Analysis of the effects of economic corporate social responsibility on financial performance of safaricom ltd  Eldoret branch

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ABSTRACT: The purpose of this study was to analyze the effect economic corporate social responsibility on Financial performance. The study was guided by the following objectives: To analyze the effect of innovative CSR cost on financial performance, to examine the effect of social quality practices spending on financial performance ,to find out the effect of corporate entrepreneurship spending on financial performance and to examine the effect of financial literacy expenditure CSR on financial. The study was guided by Stakeholders theory, Shareholder theory and Shareholder-Based Financial Performance theory. This study used quantitative research approaches. Quantitative research is generally associated. Collecting and converting data into numerical form so that statistical calculations can be made and conclusions drawn. This study will employ descriptive research design. The target population used was 100 and sampling procedure used was stratified. The study used primary (collected using questionnaires) and secondary data (trend analysis). To test the validity of the research instruments the questionnaires prepared and submitted to the supervisor and other research experts. In order to test the reliability of the instrument used in this study, the researcher used test retest method. Descriptive and inferential statistics method was used for data analysis and interpretation regression model was used to analyze the effect between variables. The study recommended that companies should ensure effective sustainability programs which include social responsibility. They should also ensure effective social programs are accomplished through cause-related marketing and corporate philanthropy, they should also create initiative which has beneficial relationship between the corporation and society, they should also should ensure corporate governance which is the framework of rules and practices by which a board of directors and embrace accountability, fairness, and transparency in a company’s relationship with its stakeholders. For further research the study suggests that more studies should be done on economic social responsibility and corporate governance.

Key Words: economic, social responsibility, social innovation, social entrepreneurship, quality, financial literacy & financial performance.

I. INTRODUCTION

Many studies has been done on CSR, Friedman (1970), asserts that within a free society, there only one social responsibility of business, to use its resources and interact in activities designed to extend its profits as long as it stays inside the foundations of the business, that is to say, it engages in open and free competition without deception or fraud. Therefore it’s clear that CSR has been a norm in most business with a main aim of profit margin growth because of stiff competition and to make each internal and external surroundings a number of activities avoiding emission of a waste disposal, provision of ethical merchandise and participation on the charity donations. Additionally to loyalty, investors are more likely to take a position in responsible companies.

Corporate Social responsibility is one among the most vital desires of each society, which came into being middle 1990’s. In the world of scientific and business literature, particularly the U.S., the issues of business and society is devoted to several informative analysis materials that offer ideas that may be related to corporate social responsibility. Among them were: the actual corporate social responsibility, corporate Social Performance and corporate social integrity.

Systematically evolving, these ideas simply replaced one another as accumulated the previous achievements. In the Nineteen Eighties this series continuing the idea of business ethics, corporate financial aid, corporate social policy, and management of stakeholders, At the start of the twenty first century theories of property development, corporate citizenship, corporate sustainability, corporate reputation and socially accountable investment, corporate, social reporting among others came along. According to Cheers & Carrol (2011) the approach to such advanced design by random selection of an idea fraught with not solely theoretical fragmentation, but additionally creating the most issues in the subject of political speculation obligatory on business, alienated from the process and practices of their own development.
According to Anyona (2005) corporate social responsibility focuses on sustainable development, focusing on stakeholder needs, and acknowledging the debt that the corporation owes to the community in which it operates. It defines the company’s partnership with social action groups in providing financial and other resources to support development initiatives predominantly among the disadvantaged communities. This perspective focuses on responsibilities of the stakeholders who are the community members, consumers, company shareholders, employees and management rather than profit maximization. According to Anyona (2005) corporate social responsibility defines the company’s partnership with social action teams in providing financial and different other resources to support development initiatives predominantly among the deprived communities. This attitude focuses on responsibility towards stakeholders, essentially the community, consumers, shareholders, workers and management instead of profit maximization. There’s additionally more stress on long term sustainability of business and setting. Samuel and Sarir (1997) postulated that the end product is threefold, on people, planet and profit, stressing that the stakeholders in business aren't simply the company’s shareholders. Sustainable development, economic sustainability and corporate profits ought to be analyzed in conjunction with social prosperity. According to Campbell (2004), society will, and should hold business chargeable for social conditions in society as a result of the collective actions of companies determined to a good extent the prevailing social and environmental state of society.

Globally CSR has emerged as a strategic activity that firms undertake and that they completed with direct and visual steps to communicate it to the relevant stakeholders. Figge et al (2014) recommended that many organizations reconcile CSR and effectiveness. According to Sen & Bhattacharya (2004) most marketing activities are incorporated with CSR that have significant effects on the performance. In this way, the manager imposes a tax and spends the profits for social functions that are intolerable, since she or he has neither the abilities nor the jurisdiction.

In Africa poverty of a nation state’s citizens, poor living condition the exhaustion of natural resources and political unrest, will have detrimental effects for a corporation has placed severe organization on engaging CSR, in order to facilitate the community to improve their living standards. Other Researches like Annan (2015), disclose that firms that adopt the CSR principles are more transparent and have less risk of felony and corruption. Additionally, they’ll implement stricter and, thus, costly quality and environmental controls, however they run less risk of getting to recall defective product lines and pay significant fines for excessive pollution.

In Kenyan firms, as in other nations around the world the concept of CSR has gained a foothold on recent years most firms are have a greater ability to draw and to retain employees that results in reduced turnover, staffing and training costs. Employees, too, usually assess their firms CSR performance to work out if their personal values conflict with those of the companies at which they work. These practices produce a culture of fear within the work place and hurt the employees’ trust, loyalty, and commitment to the company.

According to Odundo (2015), firms that improve working conditions and labor practices also experience improved productivity and reduced error rates. Regular controls within the production facilities throughout the globe make sure that all the workers work under better conditions and earn living wages. These practices are expensive, however the raised productivity of the staff and improved quality of the products generate positive cash flows that cover the associated costs. Thus, corporations may benefit from socially accountable actions in terms of employee morale and productivity. As observed by Micheal (2011), it’s rather easy to identify the benefits as being socially chargeable for businesses, it’s an arduous task to quantify and measure them and it’s by definition problematic to measure its effects separately. Ideally, it ought to be feasible to keep all alternative factors constant and measure a company’s financial performance before and after adopting the CSR principles (KPMG Report, 2011)

1.2 Statement of the Problem

Ideally in Kenya most organization profits have been increasing despite involvement on corporate social responsibility (economic survey 2012), the reason being, is most corporation have been engaging in to heed to the dynamic environment and with success strategize themselves, non involvement of CSR has been faced with challenges attributable to stiff competition, uncertainties and various organizational constrains. This as a result makes CSR part and parcel of common practices by organization, this is supported by Joseph (2010) that Safaricom have touch the lives of many through the engagement of CSR. Therefore its contrary to majority of manager because they argue that any expenditure is a cost which accounts to reduction of profits. Operating cost are critical input for most companies which most managers seek to maintain (Rosenbaum and Pearl, 2009). This is clear that economic CSR is a cost with little knowledge known on its effects on the firm financial performance. This study therefore endeavors to analyze the relationship between the economic CSR and financial performances.
II. LITERATURE REVIEW

2.1 Innovational CSR and financial performance

According to Husted and Allen (2007) innovation may be outlined as the adoption of recent systems, policies, programs, processes, products or services, which might be internally or outwardly generated. Dory (2005) points out that innovation is thought of as a good exploitation of recent ideas, employing a foundation of existing knowledge to design new products and services, or to develop existing ones, and from the purpose of resource-based theory, innovation is recognized as taking part in a central role in sustaining competitive advantage (Baregheh et al., 2009). The most vital issue facing firms within the world these days is how to manage the future. The more unstable and unstable the world is, the more firms should place confidence in innovation to make their desired futures. Successful innovation methods demand artistic efforts to grasp and influence future conditions. These innovations in technology produce new knowledge for each product and services for which firms enhance development (Nystrom, 1990).

Devinney (2008) considers the link between CSR and innovation, as an extra area within the link between CSR and company performance, which has been widely studied within the previous literature without a global accord having been reached. As Ray et al. (2004) indicate this lack of concurrence could also be attributable to the existence of the many variables that influence company performance, making it troublesome to work out the impact of CSR practices effectively. McWilliams and Siegel (2000) modified the standard model that delineated the link between CSR and company performance. A company's competitiveness globally, depends heavily on innovation to satisfy the dynamical desires of customers, additionally to products and services designed to satisfy their desires, today's difficult customers expect the most recent technology that is of top quality, dependable and has competitive costs. The firm with a capability to innovate is in a better position to compete in markets than one that lacks innovative capability (Morrison, 2009).

The incorporation of corporate social responsibility (CSR) criteria as a value-creating element that involves a modification of philosophy among firms. Whereas a rigorous assessment of past analysis permits individuals and companies to reject the claim that being inexperienced and socially responsible forever pays, more recent proof shows that CSR will produce shareholder value for a few problems, in some industries, with some companies and sure management methods, like innovation (Husted and Allen, 2007; Trebuq and Evrært, 2008).

Innovation of processes, products and services is taken into thought within the definition of competitiveness (Mintzberg, 1993), along with performance, quality, productivity and image (Vilanova et al., 2009). Moreover, innovation is typically outlined by including products and services as well as management processes. Siegel (2001) and Bansal (2005) pointed out a correlation between firm’s financial performance and CSR only if firms should apply principles of corporate responsibility to their products, productive processes and practices that need changes in the technology applied.

2.2. Effects of Social quality practices on financial performance

Nganga (2010) sought to find out the relationship between quality and profitability and he found that there exist strong relationship between engaging in quality practices and the returns sought. Various studies have given insight on the quality and financial performance such as (Rono 2009) asserts that customer satisfaction makes customers consumers continuously perceive that their needs are taken into consideration. There have been sufficient empirical literature on total quality management and financial performance and most shows positive correlation (Brahet et al 2001), he argues that for a firm to remain competitive it must responds to the customers’ demands thus making it important that any organization should treat their customers’ needs through quality product and services. Ahire (1996) also put forward that existence of concept of total quality management in a social perspective addresses how the market value will respond. Moreover Goihar (1996) on his dissertation puts an argument that focus on customer boost the firm’s profitability and by extension financial performance. Murata (2006) also ground the literature by asserting that due to the increase in competitive advantage quality ought to be defined from external perspective taking into consideration customers’ expectation rather than internal specification. This links CSR with quality. Wilson (2014) also argues that customers expectation are dynamic thus making the organizational to survey customers needs and act appropriately in a social perspective. Quality can also be pegged to the firm profitability for any given organization and this can be achieved through customer involvement in quality handling customer complaints and participating in activities which promote quality (Sultan 2005).

Otunga (2007) also argue that ongoing education and training of all employees supports the drive for quality achievement and by extension financial performance. Since employed will be responsible, communicate effectively act creatively and more innovative. The quality and financial performance are linked positively from studies on customers and employee driven experiences that highlight customer satisfaction where key parameters are taken into account on firms financial performance. (Magutu et al .2010). Mutisya (2010) highlights some of the firm’s financial performance with respect with participatory measures such as employee
involvement, teambuilding, community involvement as well as customer involvement these practices demonstrate quality in relation on organizational performance

2.3 Effects of corporate entrepreneurship on financial performance

Social entrepreneurship can be described as entrepreneurship, internal corporate, corporate ventures, venture management, new venture,(Fereira,2002).Most organization have recognized CR as an effective strategies to improve organizational performance and profitability and this makes organization managers , their employees and organization itself more entrepreneurial,(Mokaya et al,2007). Antonic (2007) asserts that corporate social responsibility is something which should be incorporated into the firms practical and daily practices either in small, medium or largely sized business. This will always boost the business operational profits because according to him it provides survival growth in all companies .He argued that CSR is an important in economic development as well as wealth creation through enterprises. On other studies Burgleman (1984) defines corporate entrepreneurship as a multi-dimensional construct which compose of innovations, risk propensity, proactiveness, corporate venturing and self renewal (Saly 2000) also according to Zang (2012) CR comprises of innovation, venturing and strategic renewal. Moreover corporate entrepreneurship can be viewed as the reflection of engagement in innovation and strong risk taking propensity which should be the only way of engaging into according Covin et al. Thus Mwangi (2003) on his study adds literature on this by viewing corporate entrepreneurship as innovativeness which always has tendency of creating new products or services .innovation can also be seen as the characteristics of entrepreneurial activities in a global market(Humpkin and Dess,1996).Mintzberg (1973) in his contribution asserts that in most developing countries external environmental conditions such as competitive effects of globalization, continual financial crisis makes the national firms to look for entrepreneurial opportunities highlighting its threats so that they can be innovative, adaptive and more entrepreneurial so as to sustain competition. Zahra (2002) also present that CE as a means of dealing against competition and market dynamism.Recent studies on CSR reveals that multidimensional structure which might be innovational is the heartbeat of entrepreneurship and has continuously spirited on global perspective so as to match numerical benefits organization gets from the CSR activities.(Drucker 2009),he hypothesized that innovativeness dimension has positive effects to financial performance this is clearly portrayed by presence of firms new products, new services and systems adopted to boost the profitability. Kanter (2006) and Porter (2008) also argues that conservativeness and risk averse attitudes of the firms decreases the firms market share of the forms and by extension competitive position hence both entrepreneurial and non entrepreneurial behaviors’ are clearly distinguish with the risk of engaging in various activities with object of maintaining high returns. This brings to attention that entrepreneurs should engage in business taking lot of risk into consideration this will promote ventures in new initiatives for the purpose of profit and growth tolerating possible calculation on losses. Khandwalla 1977;Miller 1983, put forward that the main challenges affecting the firm stability and profitability is short life of product life cycle and sensitivity of the product which are the key pillars of move to counter the competition.

Maclachan (2004) also come up with literature an asserts that in emerging economies, being a leader is more beneficial than wait and see strategies following the competitivenes cause to fight for some pie in less market share against the first move. This was reinforced by Huit (2005) where he said that instead of dealing with saturated markets its better to venture in fast moving products which helps organization to position itself in sustainable competitive advantage. The firms could not take another position against increased intensity of stiff competition or become late to enter into growing markets, computes the opportunity cost and trying to make alternative strategies to survive or remain in competitive environment(Hood and Young,2005).This implies that for firms to gain and over take its peers it must adopts competitive and aggressiveness such as competing on price, increasing commission, combating distribution channel which are all marketing tools this will make competitors enter into current markets (Porter,1980).

2.4 Effects of financial literacy spending on financial performance

Financial literacy remains an interesting issue in both developing and developed economies this has lead to various theories and literature to link between financial literacy and financial performance. Financial theory argues that people’s behavior with high financial literacy depends on two thinking styles according to dual process theories; cognitive and intuition. According to Evans (2008) put forward that dual process theories have been have been applied in many different fields for instance reasoning and social cognitive. Various definition of financial literacy have been put forward by many scholars for instance Artkiness and Massey(2005) defines it has a combination of consumer and investors understanding in financial products and concepts and making ability and confidence to appreciate financial risk and opportunity, to make informed decision, knowing where to go for financial assistance and taking effective actions to improve their financial well being the concept therefore empower and educate investors about the finances. Miller et al (2009) asserts that financial literacy facilitates effective and informed decision in payment of the bills, proper debt
management and improving credit worthiness. According to Chege (2011) put forward that literate investors can create competitive advantage on financial institution to offer more appropriate price prices and transparent services by comparing options, asking the right questions and negotiating more effectively. Investors on their part are able to evaluate and compare financial products. In constituting financial report in USA (G. Bush, 2008) argues that it’s a mandate of organization and institutions to educate in kindergarten through grade 12th on financial matters to ground the young with financial knowledge. This according to him will foster the financial of American companies. Greenspan (2002) argues that financial literacy helps to inculcate individual with knowledge necessary to create households budgets, initiative saving plan and make strategic investment decisions. Equity bank (2012) in an article dubbed Equity bank steps its one billion Kenyan shillings to bid the boost for financial literacy this has lead to improvement on financial performance.

III. MATERIALS AND METHODS

The study employed a descriptive survey research design. The study targeted 100 respondents with a sample size of 87 respondents. The study used 5-point likert questionnaires as the method data collection instruments.

3.0 Data Analysis

The study conducted initial data analysis using simple descriptive statistical measures such as, mean, standard deviation and variance to give glimpse of the general trend. However, multiple regression analysis was employed to test the hypotheses. Multiple regression analysis is applied to analyze the relationship between a single dependent variable and several independent variables. The beta (β) coefficients for each independent variable generated from the model, was subjected to a t-test, in order to test each of the hypotheses under study. The regression model used to test is shown below:

\[ Y = \beta + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon \]

Where:
- \( Y \) - Dependent variable (financial performance)
- \( \alpha \) - Alpha
- \( X_1 \) - innovation CSR
- \( X_2 \) - Social quality practices
- \( X_3 \) - Corporate entrepreneurship
- \( X_4 \) - Financial literacy
- \( \epsilon \) - Error term

All the above statistical tests were analyzed using the Statistical Package for Social Sciences (SPSS), version 20.

IV. RESULTS AND DISCUSSION

4.1 Trend analysis

The gross statements and other financial statements were obtained and the facts were presented using graphs and tables.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (BN)</th>
<th>EPS (BN)</th>
<th>DPS (BN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>94.83</td>
<td>0.33</td>
<td>0.20</td>
</tr>
<tr>
<td>2012</td>
<td>107</td>
<td>0.32</td>
<td>0.22</td>
</tr>
<tr>
<td>2013</td>
<td>124.29</td>
<td>0.44</td>
<td>0.31</td>
</tr>
<tr>
<td>2014</td>
<td>144.67</td>
<td>0.57</td>
<td>0.47</td>
</tr>
<tr>
<td>2015</td>
<td>163.37</td>
<td>0.78</td>
<td>0.64</td>
</tr>
</tbody>
</table>

Source (Safaricom Financial Reports Y11-Y15)

The table above shows the financial performances in a five year period. It’s clear that all items i.e revenue, EPS and DPS have been increasing over the five year from ksh b.94.83 in the year 2011 to 163.37 billion in the year 2015 this represents and increment of 72.27%.this translates that the EPS and DPS increased due to increase on revenue.

![Trend of financial performance](image)

www.ijbmi.org  118 | Page
The table show the trend on cost of economic CSR by safaricom ltd over a period of five years the cost have been increasing by 80.5% from a figure of ksh 26.0944 bn. to ksh 47.115, on analysis the revenue have a positive relationship since the two increases as the year increases, this implies that as the company incur more in economic csr it leads to a positive increment on the profits/revenue hence increasing the value of shareholder in terms of EPS and DPS.

![Trend of Cost on economic CSR](image)

4.2 Model Summary

R-Squared is a commonly used statistic to evaluate the goodness of fit of a model. In regression, the R square coefficient of determination is a statistical measure of how well the regression line approximates the real data. It measures the proportion of the variation in dependent variable explained by independent variables. $R^2$ accounts for 82.3% of the variability of outcome factors. Thus the study indicated that 82.3% of the variation in financial performance is explained by the innovational CSR , social quality practices ,corporate entrepreneurship spending and financial literacy

| Table 1.2 model summary |
|---|---|---|---|
| Model | R | R Square | Std. Error of the Estimate |
| 1 | .860$^a$ | .823 | .634 | 2.16404 |

4.3 Anova

As shown from the table, $F=1.714$, $p=0.000$. Analysis of Variance (ANOVA) was used to test the significance of the regression model shown in table 1.3 above, The F- test provides an overall test of significance of the fitted regression model whereby, if the $p=0.000$ value for the F –test of overall significance test is less than 0.05 then the model provides a better fit. Hence the model provides a better fit, and thus it is statistically significant in predicting how innovational CSR ,social quality practices ,corporate entrepreneurship spending and financial literacy affect financial performance in Safaricom company. The F value of $F=1.714$ indicates that all the variables in the equation are important hence the overall regression is significant
Analysis of the effects of economic corporate social responsibility on financial performance of...

TABLE 1.3 Anova Table

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>32.098</td>
<td>4</td>
<td>8.025</td>
<td>1.714</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>360.597</td>
<td>77</td>
<td>4.683</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>392.695</td>
<td>81</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), innovational CSR, social quality practices, corporate entrepreneurship spending and financial literacy

b. Dependent Variable: Financial Performance

V. CONCLUSION

It can be concluded that the effect of innovational CSR on financial performance this can lead to continuous products and service innovation in the firm, ensure access to internet used making browsing and speed of data bundles excellent, it also ensures that mobile banking services have been of great satisfactory to consumer and finally ensures that managers are committed in offering quality product and services. Social quality practices have an effect on financial performance of Safaricom Ltd it was concluded that the products and services offered are of quality, customer care services should be excellent, the credit card are environmental friendly and user friendly, employee participation and training is key concern when undertaking CSR, there is value for money in any product/service offered, also the organization do market research to find customer needs and address them, customer needs and focus are given key attention by the organization, involvement by organization to ensure there is clear channels of communication. Thus social quality practices are a determinant of a firm’s financial performance. Lastly in relation to financial literacy and corporate social responsibility it was concluded that, it is easy to access mobile money/loan in this/that organization, the firm creates sufficient awareness on the loan borrowers, the interest rates is stable according to terms and condition, customers/stakeholders are aware of the all corporate activities and its associate cost and the procedure and condition for qualifications of credit is clear and known.

5.1 Recommendation of the Study

5.1.1 Recommendation with Policy and Practice

Based on the findings of the study, the researcher therefore recommends the following: the company should ensure effective sustainability programs, they should also ensure there is effective social programs and ensuring there is adoption of corporate governance.

5.1.2 Suggestion for Further Research

There is a substantial amount of research that still needs to be done concerning the effects of economic corporate social responsibility on financial performance of other organizations. As more reliable data becomes available on CSR, it may also be useful to determine whether or not the relationships examined in this study hold over time. Further the concept of social responsibility of corporations has engendered considerable interest in many organizations in recent years. While previous research on the relationship between corporate social responsibility and financial performance has largely been based on international data, further research should be considered on the relationship between the adoption of corporate social responsibility and the financial performance of other sectors.

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Analysis of the effects of economic corporate social responsibility on financial performance of...


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