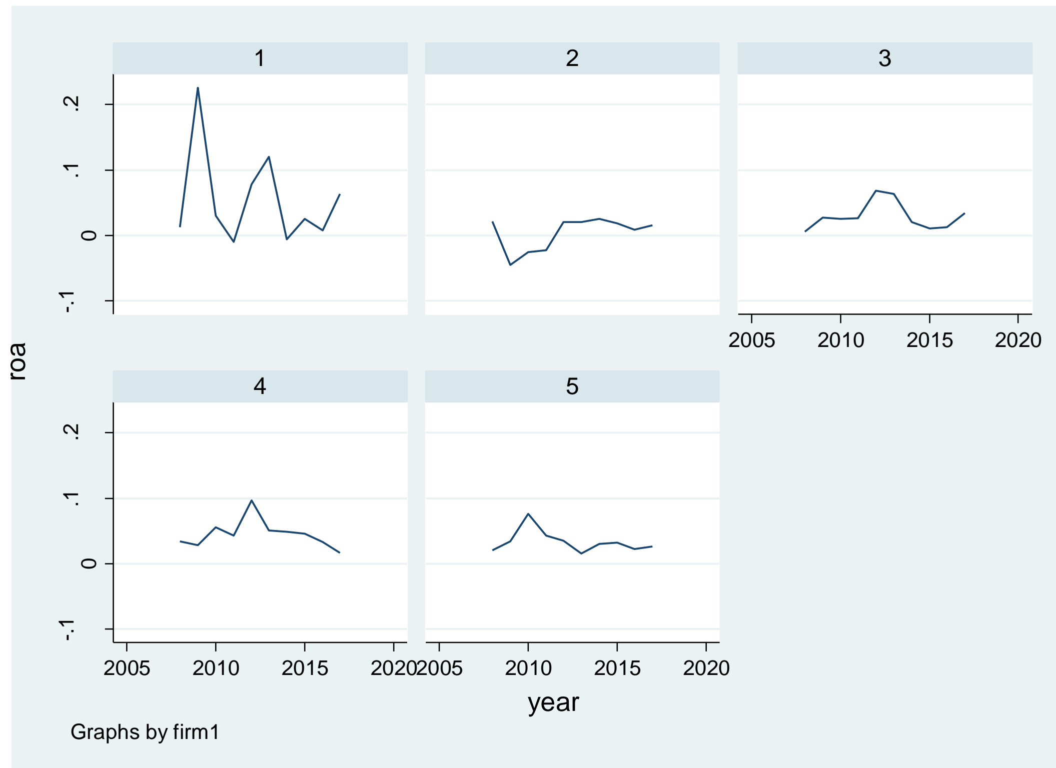
This chapter presents results of data analysis and their findings as well as a discussion of the study findings. The discussions are done according to the three objectives that had been set for the study. Secondary data for panel data exploratory analysis, descriptive analysis and diagnostic analysis results was collected from the five insurance companies licensed by the Insurance Regulatory Authority, and which had disaggregated data on their CSR expenditure according to the three CSR categories as per the research objectives. Diagnostic tests were used to test the assumptions that need to be satisfied for panel regression and also examine whether there was time related fixed effects. The tests carried out included test of significance differences in return on asset of the insurance firms, test for serial correlation, heteroscedasticity and also the Hausman test. Lastly, the regression analysis was conducted to establish the effect of the three independent variables on return on asset.

4.2 Exploratory Data Analysis

Exploratory data analysis was conducted with the purpose of enabling comparison and comparison between the different firms in relation to the variables under study. This comparison was over the study period. It was important to explore the data to establish which analysis model was best fit for the data collected. Graphs were applied to do the exploratory data analysis. First, empirical growth plots were used to establish how return on asset changed with time in each firm. Figure 4.1 reveals the empirical growth of return on asset over the 10-year period. In the empirical growth plot, it is indicated that most firms had fluctuation of return on asset over the 10-year period. However, a few cases were observed where leverage appeared to significantly change with time. For instance, firms 1 had their

return on asset increasing and then going back to its earlier level in year 3 and year 2 respectively.

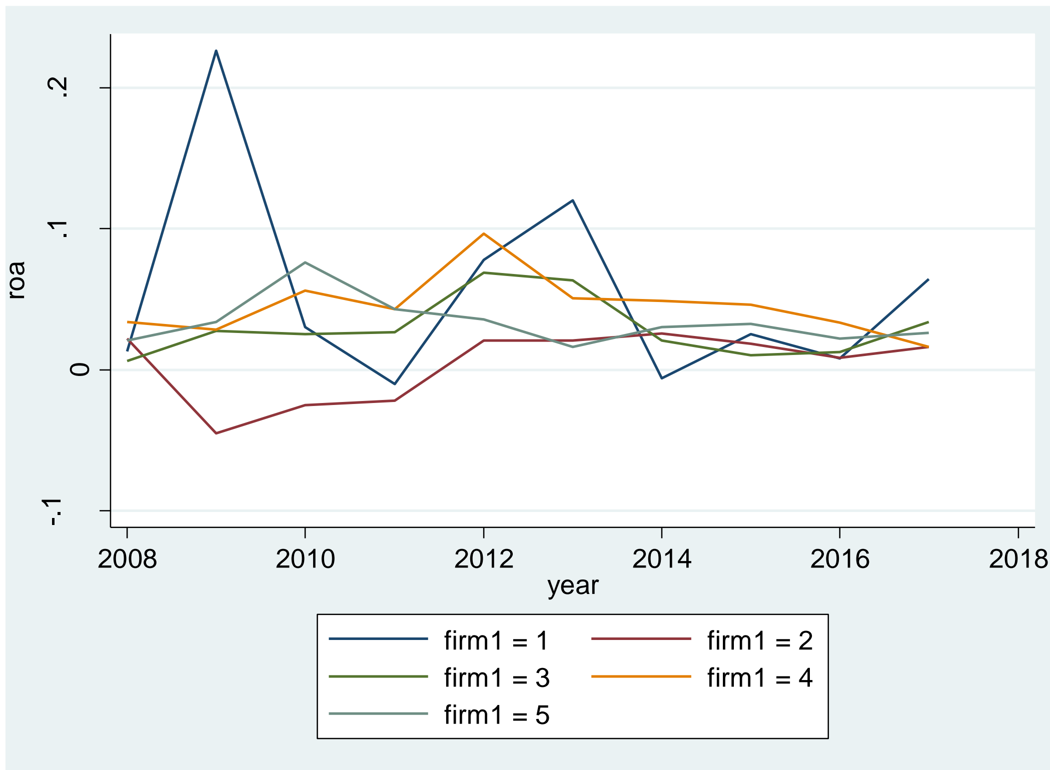
FIGURE 1
Growth Plot of each firm's Return on Asset



Further, firm 2, 3 and 4 had the return on asset increasing while firms 5 had its return on asset level decreasing. However, the changes are minimal compared to the other firms which indicated almost constant return on asset in total. This therefore pointed to the fact that there were no significant time-related fixed effects.

Further analysis of the return on assets plots over time indicates that most of the firms' return on asset had significantly different intercepts. However, the slopes seemed to be generally similar. This was further illustrated in Figure 4.2. The figure indicates that there were insignificant time-related fixed effects.

IGURE 2
Overlain Plot of Return on Asset



Source: Author (2018)

4.3 Descriptive Statistics

Analysis through descriptive statistics was conducted on the study variables with results as presented in Table 4.1. The descriptive statistics include means, minima, maxima, and standard deviations the study variables. The descriptive statistics were for the panel data which included overall, within and between statistics. The results show that the average of environmental CSR was 46481401, Philanthropic CSR was 2861900, Community Development CSR was 4445040 while the mean for return of Asset was 0.33394.

TABLE 1
Descriptive statistics

```
. xtsum env phil comdev roa
```

Variable		Mean	Std. Dev.	Min	Max	Observations
env	overall	4648140	6464478	327000	2.53e+07	N = 50
	between		3983346	500000	1.07e+07	n = 5
	within		5369989	-5578860	2.43e+07	T = 10
phil	overall	2861900	3384709	327000	1.50e+07	N = 50
	between		2068368	500000	5475000	n = 5
	within		2822036	-813100	1.45e+07	T = 10
comdev	overall	4445040	5505470	327000	1.91e+07	N = 50
	between		4208316	726700	1.09e+07	n = 5
	within		3981598	-2923960	1.80e+07	T = 10
roa	overall	.033394	.0400817	-.045	.226	N = 50
	between		.0192193	.00401	.0548	n = 5
	within		.0361249	-.031406	.204594	T = 10

.

4.4 Diagnostic analysis

Reported in this section are results of the diagnostic analysis of the panel data. Presented in this section are reports on the existence of time-related fixed effects and the suitability of fitting panel data model in place of pooled regression model. Other diagnostic analysis performed include test for serial correlation and heteroscedasticity. Lastly, a Hausman test was conducted to establish which of the two panel data models (random or fixed effects models) was better suited for the data. The suitability of the pooled regression model in place of panel data model was tested using Breusch-Pagan LM test. The aim of this test was to establish whether fitting an ordinary least squares regression model was better for the data than fitting panel data model. Results are presented in Table 4.2. The results indicate the chi square values for the model were insignificant at 5% level ($p > 0.05$), indicating that there were significant differences of return on asset among the listed firms. This therefore indicated that using pooled OLS regression was appropriate for the data.

TABLE 2
Chi-Square values for the Breusch-Pagan LM Test

Model	**Dependent variable**	**χ^2–value**	**p-value**
1	Return on Asset (ROA)	0.78	0.1883

Source: Author (2018)

Additionally, the study conducted a test to establish whether there were significant time-related fixed effects. Presence of significant time fixed effects requires the inclusion of dummy variables to enable the fitting a two-way random effects model so that the effects are well captured. The results are presented in Table 4.3 which reveal that there were no significant time fixed effects ($p > 0.05$) indicating no need to fit two-way random effects model.

TABLE 3
Test Results for Time Fixed Effects

Model	**Dependent variable**	**F-value**	**p-value**
1	Return on Asset (ROA)	7.4	0.596

Source: Author (2018)

To establish existence of the degree of multicollinearity among variables or multicollinearity between variables, the researcher carried tests in stata using VIF and then estat vif which produced the results shown in Table 4.4. The panel data mean vif is 5.02 This is lower than the 10 which is taken as standard bench mark for multicollinearity to exist if it is higher than the number. In this case, there was no presence of multicollinearity in the panel data because mean vif of 5.02 is lower than 10 which is the rule of thumb. Lastly a test was conducted to examine the presence of heteroscedasticity and serial correlation in the panel data.

TABLE 4
STATA VIF Output

```
. vif

    Variable |       VIF       1/VIF
-------------+----------------------
      comdev |      6.57    0.152129
        phil |      6.49    0.154039
         env |      2.01    0.497608
-------------+----------------------
    Mean VIF |      5.02
```

To test for heteroscedasticity, the modified Wald test was used while testing for serial correlation was done using the Wooldridge-Drukker test. From the results of the two tests, as shown in table 4.5. it was noted that heteroscedasticity was present (all $p < 0.001$) but there was no evidence of serial correlation among the panels (all $p > 0.05$). Robust standard error was used in the model because of the presence of heteroscedasticity.

TABLE 5
Result for Heteroscedasticity and Serial Correlation tests

	Test for heteroscedasticity			Serial Correlation	
Model	**Dependent variable**	**χ^2–value**	**p-value**	**F-value**	**p-value**
1	Return on Asset(ROA)	79.23	0.000	28.102	0.00611

Source: Author (2018)

4.5 Fitting Pooled OLS regression Model

According to the pre-diagnostic tests performed in the study, the pooled OLS regression model was selected. The model used return on assets (ROA) a measure of financial performance as the independent variable. The study findings presented in Table 4.6 show the effect of the three measures of corporate social responsibility on ROA of the insurance firms. The independent variables applied in the model were environmental CSR,

was Philanthropic CSR and Community Development CSR. The pooled OLS regression results presented in Table 4.6 below shows that the constant was 0.381081, and that this value was significant at the 5% level. This implies that in the absence of the influence of the independent variables, the dependent variable is deemed to have a value of 0.3810181.

TABLE 6
Coefficients of the Variables

```
. regress roa env phil comdev, vce(hc2)

Linear regression                               Number of obs =      50
                                                F(  1,    46) =       .
                                                Prob > F      =       .
                                                R-squared     =  0.0248
                                                Root MSE      =  .04085
```

roa	Coef.	Robust HC2 Std. Err.	t	P>|t|	[95% Conf.	Interval]
env	-2.51e-10	4.09e-10	-0.61	0.543	-1.07e-09	5.73e-10
phil	-3.32e-09	1.74e-09	-1.91	0.063	-6.82e-09	1.81e-10
comdev	1.34e-09	1.24e-09	1.08	0.287	-1.16e-09	3.84e-09
_cons	.0381081	.0090319	4.22	0.000	.0199278	.0562884

Source: Author (2018)

The regression results indicate a coefficient of – 2.51 for environmental CSR, with a p-value of 0.845, which is statistically insignificant at 5% level of significance. This implies that environmental CSR had a statistically insignificant negative effect on the financial performance of insurance firms as measured by return on assets. This means that, a unit increase in expenditure on environmental CSR initiatives would result to a 2.51 decrease in the financial performance of insurance firms as measured by ROA. With environmental CSR having a statistically negative effect on the financial performance of insurance, the study results indicated that ECSR has no effect on the financial performance of insurance firms in Kenya and the null hypothesis of the study was accepted.

The coefficient of philanthropic CSR of -3.32 was statistically insignificant 5% level of significance with a p-value of 0.454 that is greater than 0.05. The results indicate that philanthropic CSR a statistically insignificant negative effect on the financial performance of insurance firms as measured by return on assets. This in essence means that a unit increase in expenditure on philanthropic CSR initiatives would result to a 3.32 decrease in financial performance of insurance firms as measured using ROA. With the statistically negative effect of Philanthropic CSR on the financial performance of insurance in Kenya, the study results revealed that philanthropic CSR has no effect on the financial performance of insurance firms in Kenya. Therefore, the null hypothesis was accepted.

The coefficient of community development CSR of 1.34 was statistically insignificant at 5% level of significance with a p-value of 0.625 that is greater than 0.05. The results indicate that community development CSR had a statistically insignificant positive effect on the financial performance of insurance firms as measured by return on assets. Thus a unit increase in expenditure on community development CSR activities would result to a 1.34 increase in financial performance of the insurance firms as measured using ROA. The study results showed that Community development CSR has no effect on the financial performance in Kenya. The null hypothesis was therefore accepted.

The initial regression model Equation (i) can therefore be rewritten as:

$\mathbf{Y} = 0.038 - 2.51X_1 - 3.32X_2 + 1.34X_3$………………………………………………. (ii)

Where:

Y = Dependent Variable (financial performance measured using Return on asset)

0.0381= Constant (Level of Financial Performance when all independent variables are at zero)

X_1 = environmental CSR

-2.51= Coefficient of X_1 (change in the dependent variable due to a unit change in X_1)

$X_2 =$ Philanthropic CSR

-3.32 = Coefficient of X_2 (change in the dependent variable due to a unit change in X_2)

X_3 = Community development CSR

1.34 = Coefficient of X_3 (change in the dependent variable due to a unit change in X_3)

4.7 Discussion of the Study findings

The major objective of the study was to establish the effects of corporate social responsibility on the financial performance of insurance firms in Kenya. To achieve the objective, the study was conceptualized into three specific objectives based on the three forms of CSR. This section of the report discusses the study findings according to the three specific objectives with a view to accepting the hypotheses of the study and a summing up the effect of CSR on the financial performance of insurance firms in Kenya.

4.7.1 Effects of Environmental CSR on the Financial Performance

In line with the research findings as observed from data analysis, the regression results indicated a coefficient of – 2.51 for environmental CSR, with a p-value of 0.845, which is statistically insignificant at 5% level of significance. This implies that environmental CSR had a statistically insignificant negative effect on the financial performance of insurance firms as measured by return on assets. This means that, a unit increase in expenditure on environmental CSR initiatives would result to a negligible 2.51 decrease in the financial performance of insurance firms as measured by ROA. Since the effect of Environmental CSR on the financial performance of insurance firms in Kenya is statistically insignificant, it there means that Environmental CSR has no effect on the financial performance of insurance firms in Kenya and the null hypothesis of the study accepted.

Arising from the research findings, it was found that environmental CSR had a statistically insignificant negative effect on the financial performance of insurance of insurance firms in Kenya. This implies that ECSR has no effect on the financial performance

of insurance firms in Kenya. The findings are congruent with those of Dobre, Stanila and Brad (2015) who in a study on the influence of environmental CSR on financial performance of Romanian listed entities reported mixed results. They found that apart from environmental protection expenditure which had significant negative effect of environmental protection expenditure on financial performance measured using ROE and ROA, other environmental improvement factors had no influence on financial performance measured by ROE and ROA, among the mainly manufacturing and service industries. The findings are also inconsistent with those of Russo and Fouts (1997) whose study investigated whether investment by commercial bank in environmental conservation as a CSR activity to attract customers' influences bank financial performance. The results suggested that environmental policy plays had a great effect in generating broader organizational advantage enabling firms to realize better profits and that it guides a firm on decisions on what it has the ability to do and what it has the opportunity to do.

The study findings are incongruent with those of Morteza and Raechel (2014) who in their study of the impact of Environmental CSR on corporate profitability found that ECSR has positive effect on corporate brand reputation and profitability. According to shareholder primacy theory, the main goal of the firm is to maximize shareholder wealth and that only those social activities that aid the firm in wealth maximization should be allowed. Insurance firms in Kenya can benefit from a study by Huang, Wu and Gaya (2017) on Chinese shareholders' reactions to the disclosure of environmental violations who found that shareholders react negatively to an environmental violation. Insurance firms in Kenya can also benefit from the study by Rashid, Rahman and Khalid (2014) on Environmental CSR as a strategic social marketing initiative found that ECSR increases customer loyalty and improves corporate image and that commitment to environment and sustainability issues is not a public relations exercise but has long-term positive financial benefits. This is because of

consumers' willingness to buy from companies that had stronger commitment to environmental protection. Besides, positive corporate image enhances the trust of customers towards the products and services of the company, which builds customer loyalty which ensures long-term profitability and growth of the company.

The findings are also inconsistent with those of Ssisimoda (2016) who investigated the relationship between CSR and financial performance of firms listed in the Nairobi Securities Exchange. The study focused on the CSR activities done and documented by the firms listed in the NSE. He concluded that environmental CSR had effect on the performance of firms listed at the NSE as measured using profit before income tax (EBIT). The results revealed that Environmental CSR had the greatest influence on performance of firms and had positive influence on performance of firms. The insignificant negative effect of ECSR on financial performance can be explained by the low level of financial allocation to ECSR initiatives and the fact that investments in ECSR are long term in their nature and pay off in the very long run.

4.7.2 Effects of Philanthropic CSR on the Financial Performance

From the research findings as observed from the data analysis, the coefficient of philanthropic CSR of -3.32 was statistically insignificant at 5% level of significance with a p-value of 0.454 that is greater than 0.05. The results indicated that philanthropic CSR a statistically insignificant negative effect on the financial performance of insurance company as measured by return on assets. This in essence means that a unit increase in expenditure on philanthropic CSR initiatives would result to a negligible 3.32 decrease in financial performance of insurance firms as measured using ROA. Due to the fact that Philanthropic CSR had a statistically insignificant negative effect on the financial performance of insurance firms in Kenya, it in essence meant that Philanthropic CSR had no effect on the firm's financial performance. As a result, the null hypothesis of the study as stated was accepted.

From the research findings it emerged that Philanthropic CSR had a statistically insignificant negative effect on the financial performance of insurance firms in Kenya, implying that ECSR has no effect on the financial performance of insurance firms in Kenya. The findings confirm the arguments of Van Til (1990) and Epstein & Rejc (2014) who assert that philanthropy is voluntary giving by individuals and institutions with the main objective of meeting a charitable need. As such, philanthropy is not aimed at benefitting the firms.

Vaidyanathan (2008), in a theoretical analysis summarizes that philanthropy offers a competitive advantage and that several scholars present corporate philanthropy as a cost-effective means for companies to improve their broader competitive context. The findings are incongruent with those of Vaidyanathan (2008) who found evidence of positive and negative relationships where, empirical studies exploring the relationship between a firm's social performance and financial performance are mostly inconclusive. The research findings are also inconsistent with Ssisimoda (2016) who in his investigation on the relationship between CSR and performance concluded that philanthropic CSR affected the performance of firms listed at the NSE. He also found that philanthropic activities had positive influence on performance of firms listed on the NSE.

Studies cited in Vaidyanathan (2008) suggest an inverse U-shaped relationship: philanthropy contributes to financial performance up to a certain point, after which agency costs and direct costs come into play. Insurance firms in Kenya can benefit from the findings of Wang Heli (2009) who argues that corporate philanthropy has positive effect on firm financial performance because it enables firms gain sociopolitical legitimacy, which makes them to trigger positive stakeholder responses and to gain political access. The study revealed a positive philanthropy-performance relationship which was stronger for firms which had greater public visibility and those with better past performance, since philanthropy by these firms gains more positive stakeholder responses. He found out that firms that are private and

lacking political connections, were seen to benefit more from philanthropy, as gaining political resources is more critical for such firms. Insurance firms in Kenya can also benefit from the study by Epstein & Rejc (2014) who state that volunteerism by employees can increase corporate value because companies' volunteer programmes receive increased media publicity resulting to increased sales related to community activities. Volunteerism creates positive impression in the community and enhances customer loyalty which is important for long term profitability and growth of the company.

The results are not surprising considering the low levels of expenditure on CSR activities by not only the insurance firms in Kenya, but by most business corporations. The results are also expected if the culture of the Kenyan people were considered. Kenyans, both individuals and corporates are world renowned for being philanthropic as attested by media reports and appeals for help in cases of disasters. As such businesses, including Insurance firms are expected to help – donate by the Kenyan populace. This obscures the populace to the strategic business motive of corporates in their CSR initiatives. The Insurance industry, unlike other sectors in Kenya is not known to be popular in prompt response to appeals for donations, which is expected by the very nature of their role in the economy-assigning and managing risks. This could explain the insignificant negative effect of Philanthropic CSR on the Financial performance of insurance firms in Kenya.

4.7.3 Effects of Community Development CSR on the Financial Performance

Arising from the research findings as observed in the data analysis, the coefficient of community development CSR of 1.34 was statistically insignificant at 5% level of significance with a p-value of 0.625 that is greater than 0.05. The results indicate that community development CSR had a statistically insignificant positive effect on the financial performance of insurance companies as measured by return on assets. Thus a unit increase in expenditure on community development CSR activities would result to a negligible 1.34

increase in financial performance of the insurance companies as measured using ROA. This means that community development CSR has no effect on the financial performance of insurance firms in Kenya. Due to the insignificant effect of community development CSR on the financial performance of insurance firms in Kenya, the null hypothesis was accepted.

According to Zhang, (2014) CSR practices contribute to the core competencies of a company and improve the economic and social conditions of the local community. The study findings are consistent with those of Naidenova, Parshakov and Chmykhov (2015): who investigated how football sponsorship influences the financial performance of sponsors. Using instrumental variable (IV) regression framework combined with a fixed effects model, the results of analysis of top European Leagues showed that football sponsorship is more of a charity than commercial investment.

However, the findings of this study are incongruent with those of Jim-Woo Kim (2015) who studied the relationship between sports-related event sponsorship and financial rewards of sponsorship using World Cup and PGA tour sponsor data. The results of the event study revealed a positive relationship between sponsorship for World Cup and PGA and abnormal stock return for sponsors. Insurance firms in Kenya can benefit from the findings of Maracine (2018) who in a study of CSR practice among Romanian insurance companies and those in rest of Europe asserts that CSR should be considered as a sustainable investment within the community where the business develops. He concludes that Romanian Insurance companies' involvement in CSR has expanded in recent years due to the realization that firms that help the community benefit indirectly.

The results are not unique since by their very nature, some aspects of community development CSR initiatives impact on the lives of people in the communities in a positive way by improving their standards of living and socio-economic status. This endears the firms to the communities who provide markets for the insurers market thus the positive effect on

the financial performance. Since expenditure in community development is a long term investment, it could take a very long time before significant effect of the CSR initiatives is realized on the financial performance of the firms.

The insignificant positive effect of community development CSR could have been caused by the low level of financial expenditure on the same by the insurance firms in Kenya. Besides, the negative attitude of Kenyans towards the insurance industry as attested by low uptake of insurance products as reported by Association of Kenya Insurers (AKI), could contribute to the insignificant effect of Environmental CSR on the financial performance of insurance firms in Kenya. As well, most researchers and practitioners have encouraged expenditure in environmental CSR as a long-term investment that pays off benefits in the very long run.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study investigated the effects of corporate social responsibility on the financial performance of insurance firms in Kenya. This chapter presents a summary of the study findings and makes conclusions on the basis of the research findings. The chapter also has policy recommendations, limitations of the study and study findings as well as suggestions for further research based on the study findings

5.2 Summary of research findings

The study on effects of CSR on the FP Insurance firms Kenya using the three forms of CSR was undertaken as this conceptualization of CSR has not been studied before in Kenya. The study used secondary data from IRA, AKI and insurance firms for the analysis. Exploratory, descriptive, diagnostic and Pooled OLS regression analysis were done using STATA version 12. A summary of the study findings as per the study objectives is provided hereafter.

5.2.1 Objective one: Effects of Environmental CSR on the Financial Performance

The first objective of the was to examine the effect of environmental CSR on the financial performance of insurance in Kenya. The null hypothesis was that environmental CSR has no effect on the financial performance of insurance firms in Kenya. The results indicate that environmental CSR had a statistically insignificant negative effect on the financial performance of insurance firms in Kenya. This implies that ECSR has no effect on the financial performance of insurance firms in Kenya, on the basis of which, the null hypothesis was accepted.

5.2.2 Objective two: Effects of Philanthropic CSR on the Financial Performance

Another objective of the study was to establish the effect of philanthropic CSR on the financial performance of insurance firms in Kenya. The null hypothesis was that philanthropic CSR has no effect on the financial performance of insurance firms in Kenya. The results indicate that philanthropic CSR had a statistically insignificant negative effect on the financial performance of insurance firms in Kenya. This means that philanthropic CSR has no effect on the financial performance of insurance firms in Kenya. Therefore, the null hypothesis was accepted.

5.2.3 Objective three: Effects of Community Development CSR on the Financial Performance

The last objective of the study was to determine the effect of community development CSR on the financial performance of insurance firms in Kenya. The null hypothesis was that community development CSR has no effect on the financial performance of insurance firms in Kenya. The results indicate that community development CSR had a statistically insignificant positive effect on the financial performance of insurance firms in Kenya. This means that community development CSR has no effect on the financial performance of insurance firms in Kenya.

5.3 Conclusions

The study found that environmental CSR had a statistically insignificant negative effect on the financial performance of insurance firms as measured by return on assets, implying that ECSR has no effect on the financial performance of insurance firms in Kenya.

The study had sought to examine the effect of environmental CSR on the financial performance of insurance firms in Kenya.

The study also sought to establish the effect of philanthropic CSR on the financial performance of insurance firms in Kenya. The study established that philanthropic CSR a statistically insignificant negative effect on the financial performance of insurance firms as measured by return on assets, meaning that philanthropic CSR has no effect on the financial performance of insurance firms in Kenya.

Determining the effect of community development CSR on the financial performance of insurance firms in Kenya was another objective of the study. The study revealed that The results indicate that community development CSR had a statistically insignificant positive effect on the financial performance of insurance firms as measured by return on assets. The study therefore concluded that CSR has no effect on the financial performance of insurance firms in Kenya.

5.4 Recommendations

The main objective of this study was to establish the effects of CSR on the financial performance of insurance firms in Kenya. The researcher recommends that there is need for the government to put in comprehensive legal, regulatory and policy framework to guide CSR activities in the country so that the CSR movement can be focused on the country's development agenda in their CSR initiatives. There is need for scholars and practitioners in Kenya and elsewhere in the developing world to rethink the concept of CSR and its conceptualization to make it relevant, practicable and applicable to the prevailing contexts. Insurance firms in Kenya right from the board level to the lowest level need to develop clear comprehension company policies and implementation frameworks to guide their CSR operations and reporting on the same.

5.5 Limitations of the Study

The researcher experienced limitations in accessing segregated data on insurance firms' expenditure on CSR. In some insurance firms, CSR is treated as top management function thereby limiting access to the confidential financial information. While majority of the insurance firms did not keep separate records on the exact allocations spent on CSR, others had records of their expenditure on CSR but not segregated according to the three CSR categories as conceptualized in in the study, which made it difficult to access accurate data. A great majority of the insurance firms indicated CSR expenditure as a portion of their expenses others treated it as part of their entertainment allowance. Yet, while some insurance firms treated CSR expenses as expenditure, others treated it as an investment in their accounting.

The researcher analyzed data on the three forms of CSR ECSR philanthropic CSR and community development CSR, which conceptualization of CSR has not been done before, in Kenya. A small sample of only five insurance firms was used in the study and generalized for the whole population. The sample size may not be sufficient to give comprehensive and conclusive findings. The study was only carried out in the insurance industry and so the findings cannot be generalized for every type of industry in the economy.

The study was carried out in Kenya, whose socio-economic context is different from to other countries and the findings may not be applicable globally.

5.6 Suggestions for further research

The study effects of CSR on the financial performance of insurance firms in Kenya used the three forms of CSR as variables. It is therefore suggested that; similar studies be undertaken using larger samples of firms in other sectors of the economy. There is also need for similar comparative studies across different political jurisdictions to be carried out to find out if there are any differences in finding across the globe.

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APPENDICES

APPENDIX 1: DATA COLLECTION SCHEDULE FOR INSURANCE FIRMS

CSR Category / Years	Environmental CSR expenditure in Kshs	Philanthropic CSR expenditure in Kenya Kshs	Community Development CSR Expenditure in Kshs	Net Profit in Kshs
2008				
2009				
2010				
2011				
2012				
2013				
2014				
2015				
20016				
2017				

APPENDIX II: DATA COLLECTION SCHEDULE FOR IRA AND AKI

Financial Data of Insurance Companies

Name of insurance company …………………………………………………………………

Years	Net profit in Ksh	Total assets
2008		
2009		
2010		
2011		
2012		
2013		
2014		
2015		
2016		
2017		

APPENDIX III: STATA DIAGNOSTIC TESTS OUTPUTS

```
. xtserial roa comdev phil env

Wooldridge test for autocorrelation in panel data
H0: no first order autocorrelation
    F(  1,       4) =     28.102
           Prob > F =      0.0061
```

```
Breusch and Pagan Lagrangian multiplier test for random effects

        roa[firm1,t] = Xb + u[firm1] + e[firm1,t]

        Estimated results:
                         |       Var     sd = sqrt(Var)
                ---------+-----------------------------
                     roa |   .0016065       .0400817
                       e |   .0015069       .0388189
                       u |   .0001366       .0116859

        Test:   Var(u) = 0
                             chibar2(01) =     0.78
                          Prob > chibar2 =   0.1883
```

```
. hausman fixed random

                 ---- Coefficients ----
             |      (b)          (B)            (b-B)     sqrt(diag(V_b-V_B))
             |     fixed        random       Difference          S.E.
-------------+----------------------------------------------------------------
         env |   -1.00e-09    -5.25e-10      -4.76e-10        7.40e-10
        phil |    1.47e-10    -1.67e-09       1.82e-09        2.24e-09
      comdev |    7.60e-10     9.05e-10      -1.45e-10        2.42e-09
------------------------------------------------------------------------------
                           b = consistent under Ho and Ha; obtained from xtreg
            B = inconsistent under Ha, efficient under Ho; obtained from xtreg

    Test:  Ho:  difference in coefficients not systematic

                  chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                          =        5.19
                Prob>chi2 =      0.1581
```

```
. xttest3

Modified Wald test for groupwise heteroskedasticity
in fixed effect regression model

H0: sigma(i)^2 = sigma^2 for all i

chi2 (5)  =       79.23
Prob>chi2 =      0.0000
```

```
. testparm i.year

 ( 1)  2009.year = 0
 ( 2)  2010.year = 0
 ( 3)  2011.year = 0
 ( 4)  2012.year = 0
 ( 5)  2013.year = 0
 ( 6)  2014.year = 0
 ( 7)  2015.year = 0
 ( 8)  2016.year = 0
 ( 9)  2017.year = 0

           chi2(  9) =      7.40
         Prob > chi2 =      0.5960
```

```
. vif

    Variable |       VIF       1/VIF
-------------+----------------------
      comdev |      6.57    0.152129
        phil |      6.49    0.154039
         env |      2.01    0.497608
-------------+----------------------
    Mean VIF |      5.02
```

```
. xtreg roa env phil comdev, re

Random-effects GLS regression                   Number of obs      =        50
Group variable: firm1                           Number of groups   =         5

R-sq:  within  = 0.0035                         Obs per group: min =        10
       between = 0.2273                                        avg =      10.0
       overall = 0.0213                                        max =        10

                                                Wald chi2(3)       =      0.56
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.9057

------------------------------------------------------------------------------
         roa |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         env |  -5.25e-10   1.35e-09    -0.39   0.697    -3.17e-09    2.12e-09
        phil |  -1.67e-09   4.51e-09    -0.37   0.710    -1.05e-08    7.16e-09
      comdev |   9.05e-10   3.00e-09     0.30   0.763    -4.97e-09    6.78e-09
       _cons |   .0366029   .0093281     3.92   0.000     .0183202    .0548856
-------------+----------------------------------------------------------------
     sigma_u |  .01168594
     sigma_e |  .03881893
         rho |  .08309313   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```