CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN KENYA: THE MODERATING ROLE OF SOCIAL CAPITAL

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DECLARATION

Declaration by the student

This research thesis is my original work and has not been presented for a degree in any other university. No part of this thesis may be produced without the prior written consent of the author and or Moi University.

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DEDICATION

I would like to dedicate this research thesis to my parents: Mr. Francisco and Mrs. Margaret Mulupi for their encouragement, determination, commitment, guidance, valuable advice and contribution towards my education. I thank them for their immense support and immeasurable goodwill. ‘The best gift we can receive from our parents is a good and sound education. May they receive God’s unprecedented favour and his exponential blessings as the author and perfector of our faith.

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ABSTRACT

In Kenya, insurance companies have not been very aggressive in corporate social responsibility activities over the years and most of the insurance companies have not been intensely involved in corporate social responsibility as compared to other insurance companies in other countries, which has negatively affected their financial performance. Financial performance of majority of insurance firms has been on a decline according to the Insurance Regulatory Authority Report (2015). The study examined the relationship between corporate social responsibility and financial performance of insurance companies in Kenya with the moderating role of social capital. The specific objectives were to assess the relationship between economic responsibilities, discretionary responsibilities, legal responsibilities, ethical responsibilities and the financial performance of insurance companies in Kenya. The moderating effect of social capital on the relationship between corporate social responsibility and financial performance of insurance companies in Kenya was also analysed. The study was anchored in the stakeholder theory, legitimacy theory, social capital theory, social contracts theory and agency theory. The explanatory research design was adopted for the study. The target population for the study was 49 insurance companies in Kenya governed by the Insurance Regulatory Authority. The correlation results indicated that there was a positive and significant association between economic responsibilities and financial performance. Additionally, economic responsibilities and financial performance were positively and significantly related. Likewise, social capital moderated the relationship between economic responsibilities and financial performance. There was a positive and significant association between discretionary responsibilities and financial performance. The regression results indicated that discretionary responsibilities and financial performance were positively and significantly related. Social capital moderated the relationship between discretionary responsibilities and financial performance. The correlation results showed that there was a positive and significant association between legal responsibilities and financial performance. Moreover, the regression results indicated that legal responsibilities and financial performance were positively and significantly related. The social capital moderated the relationship between legal responsibilities and financial performance. The correlation results showed a positive and significant relationship between ethical responsibilities and financial performance. Regression results showed that ethical responsibilities and financial performance were positively but insignificantly related. Social capital did not moderate the relationship between ethical responsibilities and financial performance. The study recommended that insurance companies should engage in corporate social responsibility through economic responsibilities, discretionary responsibilities, legal responsibilities and ethical responsibilities since they had a positive impact on financial performance.

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OPERATIONAL DEFINITION OF TERMS

Corporate social responsibility- Corporate social responsibility is the firm's acceptance of social obligations beyond the requirement of the law. It is an essential strategy that can contribute to the improved long-term performance of a firm, for instance, increasing profitability, growth, image, reputation and overall competitiveness (Sobhani, Amran, & Zainudden, 2012)

Discretionary Responsibilities - Incorporates activities that are within the corporation's discretion to improve the quality of life of employees, local communities, and ultimately society at large and it entails the making donations to charitable institutions, building of recreational facilities for employees and their families, support for educational institutions, supporting art and support activities, etc. are the examples of philanthropic responsibilities discharged by the corporations (Sobhani, Amran, & Zainudden, 2012)

Economic Responsibilities –A corporation has to meet its economic responsibilities in terms of reasonable returns to investors for example payment of fair dividend, fair compensation to employees, and goods at fair prices to customers and the economic responsibility is the first-layer of responsibility and also the basis for the subsequent responsibilities (Aguinis & Glavas, 2012)

Ethical Responsibilities - refers to obligations which are right, just, and fair to be met by corporations. Just abiding by law, procedure, rules and regulations does not make business conduct always as ethical or good (Palmer, 2012). The corporations have an ethical responsibility to do, even going beyond the law, rules and regulations; what proves good for the society. In other words, ethical responsibilities consist of what is

generally expected by society from corporations over and above economic and legal expectations (Abdallah, 2014)

Financial performance - The term is used as a general measure of the firms overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Yu-Shu *et al.,* 2015).

Insurance - is a promise by one party, the insurer, to compensate another party, the insured, for specific potential losses in the future in exchange for a periodic payment made by the insured. It is a means of protection from financial loss. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss (Murigu & Mwangi, 2015),

Insurance company - a financial institution that sells insurance (Wangari, 2014)

Legal responsibilities - involves abiding by the law of the land and playing by the rule of the game. Laws are the codification of the do’s and don'ts in the society. Examples of legal responsibilities are the payment of taxes and other dues and abiding by laws is the prerequisite for any corporation to be socially responsible (Fauzi, 2017).

Social capital - Social capital refers to the networks together with shared norms, values and understanding that facilitate co-operation within or among groups. It is the expected collective or economic benefits derived from the preferential treatment and cooperation between individuals and groups (Singhapakdi, Lee, Sirgy & Senasu, 2015).

ABBREVIATIONS

CEP - Council Economic Priorities

CFP - Corporate Financial Performance

CSR - Corporate Social Responsibility

EPS - Earning Per Share

FP - Financial Performance

IPO - Initial Public Offer

IRA - Insurance Regulatory Authority

KLD - Kinder, Lydenberg, Domini and Co.

NACOSTI- National Commission for Science, Technology and Innovation

NSE - Nairobi Securities Exchange

OECD - Organization for Economic Co-operation and Development

PAT - Profit after Tax

ROA - Return on Asset

ROE - Return on Equity

SID - Social Involvement Disclosure

SPSS - Statistical Package for Social Sciences

SR - Social Responsibility

TSCF - The Social Capital Foundation

CHAPTER ONE

INTRODUCTION

1.0 Overview

The chapter comprised of the background of the study, statement of the problem, objectives of the study, hypotheses of the study, significance of the study and lastly the scope of the study

1.1 Background of the Study

Financial performance is a potent tool that is used by the firms to know whether to continue in the business or not. According to Disegni, Huly and Akron (2015), financial performance is the measure of the firm's financial health over a given period or a measure of how well a firm can meet its policies and operations in monetary terms. According to Murigu and Mwangi (2015), financial performance is a measure of an organization's earnings, profits and appreciation in its value, which is reflected by the rise in the price of the entity's shares. To measure the financial performance of a firm, different financial analyses are done to the firm's financial statements. This helps to show the profitability and financial soundness of the business. This information is essential as it supports different stakeholders to make decisions and also helps to analyze the viability of an activity that had been undertaken earlier. According to Murigu and Mwangi (2015), financial performance in the insurance industry is expressed in terms of net premiums earned profitability from underwriting activities, annual turnover, return on investment and return on equity.

Organizational performance is a multidimensional construct that has several names, including growth (Dobbs & Hamilton, 2016). However, relying on traditional

financial methods and techniques alone to measure company performance is no longer the norm in large organizations (Basu, 2011). Even though most companies realize the importance of combining financial and non-financial performance measures, they have failed to represent them in a balanced framework (Sekaran *et al*., 2014). Superior business performance is a way to satisfy investors and can be represented by profitability, growth and market value. However, it has become a necessity for companies to deal with issues that concern all kinds of stakeholders, either internal or market-related. According to Isaksson and Steimle (2012), companies have to be committed to behaving socially and environmentally responsible, whereas striving for their economic goals.

Corporate social responsibility is the firm's acceptance of social obligations beyond the requirement of the law. It is an essential strategy that can contribute to the improved long-term performance of a firm, for instance, increasing profitability, growth, image, reputation and overall competitiveness (Sobhani, Amran, & Zainudden, 2012). According to Park and Koehler, 2013, corporate social responsibility has a positive effect on financial performance. Maden *et al*., (2012) established that corporate social responsibility is comprised of the economic obligations, discretionary responsibilities, legal responsibilities and ethical responsibilities

Economic responsibilities involve returns to investors. A corporation has to meet its economic responsibilities in terms of reasonable returns to investors, for example, payment of regular dividend, fair compensation to employees and goods at fair prices to customers (Palmer 2012). According to Aguinis and Glavas (2012), meeting economic responsibility is the first-layer of responsibility and also the basis for the following responsibilities. Discretionary responsibilities incorporate activities that are

within the corporation's discretion to improve the quality of life of employees, local communities, and ultimately society at large (Yu-Shu *et al*., 2015). Making donations to charitable institutions, the building of recreational facilities for employees and their families, support for educational institutions, supporting art and support activities, etc. are the examples of discretionary responsibilities discharged by the corporations (Zuriekat *et al*., 2011).

Furthermore, legal responsibilities involve abiding by the law of the land and playing by the rule of the game (Margolis & Walsh, 2013). For instance, the elements of the legal responsibilities include the payment of taxes and other dues, abiding by laws and to be socially responsible. Ethical responsibilities refer to the obligations which are right, just and fair to be met by corporations (Abdallah, 2014). The conduct of corporations that go beyond law and contribute to social well-being is called ethical and thus the corporations have an ethical responsibility to do, even going beyond law, rules and regulations to do what seems good to the social good for the society (Köseoglu, Topaloglu, Parnell, Donald & Lester, 2013). In other words, ethical responsibilities consist of what is generally expected by the society from corporations over and above economic and legal expectations.

Social capital refers to features of social organization that create an environment of mutual benefits and coordination. The concept of social capital is broadly defined as an asset that exists in social relations and networks (Hasan, Kobeissi, Liu & Wang, 2018). According to Leana and Van Buren (2009), organizational social capital is a resource reflecting the character of social relations within the firm formed by goal orientation and trust. Few studies have been done on the relationship between CSR and social capital). However, the prevalent researchers have found that CSR creates reliable social networks for organizations (Saeed & Faria 2012), Social capital

facilitates resource building and resource development that are regarded as an intangible asset. Moreover, Sacconi and Giacomo (2010) concluded that social capital is a strong predictor of firm performance. Despite the soundness of its theoretical construct, the role of CSR on firm financial performance, whether facilitative or contributory, deserves further investigation.

Rahim *et al.,* (2011) showed positive and significant relationships between corporate social responsibility components, namely economic, legal, ethical and philanthropic, on Malaysian consumers' buying behavior. Waworuntu, Wantah, and Rusmant (2014) established that the commitment of companies to their stakeholders has a positive relationship on the financial to the top listed companies in the ASEAN region. Fauzi (2017) did research on firms listed on the New York Securities Exchange (NYSE) and established that CSR does not affect CFP under both slack resources and proper management. However, the study found that leverage has a moderating effect on the interaction between CFP and CSR. Anderson (2013) established that the company’s legal responsibilities had a positive and significant influence on the performance of the insurance companies in the USA.

Amaeshi, Adi, Ogbechie and Amao (2016) established that legal responsibilities are supplemental to the requirement that businesses and their employees comply fully with the general and criminal laws that apply to all individuals and institutions across the country hence have a positive influence on the performance of the insurance companies in Nigeria. Amponsah and Dartey (2013) established that the majority of firms in the consumer search goods and essential resources sector are relatively efficient and behave homogeneously concerning CSR and tend to achieve reliable positive results in economic performance than those from other sectors in Ghana.

Mwangi and Jerotich (2013) established a positive relationship between corporate social responsibility practices and financial performance of firms in the manufacturing, construction and allied sectors of the Nairobi securities exchange. Okoth (2012), found that CSR improves the financial performance of large and medium-sized banks, while the effect on the ROA of small banks is insignificant. Musau (2015), showed that there is a positive relationship between CSR and profitability of Banks, customer satisfaction, customer retention and service delivery. Omwega (2012), found that there is a positive relationship between the CSR practices and the financial performance of companies listed on the NSE. Wangari (2014), studied the effect of corporate social responsibility on the financial performance of 100 top small and medium enterprises in Kenya between 2009 and 2013, found that CSR has a significant positive effect on the financial performance of small and medium-sized enterprises in Kenya. The data obtained was analyzed using SPSS with multiple regression models.

1.2 Statement of the Problem

In Kenya, insurance companies have not been very aggressive in corporate social responsibility activities over the years. According to Waithira (2015), most of the insurance companies in Kenya have not been intensely involved in corporate social responsibility as compared to other insurance companies in other countries, which has negatively affected their financial performance. Through corporate social responsibility activities, consumers gain confidence and trust in an organization and its activities, and this enhances the competitiveness of that firm. The firm also gets to gain access to some of the resources that are within the community, and also use the corporate social responsibility activities as marketing tools where they make the community aware of their products (Okoth 2014). CSR also ensures that organizations

do not involve themselves in practices that are harmful to the community and that they comply with all the statutory requirements. Therefore, CSR has much important significance to the performance of the organization and thus form the basis for conducting this investigation on the relationship between corporate social responsibility and financial performance of insurance companies in Kenya.

Previous studies show mixed results on the influence of corporate social responsibility on financial performance. For instance, Musau (2015), who did a study on banks in Kenya, a case of Equity bank, found a positive and significant relationship between corporate social responsibility and financial performance. Kitale, Omwega (2016), who studied companies listed in NSE between 2010 and 2015, found a positive and significant relationship between corporate social responsibility and financial performance.

Wangari (2014) found a positive and insignificant relationship between corporate social responsibility and financial performance. In a study by Okoth (2014) to determine the relationship between CSR and FP of commercial banks in Kenya, found that corporate social responsibility improves the financial performance of large and medium banks but has an insignificant connection with the financial performance of small banks. Tsoutsoura (2014) indicated a positive relationship between CSR and financial performance. Tarus (2015) found out that the overall CSR index had a positive and significant effect on both measures of firm performance. Therefore, none of the studies have been done to establish the relationship between corporate social responsibility and financial performance of insurance companies in Kenya with the moderating role of social capital thus forms the foundation to conduct the study.

1.3 Objectives of the Study

1.3.1 General objective

The general objective of this study was to investigate the relationship between corporate social responsibility and financial performance of insurance companies in Kenya: The moderating role of social capital.

1.3.2 Specific objectives

The specific objectives of the study were:

i. To assess the relationship between economic responsibilities and financial performance of insurance companies in Kenya.

ii. To find out the relationship between discretionary responsibilities and financial performance of insurance companies in Kenya.

iii. To establish the effect of legal responsibilities on financial performance of insurance companies in Kenya.

iv. To evaluate the relationship between ethical responsibilities and the financial performance of insurance companies in Kenya.

v. a) To establish the moderating effect of social capital on the relationship between economic responsibilities and financial performance of insurance companies in Kenya.

   b) To establish the moderating effect of social capital on the relationship between discretionary responsibilities and financial performance of insurance companies in Kenya.

   c) To establish the moderating effect of social capital on the relationship between legal responsibilities and financial performance of insurance companies in Kenya.

d) To establish the moderating effect of social capital on the relationship between ethical responsibilities and financial performance of insurance companies in Kenya.

1.4 Hypotheses of the Study

i. **Ho_1:** There is no statistical significant relationship between economic responsibilities and financial performance of insurance companies in Kenya.

ii. **Ho_2:** There is no statistical significant relationship between discretionary responsibilities and financial performance of insurance companies in Kenya.

iii. **Ho_3:** There is no statistical significant relationship between legal responsibilities and financial performance of insurance companies in Kenya.

iv. **Ho_4:** There is no statistical significant relationship between ethical responsibilities and the financial performance of insurance companies in Kenya.

v. **$Ho_{5\ (a)}$:** Social capital does not significantly moderate the relationship between economic responsibilities and financial performance of insurance companies in Kenya.

$Ho_{5\ (b)}$: Social capital does not significantly moderate the relationship between discretionary responsibilities and financial performance of insurance companies in Kenya.

Ho5 (c): Social capital does not significantly moderate the relationship between legal responsibilities and financial performance of insurance companies in Kenya.

Ho5 (d): Social capital does not significantly moderate the relationship between ethical responsibilities and financial performance of insurance companies in Kenya.

1.5 Significance of the Study

The insurance industry is one of the most important contributors to the Kenyan economy. It engages in the payment of taxes, creation of employment, investment in government bonds and contribution to charitable works, among others. Improvement in the financial performance of this industry would, therefore, be of great benefit not only to the companies but also to the Kenyan economy. This study will help to identify what effects involvement in CSR activities would have on this industry and therefore improve the management as they set companies' policies to know whether CSR activities should be undertaken or not. It will also help identify the areas in which insurance companies have been involved and which other activities can be carried out to maximize profits. The study will also sensitize the community on the areas that insurance companies have been involved, in which they can benefit from e.g. sponsorship. Potential employees can also be able to tell from this study, which companies treat their employees well since the satisfaction and wellbeing of employees is also a measure of CSR. The general public may be informed of the various approaches in which an entity can undertake social and environmental activities aimed at improving the quality of life in the community, workplace, market place and generally giving back to society. This will lead to increased human benefit

and satisfaction through quality services and goods. The study will help other researchers in this area to borrow ideas and facilitate improvement and additions of valuable information.

1.6 Scope of the Study

The study sought to examine the relationship between corporate social responsibility and financial performance of insurance companies in Kenya. The specific objectives of the study were to assess the relationship between economic responsibilities, discretionary responsibilities, legal responsibilities, ethical responsibilities on the financial performance of insurance companies in Kenya and to establish the moderating effect of social capital on the relationship between corporate social responsibility and financial performance of insurance companies in Kenya. The explanatory research design was adopted for this study. The target population of the study was 49 insurance companies in Kenya governed by the Insurance Regulatory Authority and the census survey was conducted since the targeted population was small and manageable.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section entailed the concept of financial performance**,** market-based measurement, concept of corporate social responsibility, concept of social capital, theoretical framework, empirical review, summary of literature gaps and the conceptual framework.

2.2 Concept of Financial Performance

Performance is the outcome that organizations seek to achieve in the long term (Morgan, Vorhies & Mason, 2012). In the context of (Hussein, Mohamad, Noordin & Ishak, 2014) study, organizational performance refers to the outcomes of various organizational processes which occur in the course of its daily operations. Organizational performance has not been frequently defined and has been used differently according to the context, as well as being difficult to define and measure (Hussein, *et al.*, 2014). Organizational Performance refers to the degree of organizational achievement of its mission (Cascio, 2006). In general, the concept of organizational performance is based upon the idea that an organization is a voluntary association of productive assets that includes; human, physical, and capital resources, aimed at achieving a shared purpose (Alchian and Demsetz, 1972; Barney, 2001; Jensen, 2010).

According to Barney performance is a continuous process to controversial issues among organizational researchers. Further, Hefferman and Flood (2010) affirmed that organizational performance does not only mean defining problems but also solutions to problems. Organizational performance is an organization's capability to accomplish its goals effectively and efficiently using resources (Daft, 2011). Achievement of

organizational goals and objectives is considered organizational performance (Daft, 2000; Richardo, 2001). Performance means quality, condition, or function. Therefore, organizational performance is a general structure which refers to the operations of the enterprise (Roadster, 2008). According to Javier (2012) performance is equivalent to the economy, efficiency and effectiveness for a specific program or activity. Organizational performance is always evaluated by outsiders as a firm's ability (Bonn, 2000). This infers why performance is like a mirror to a firm.

Financial performance is a key measure of financial success over a given period of time such as return on sales, growth, profitability and overall competitiveness (Rhee *et al.*, 2009). Moreover, for firms to know whether to continue in business or not they must measure what they expect to accomplish, otherwise they would be operating in the dark. Trivedi (2010) defines financial performance as the act of performing a financial activity measured against preset standards of accuracy, completeness, cost, and speed. It is the degree to which financial objectives of an organization are being met or have been accomplished. According to Murigu and Mwangi (2015), financial performance is a measure of an organization's earnings, profits and appreciation in its value which is reflected by the rise in price of the entity's shares.

Financial performance can also be said to be the measure of a firm's financial health over a given period of time or a measure of how well a firm is able to meet its policies and operations in monetary terms. Although the financial performance suffers little or no definitional challenge, it is prone to manipulation by business managers and their collaborators (Jiao, 2010; Jensen, 2010). This gives rise to such practices as window dressing of accounts, earnings management, and financial engineering all of which are fraudulent acts (Bona, 2012). Considering that financial reporting regulation and legislations have made it mandatory to subject accounting numbers to independent

review provides little respite for preventing corporate misdemeanor (Jensen, 2010). Financial performance can be measured at a given point in time or over a period of time. It can also be compared with similar firms across the same industry or be used to compare industries or sectors in aggregation. To measure financial performance of a firm, different financial analyses are done to the firm's financial statements.

2.2.1 Accounting-based Measurement

Accounting-based measures are used by many scholars in different articles which examine the relationship between CSR and FP. This method encompasses only the company's historical assessment of accounting profitability (Moenna, 2014). Examples of accounting-based measures are: ROA, ROE, assets growth, and operating revenue. This method has certain drawbacks. The accounting-based approach shows the historical firm performance. This can be manipulated by managers. Managers use different accounting standards which affect the results and are not relevant to compare across different companies. Finally, when using accounting-based measures the characteristics of different sectors and the risks associated with them are important (Aras, *et al.,* 2010). In this study ROA will be used as an accounting-based measure for financial performance. This measurement has been used in prior studies (Aras *et al.,* 2010).

2.2.2 Market-based Measurement

This section discusses the market-based measures. Market-based measures concentrate on market performance. Examples of market-based measures are: measurements about the price per share or share price appreciation, EPS, market return, P/E ratio, market-to-book value (Aras, *et al.,* 2010). Market-based measures are less susceptible to different accounting procedures. They are less dependent on

managerial manipulations. Market-based measures represent the investor's evaluation of the ability of a company to generate future economic earnings (Aras, *et al.,* 2010). Finally, the advantage of market-based performance measurement is that it is an objective measure. It can estimate the value (or the cost) of firms that adopts certain strategies to be socially responsible, conditional on the existing information (Goukasian and Whitney, 2008; Karagiorgos, 2010).

However, market-based measures also have their shortcomings. For example, if there is asymmetric information, market-based measures may not reflect fair evaluation from investors (Aras, *et al.,* 2010). In general, it is difficult to exclude other influences (market reaction) on the share price of a company. The EPS is used as a market-based measure for Financial Performance.

2.3 Concept of Corporate Social Responsibility

The notion of CSR is most commonly associated with philanthropy at present. Even though companies make donations to help alleviate social problems, justified by the belief that companies should 'give something back' to the societies in which they operate. Unfortunately, there is a "tradition of companies using philanthropy as a respectable means of buying off stakeholders to accept their operating practices (Jerotich, 2011). However, the trajectory of CSR has been influenced by civil society organizations campaigning against poor labor practices and environmentally damaging production processes in the export sectors, such as cut flowers, horticulture and textiles (Kiviutu and Fox, 2015). Though, government regulations ensure socially responsible behavior remain limited, in some cases, corporations (Campbell, 2007).

Involvement of business firms in societal development activities beyond the pursuit of profit making to accelerate shareholders' wealth maximization has been gaining momentum in business and in academics. Although businesses were found to have

engaged in some form of social activities during the 19th century era of factory systems the formal writings on and the developments of the CSR concept date back to 1950s (Maden *et al.,* 2012). But understanding the nature of the impact that the CSR has on the business financial performance has recently elicited increasing academic and business interests with the escalating demand for businesses to be more responsible to the stakeholders other than the shareholders and strive to meet their multifarious needs (Aguinis and Glavas, 2012).

The CSR topic is now a common feature of corporate websites; corporations now designate a senior management member to anchor the CSR issues, while most reputable business schools now not only engage CSR subject matter professors, they also integrate CSR ideals into the business management curricular (Montiel and Delgado-Ceballos, 2014). On a global scale, business corporations have integrated the CSR ideals into their business models and operating structures, as a strategy to maximize profit (Servaes and Tamayo, 2013). Conjoint evolutionary trends that support increasing acceptance and growth of CSR include the increasing affluence of the global societies as well as the increasing competition and globalization (Surroca, Tribo, and Zahra, 2013), the need to redress the image crisis (Avram and Avalsilcai, 2014), advances in communication technology that aid the global broadcasting of irresponsible corporate acts (Wang, Lu, Kweh, and Lai, 2014), and the increasing concern for environmental safety and ecological sustainability (Idemudia, 2011).

Despite this euphoria of social interests by business firms, there is no universally accepted definition of the CSR yet. CSR has been conceptualized in diverse ways and researchers are yet to agree on a common definition of the construct. It has been regarded as essentially contested concept, with meanings varying with people and with contexts (Saeidi *et al.,* 2014). The emergent state of the construct is evidenced by

lack of cohesion, definitional consensus and theoretical maturity that dominate the literature. A universal definition is fundamentally inevitable to the understanding, growth and wide acceptance of the concept. A common theme of the CSR that has emerged in literature relates to how to create value to the stakeholders rather than a narrow focus on the stockholders, the corporations' legal owners (Peloza and Shang, 2011).

Corporate social responsibility (CSR) has been defined as context-specific corporate actions and policies that integrate the stakeholders' expectations and the triple bottom line of economic, social and environmental performance (Aguinis and Glavas, 2012). In view of the definitional lacuna that presently characterizes the CSR literature, it was accepted for this study that CSR is a voluntary business firm action directed toward improving the economic, social, and ecological or environmental conditions of the society including the future generations (Okoye, 2009). Corporate social responsibility (CSR) is the idea of corporations acting in socially responsible ways (Keffas and Olulu-Briggs, 2011).

According to Lu, Chau, Wang and Pan, (2011), echoing the sentiments of Friedman, (1962), if managers used corporate resources for any cause other than profit maximization, it would constitute a form of theft. According to the stakeholder's theory as cited by Lu *et al.,* (2011), stakeholders have different interests in a corporation and thus have different impacts upon it, positive or negative, and the corporation is seen to be responsible to meet their interests. Business executives tend to take an eclectic position, accepting that companies have an obligation to assume social responsibilities while pursuing business success. Porter and Kramer (2011) have even advocated shifting societal issues from the periphery to the core of a

business by ‘creating shared value’, which involves creating economic value in a way that also creates value for society.

Jamali and Mirshak (2007) observed that CSR is founded on a stronger realization of the role of business as an active partner in a world of scarce resources. Furthermore, Rangan, Chase and Karim (2012), attributed that the more a company becomes active in CSR the more the identity of the company is enhanced and hence the consumer identifies himself/ herself with that company’s brand. Companies seek to differentiate themselves through engagement in CSR. This is because that involvement shows the fundamental values of the company’s brand (Flammer, 2013).

According to Carroll and Shabana (2010), CSR Pyramid has four kinds of corporate social responsibilities that firms can get involved in; economic which is the foundation upon which the others rest upon because the firm has to make profit for it to continue in operation, legal since the firm has to obey the codification of wrong and right of the society, ethical which refers to an obligation to do what is right and fair and avoid harm and finally be philanthropic by being a good corporate citizen. When these are observed by a firm then it can be said to be socially responsible.

CSR is a general management concern; that is, it is important to all aspects of business, and it is integrated into a corporation’s operations through its values, culture, decision making, strategy, and reporting mechanisms. CSR is important because the business system is the mechanism selected by society to produce and distribute goods and services. Originally, people felt that a business enterprise had fulfilled its social responsibility by surviving and realizing the maximum profit possible. The resources of the society could be used by the corporation to make profits as long as the corporation complied with the few rules imposed by

governments to check abusive practices. The market system provided the regulation necessary to police the system, and profits provided incentive and ensured efficiency.

2.3.1 Corporate Social Responsibility Measurement

The corporate social responsibility measurement is very significant and aims to ensure that companies ethically conduct their business. This means taking account of their social, economic and environmental impact, and consideration of human rights (Alvarado, Bigne, Aldas-Manzano, & Curras-Perez, 2017). According to Margolis and Walsh (2013), corporate social responsibility measurement comprises Economic responsibilities, Discretionary responsibilities, legal responsibilities and ethical responsibilities.

Economic responsibilities entail the returns to investors and the organization has to meet its economic responsibilities in terms of reasonable returns to investors such as regular dividend, fair compensation to employees and goods at fair prices to customers (Palmer 2012). Watson (2015) established that meeting economic responsibility is the first-layer of liability and also the basis for the following responsibilities. Furthermore, the discretionary responsibilities incorporate activities that are within the corporation's discretion to improve the quality of life of employees, local communities, and ultimately society at large (Yu-Shu *et al*., 2015). Making donations to charitable institutions, the building of recreational facilities for employees and their families, support for educational institutions, supporting art and support activities, etc. are the examples of discretionary responsibilities discharged by the corporations (Zuriekat *et al*., 2011).

Legal responsibilities involve abiding by the law of the land and playing by the rule of the game (Margolis & Walsh, 2013). For instance, the elements of the legal

responsibilities include the payment of taxes and other dues, abiding by laws and to be socially responsible. Also, the ethical responsibilities refer to the obligations which are right, just and fair to be met by corporations (Abdallah, 2014). The conduct of corporations that go beyond the law and contribute to social well-being is called ethical. Thus, the corporations have an ethical responsibility to do, even going beyond law, rules and regulations to do what it seems reasonable to the social good for the society (Köseoglu, Topaloglu, Parnell, Donald & Lester, 2013). In other words, ethical responsibilities consist of what is generally expected by society from corporations over and above economic and legal expectations.

2.4 Concept of Social Capital

Social capital is defined by the OECD as networks together with shared norms, values and understandings that facilitate co-operation within or among groups. Social capital is the expected collective or economic benefits derived from the preferential treatment and cooperation between individuals and groups. Social capital is a jointly owned set of resources that accrue to an individual or group by virtue of their social connections and it can be significant in knowledge acquisition and transfer between network members (Inkpen and Tsang, 2005). Social capital can be found in the network of partnerships formed by an organization, and it embraces relationships with customers as well as business, industry and community relations (Chang, 2010).

Social capital is a factor that may contribute to the ability of directors to provide quality monitoring and advice. According to Chang, (2010), social capital is defined as being “the goodwill available to individuals or groups”. Its source lies in the structure and content of the actor’s social relationship, which is an informal norm promoting co-operation between two or more individuals (Fukuyama, 2011). Social capital is generally seen to be embedded in the relationship between parties rather

than in the parties themselves. Although different social sciences emphasize different aspects of social capital, they tend to share the core idea that social networks have value. Just as a screwdriver physical capital or a university education cultural capital or human capital can increase productivity both individual and collective, so do social contacts affect the productivity of individuals and groups (Chang, 2010).

2.4.1 Measurement of Social Capital

Social capital as defined in our above section represents access to social resources: an accumulated potential that could be mobilized by an individual would the occasion call fort. Descriptions given in the literature of this access to social capital, or the network resources (Yu-shu *et al*., 2015), comprise either the resources themselves or aspects of the collection of social resources as a whole (resource variety, range of resources, upper reach ability, or typical compositions). Social capital refers to the stocks of social trust, norms and networks that people can draw upon in order to solve common problems. According to Bourdieu and Wacquant (2012) as cited by Yu-shu *et al*., (2015) social capital mean the network to be obtained through resources. Therefore, this study will use interlocking directorates to measure social capital. The researcher followed (Yunshi, 2002; Yu-shu *et al*., 2015) for operationalizing social capital by using five variables to measure the extent of the board of directors' links, norms, reciprocity, networks and social trust.

2.5 Theoretical Framework

Theoretical framework is an examination of existing or self-detailed theories in connection to the research objectives. The study was anchored in stakeholder theory, legitimacy theory, social capital theory, social contracts theory and agency theory.

2.5.1 Stakeholder Theory

Dr. F. Edward Freeman developed the stakeholder theory in 1983. The theory outlines that the firm coordinates and manages the constellation of cooperative and competitive interests of different stakeholders or constituencies (Freeman, 1983). Thus, firms have multiple goals other than the sole shareholder's value maximization end, contrary to the proposition of the traditional economic theory of Friedman (Jones & Wicks, 1999). The stakeholder theory increasingly became famous and also, varied in diverse interpretations and arguments for its justification (De Gooyert, Rouwette, Van Kranenburg & Freeman, 2017).

Furthermore, the stakeholder theory poses some limitations. According to Mason Kirkbride and Bryde (2007) in applying stakeholder theory, the stakeholder literature is theoretically based and emphasizes that the ethical and moral standards as the only acceptable way for corporate behavior, independently of the repercussions of these behaviors on the firm’s performance. Another criticism of the theory is that there is considerable pressure from firms’ stakeholders to become more transparent and accountable for their decisions, hence necessitating managers to disclose more information than what is legally required to satisfy the interest of their stakeholders (Ponnu & Okoth, 2009).

However, the theory is relevant and it emphasizes the responsibility of individual entities to manage the firms in such a way that balances the interests of all the stakeholder groups, practices social judgment skills, inspiring others and fostering collaboration within the institution (Freeman, 1983). The stakeholders are engaged in the construction of the ethical identity of firms, and its approach appears as the appropriate framework since the theory deepens its roots in the notion of corporate

social responsibility (Harrison & Wicks, 2013). This theory informed the variable of ethical responsibilities in this study in that it asserts that the abilities of the stakeholders impact the performance of an organization directly. Thus, it is expected that competent leadership would translate into better organization performance.

2.5.2 Legitimacy Theory

Dowling and Pfeffer 1976 developed legitimacy theory from the concepts of organizational legitimacy. The Legitimacy theory posits that organizations continually seek to ensure that they operate within the bounds and norms of their respective societies. In adopting a legitimacy theory perspective, a company would voluntarily report on activities if management perceived that those activities were expected by the communities in which it operates (Donovan, 2002). Legitimacy theory relies on the notion that there is a 'social contract' between a company and the society in which it operates.

However, despite the principles of legitimacy theory been important, Castelo, Branco, and Rodrigues (2006) established that the theory overlooked the importance of human creativity to the success of the organizations. Still, there is a much greater emphasis on the environment rather than management since the surrounding, which involves government intervention and economic factors that influence the performance of the institutions to a large extent. Also, Lanis and Richardson (2012) argued that the theory failed to establish the consequences of management with different cultures in which one culture of an employee may be unacceptable within the culture of another employee.

Nevertheless, the theory was relevant and while there is no generally accepted theory for explaining CSR disclosure practices, recent research in the CSR literature has

primarily relied on legitimacy theory (Deegan 2002). Indeed, it is probable that the legitimacy theory is the most widely used theory to explain environmental and social disclosures (Campbell, Craven & Shrives, 2003). While, according to Gray, Kouhy and Lavers (1995), legitimacy theory has an advantage over other theories in that it provides disclosing strategies that organizations may adopt to legitimate their existence that may be empirically tested. For these reasons, this study takes the legitimacy theory as the theoretical perspective to explain the influence of CSR on financial performance. The theory informed the variable economic responsibilities in the current study.

2.5.3 Social Capital Theory

Bourdieu and Coleman developed the social capital theory in 1993. Social Capital theory is mainly based on the proposition that the networks of relationships within and without a group constitute a valuable resource for members of the group (Bourdieu, 2013). This resource, construed as capital, is embedded within networks of mutual acquaintance and recognition (Nahapiet and Ghoshal, 2011). Social Capital is thus, inherent value in human relationships and connections. This implies that Social Capital is a resource input that facilitates production, but is not consumed or used up in production (Coleman, 2010). It also means that Social Capital is an aspect of social organization and fundamentally a property of the group, community, or society.

Nonetheless, social capital theory faced criticisms. Lehtonen (2004) established that social capital tends to be abstracted because many aspects cannot be observed directly. Since they cannot be noted directly, researchers tend to use indicators that can be measured and that are believed to have a causal relationship with the aspects of social capital being measured. Another criticism is that Seibert, Kraimer and Liden

(2001) argued that social capital theory is not social, not capital, and not a theory and it mostly suffers from the ambiguity and variability

However, the idea of social capital can be intuitively grasped by conceiving it as what ordinary language calls ‘connections’: people are connected to others based on trust. People are obliged to support others, depending on exchange among them. Those assets, in essence, constitute social capital (Burt, 2013). From the human capital perspective, inequality of incomes and differences in the pace of promotions at the workplace can be explained by differences in individual ability (Yu-shu *et al*., 2015). The theory was relevant to the current study and it informed the variable of social capital.

2.5.4 Social Contracts Theory

The proposer of this theory was Thomas Hobbes and other theorists have built upon it over the years. According to Ndete (2012), social contract theorists were of the view that the state or, more precisely, civil society is the product of a contract, a covenant, an agreement, or a compact. A deal is an agreement by two parties who are expected to abide by specific terms and if violated, then the contract is no longer valid. The proposers of this theory believe that people benefit from living together. The social contract provides the framework within which people and governments interacts. These contracts give protection to people living within a particular social structure from outsiders who may try to harm them and also helps to make a society stable, wealthy and happy. Thomas Hobbes believed that in nature, individuals had to do whatever was necessary to survive.

However, Spicer, Dunfee and Bailey (2004) established that the social contracts theory did not take into consideration the cost associated with the implementation of

the contracts and the process that is involved in the coordination of various activities while improving the efficiency of an institution. Also, Mccarthy and Puffer (2008) reported that social contracts theory did not establish well the effects of the contracts that are terminated before the maturity of the agreed period since part the parties may possess some hidden agenda.

Nevertheless, the social contracts theory is relevant as it articulates that when everyone did his or her part, then the society could function relatively smoothly. The theory states that morality consists of the set of rules governing behavior that rational people would accept, on the condition that others take them as well. Additionally, the social contracts theory stipulates that an individual has ethical and political obligations that relate to an agreement he has with every other individual within a society. This agreement can be written, as in the form of laws, or it can be an unspoken or unwritten agreement of social norms and customs. According to the theory, therefore, businesses should involve themselves in CSR in fulfillment of their contractual duty to the community. The theory informed the variable legal responsibilities.

2.5.5 Agency Theory

Agency theory was developed by Stephen Ross and Barry Mitnick in 1976. The theory suggests that a firm’s top management should have significant ownership of the firm to secure a positive relationship between governance and the amount of stock owned by the senior management (Donaldson & Davis, 1991). The theory further shows that problems arise in corporations because agents (top management) are not willing to bear responsibility for their decisions unless they own a substantial amount of stock in the corporation. Adams (1994) established that the agency theory is mainly

applied by boards of profit-making organizations to align the interests of management with those of shareholders. The theory argues that the demands of profit-making organizations are different from those of stakeholders such as shareholders, local communities, employees and customers and the conflicting requirements can be used to justify actions that some may criticize as immoral or unethical depending on the stakeholder group (Schulze, Lubatkin & Dino, 2003).

In spite of the agency theory being immensely known to business and immensely being reliable to the organizations, it faces criticism from the scholars. For instance, Hendry (2005) established that the theory accepts that contracting can wipe out the agency issue, however for all intents and purposes; it faces numerous deterrents like data asymmetry, rationality, misrepresentation and exchange cost. The enthusiasm of the investors in the firm is to extend the benefits; in any case, their activity is obliged in the firm and the responsibilities of managers are just compelled to the administration, and their further job is not unmistakably characterized (Bonazzi & Islam, 2007). Besides, the theory considers the administrators as astute and disregards the ability of the directors (Christopher, 2010).

The theory is, however, very significant to the business in the process of making decisions and it helps in explaining the role played by top managerial staff in checking the directors of the firm (Gomez & Wiseman, 2007). The senior administrative staff as a governance mechanism helps in keeping on toes the managers who may pursue self-interest at the expense of shareholder's wealth maximization objective and the board of directors will effectively provide an oversight authority to guarantee that the interests of investors are not infringed by managers who are internal players in the firm they are serving (Kivistö, 2005). This

theory was relevant to the current study. It informed the variable discretionary responsibilities. The theory establishes that organizations can improve their performance, which effectively increases firm value by acting good in matters to deal with law and rules in the social and ethical regulations and returning of the portion of revenues through involvement in projects within the community.

2.6 Empirical Review

The sections provided studies with empirical findings methodologies, samples, conclusions and summary related to CSR and financial performance.

2.6.1 The relationship between Economic Responsibilities and Financial Performance

Fauzi (2017) did a research on firms listed on the New York Securities Exchange (NYSE). The objective of his study was to address the relationship between CSP/CSR and Financial performance. Using a sample of 101 companies on the NYSE, the study used a regression model with financial performance as the dependent variable and CSR index as the independent variable. This also included a control variable of company size and leverage to see if these variables could have any effect on the relationship between CSR and CSP. The findings of the study established that CSR has no effect on CFP under both slack resource and good management. However, the study found that leverage has a moderating effect on the interaction between CFP and CSR.

Cheruiyot and Tarus (2016) carried out a research whose objective was to establish the relationship between corporate social responsibility and financial performance of firms listed at the Nairobi stock exchange. This was a cross sectional study of all the firms listed in the NSE’s main segment as at 31 December 2009 which comprised of

47 listed companies. Using regression analysis, the study sought to establish the relationship between the CSR index and financial performance measured in terms of the Return on assets, return on equity and return on sales. The study was conducted for a period of five years from 2009 to 2014. The findings of the study established that there was a statistically significant relationship between CSR and financial performance.

Mwangi and Jerotich (2013) did a research on the relationship between corporate social responsibility practices and financial performance of firms in the manufacturing, construction and allied sector of the Nairobi securities exchange. Data was obtained from the audited financial reports of the companies from the year 2007 to 2011.Multiple regression model was used to establish the relationship between the two variables and control variables of manufacturing efficiency and capital intensity were introduced to the model. The result of the study showed a strong relationship between the two variables.

Okoth (2014) carried out a study to determine the impact of CSR, particularly economic responsibilities on financial performance of commercial banks in Kenya between the year 2007 and 2008. CSR was measured by the amount spent on CSR activities while financial performance was measured using ROA, ROE and GII using a Regression model to analyze data. The study found that CSR improves the financial performance of large and medium sized banks while the effect on the ROA of small banks is insignificant. The findings of the study also established that economic responsibilities and strategies enable planning cost reduction measures typical to them in order to create corresponding enterprise firm performances which in its turn create

opportunities for further increase of economy scale producing bigger income and profit.

2.6.2 The Relationship between Discretionary Responsibilities and Financial Performance

Rahim *et al.,* (2011) did a study to examine the influence of CSR on the buying behaviour of Malaysian consumers and whether they consider a corporation's CSR initiatives before making any purchase decisions of the products and services. The study also wanted to identify which type of CSR component, namely economic, legal, ethical and philanthropic, based on Carroll's pyramid of CSR will have significant impact on consumers' buying behavior. The data obtained were analyzed using the SPSS software, where descriptive and multiple linear regression statistics were used. The results showed significant positive relationships between all of the variables used in measuring CSR and consumers' buying behaviour. Economic responsibility remained the utmost priority of a firm, philanthropy stood second, followed by ethical and legal responsibility.

Waworuntu, Wantah, and Rusmant (2014) did a research to investigate whether the commitment of companies to their stakeholders had a relationship with better financial results and also to establish the extent and pattern of corporate disclosure in the top listed companies in the ASEAN region. They used Statistical Package for Social Science (SPSS) to analyze and interpret data. The research found that there is a moderate to strong positive correlation between all the variables when analyzed as a whole but the correlation results varied when broken down into individual countries and sectors. They also found that there was an increasing awareness of CSR disclosure in the top listed ASEAN companies.

Fauzia (2014) carried out a research on 101 firms listed on the New York Stock Exchange with an objective of establishing the relationship between CSR and financial performance by moderating company's size and financial leverage with the use of type of industry as control variable. He used a moderated multiple regression model to analyze the data and four models were developed. The findings were that corporate social performance had no effect on corporate financial performance under slack resource and good management theory, it also showed that only financial leverage could moderate the interaction between CSR and corporate financial performance (CFP).

Tsoutsoura, (2014) did a study to explore and test the relationship between corporate social responsibility and financial performance. The dataset included most of the S&P 500 firms and covered the years 1996 to 2000. The relationship was tested using empirical methods. The results indicated a positive relationship supporting the view that socially responsible corporate performance can be associated with a series of bottom-line benefits.

Musau (2015) carried out a study to assess the effect of corporate social responsibility on the performance of banks in Kenya, a case of Equity Bank, Kitale. He used a sample size of 565 customers which was drawn from the target population selected using stratified and random sampling techniques. Descriptive statistics and inferential statistics were used to analyze the data collected. From the study it was established that most customers at Equity Bank, Kitale branch had knowledge of the existence of Corporate Social Responsibility in the Commercial Banks and others were already beneficiaries of CSR programs. The study showed that there is a positive relationship

between CSR and profitability of Banks, customer satisfaction, customer retention and service delivery.

2.6.3 The Relationship between Legal Responsibilities and Financial performance

Amaeshi, Adi, Ogbechie and Amao (2016) conducted a study to examine the influence of legal responsibilities on the financial performance of the insurance companies in Nigeria. The findings of the study established that legal responsibilities are supplemental to the requirement that businesses and their employees comply fully with the general and criminal laws that apply to all individuals and institutions across the country hence have a positive influence on the performance. The study concluded that the legal responsibilities included the labour laws, insider trading and self-dealing, falsifying statistics, inflating revenues, hiding expenses and defrauding investors and regulators.

Anderson (2013) conducted a study to examine the influence of the company's legal responsibilities on the performance in a case of the insurance companies in USA. The findings of the study established that company’s legal responsibilities had a positive and significant influence on the performance of the insurance companies in USA. The study concluded that ensuring the company is profitable, ensuring that it obeys all laws is the most important responsibility and the legal responsibilities can range from securities regulations to labour law, environmental law and even criminal law and adhered to help a company gain firm performance.

Mwangi (2016) carried out a study to establish the relationship between legal responsibilities and financial performance of companies listed at the NSE in Kenya. The study covered a period of five years from 2008 to 2013. The findings of the study

established that were that there is a positive relationship between the legal responsibilities and the financial performance of companies listed at the NSE.

Wangari (2014) conducted a study to examine the effect of corporate social responsibility on financial performance of 100 top small and medium enterprises in Kenya between 2009 and 2013. The findings of the study established that CSR has significant positive effect on financial performance of small and medium sized enterprises in Kenya.

2.6.4 The Relationship between Ethical Responsibilities and Financial Performance

Tarus (2015) conducted a study on corporate social responsibility engagement in Kenya and measured CSR using four dimensions relevant to Kenya: employee CSR, product/service CSR, community CSR and environmental CSR, and aggregated using CSR index. Firm performance was measured using both ROA and ROE. Content analysis was used to collect data from the financial reports of companies. The results indicated a positive and significant relationship between employee CSR, product/service CSR and community CSR and firm performance; environmental CSR, on the other hand, was not significant. The overall CSR index was found to be positive and significant to both measures of firm performance.

Omwega (2015) carried out a study to establish the relationship between ethical responsibilities and financial performance in Kenya of companies listed at the NSE. The study covered a period of five years from 2007 to 2011. She used the amounts spent on CSR programs to measure CSR and the net profits from the financial statements of companies to measure the financial performance. Data collected was analyzed by the use of descriptive statistics using SPSS and used inferential statistics

regression to establish the relationship between CSR and financial performance. The findings of the study established that there was a positive relationship between ethical responsibilities and the financial performance of companies listed on the NSE.

Amponsah and Dartey (2013) conducted an examination of social Ethical Responsibilities and economic performance of the insurance companies in Ghana. The findings of the study established that the majority of firms in the consumer search goods and basic resources sector are relatively efficient and behave homogeneously with respect to CSR and tend to achieve strong positive results in economic performance than those from other sectors. The findings of the study also established that effort of determining the actual economic implications of CSR activities is made more difficult by the fact that integrating the many qualitative and quantitative CSR variables into financial measurement models is very complex.

2.6.5 Moderating Effect of Social Capital on the Relationship between Economic Responsibilities and Financial Performance

Kamau (2013) conducted a study with an aim to explain the relationship between corporate social responsibility and financial performance of firms listed at the Nairobi stock exchange and the moderating effect of social capital on the relationship between economic responsibilities and financial performance. A 5-year study with CSR index based on different level of implementation and dimensions was carried out in order to address multidimensional CSR indicators. This was a cross sectional study of all the 47 listed companies in the NSE's main segment as at 31st December 2012. Using regression analysis, the study sought to establish the relationship between corporate social responsibility and financial performance measured in terms of return on assets, return on equity and return on sales. The study found that there was a statistically

significant relationship between CSR and financial performance. Also, the study established that the moderating effect of social capital on the relationship between economic responsibilities and financial performance was positive.

Mishra and Suar (2010) did a study on corporate social responsibility and firm performance of Indian companies. Data on CSR were collected from 150 senior level Indian managers including C.E.O.s through questionnaire survey. Data on financial performance was obtained from secondary source. The study found a positive relationship between corporate social responsibility and financial performance.

Putnam (2011) conducted a study to establish how social capital is accumulated and whether it has an effect on the financial performance. Findings of the study reported argued that social capital is accumulated through actual human relationship and interactions that initiate and facilitate strong internetwork ties and norms, which then boost cooperation and collective action and it has a positive influence on the performance. The creation of social capital is embedded into any activity in the organization that helps knowledge transfer and innovation. In addition, social capital builds efficiency in creation of new ventures, in community development and CSR (Lee *et al*., 2013).

Canback (2012) in a study done on a random sample of twenty respondents using multiple regression analysis argued that social capital has direct and indirect impacts on firm performance and all of its stakeholders including its employees, local governments, non-profit organizations, customers, suppliers, and the communities in which the companies operates. The study established that a good economic performance makes it possible to develop operations for the long term and to invest in development and the well-being of employees thus greater firm performance. The

employees of the company get good salaries, from which they purchase goods and services as well as pay taxes. These activities fuel the local service industry, government programs and the community activities.

2.6.6 Moderating Effect of Social Capital on the Relationship between Discretionary Responsibilities and Financial Performance

Simard *et al*, (2015) conducted a study to examine the relationship between CSR, social capital and the financial performance in the Canadian banking industry. The findings of the study showed that there was a positive relationship between social capital, discretionary responsibilities, eemployee commitment and financial performance in the Canadian banking industry. The results of the study also confirmed that the firm performance of successful firms comes from their ability to increased added value discretionary effort of employees.

Hasan, Kobeissi, Liu and Wang (2018) conducted a study to examine the influence of corporate social responsibility and firm financial performance with the mediating role of social capital. The findings of the study established that corporate social responsibility had a positive and significant influence on firm financial performance. The study also established that the social capital mediated the relationship between CSR and the financial performance. The study also revealed that employees may use their formal and informal relationships to mobilize resources inside and outside of the company. In such informal networks, employees can volunteer new ideas and opportunities to develop, so that their company can adopt and can capitalize on their social networks to accumulate resources. Such social networking and capitalization can bring the key organizational actors together and utilize their key competencies for collective action.

According to Sacconi and Giacomo, (2009) CSR practices adopted as a formal instrument and to implement a multi-stakeholder ownership approach can positively affect social capital creation by maintaining cooperative personal relationships. Moreover, both CSR and cognitive social capital generate endogenous incentives for the firm to cooperate with weak stakeholders by reciprocal interactions, and therefore they lead to create structural social capital. A strong emphasis on the value of intangible resources for increased organizational performance has been established for a long time. The RBV of organizations argues that variation in the heterogeneity of organizations resources can affect the performance of organization. In the modern world, due to new technological innovations, information creation and knowledge sharing are becoming more powerful tools to run a business. Although we cannot negate the importance of physical facilities, the intangible facilities are coming to the forefront.

2.6.7 Moderating Effect of Social Capital on the Relationship between Legal Responsibilities and Financial Performance

Saeed and Arshad (2012) conducted a study on corporate social responsibility as a source of competitive advantage with the mediating role of social capital and reputational capital. According to the findings of the study, legal responsibilities with social capital help an organization build certain intangible resources to the organization, such as social capital. Moreover, researchers explored a strong link between strategic management of human resources to social capital creation, which is made possible through responsible behavior toward employees. Similarly, many researchers have concluded that good reputations and an increased legitimacy as a result of a responsible citizenship behavior of a firm are an important intangible

resource for an organization, which can increase organizational productivity (Tarus, 2015).

Singhapakdi, Lee, Sirgy and Senasu (2015) conducted a study to examine the impact of incongruity between an organization's CSR orientation and its employees' CSR orientation on employees' quality of work life. The findings of the study found that corporate ethical values seem to help sensitize marketers to the importance of ethics and social responsibility as a component of marketing decisions. The study also established that corporations may seek to improve CSR performance through creating common ethical values which provide direction for the organizations and their members by guiding behavior and decisions. Corporate ethical values should indicate the limits of operations, as principles regulate the corporation's CSR performance. Thus, CSR can be sustained at the top of the pyramid (Halter and Arruda, 2009). Here, CSR acts as a control instrument for corporate ethical behavior.

2.6.8 Moderating Effect of Social Capital on the Relationship between Ethical Responsibilities And Financial Performance

Moon and Kym (2016) conducted a study to examine a model for the value of intellectual capital and how it influences financial performance. The findings of the study showed that ethical responsibilities with social capital can build up a company's expertise and reputation, and generate procedures for handling and prioritizing social responsibility demands. Saeed and Faria (2012) attributed human resource practices to the responsible behavior of organization and to the well-being of their employees can play a great role in bonding the human resources of an enterprise to form a cohesive workforce. A prevailing logic on the relationship between human resource development, social capital and organizational productivity in an emotional

intelligence perspective is the importance of intangible assets over tangible ones. Saeed and Faria (2012), proposes that CSR dimensions are closely linked and reinforce each other to maintain a smooth working environment in organizations through bonding and bridging employee connections, which leads to the creation of social capital.

Lee *et al.,* (2013) parsed out different effects of operations-related and non-operations related corporate social responsibility while incorporating social capital into the corporate social responsibility-CFP relationship because the restaurant industry is sensitive to economic fluctuations. The study found no significant effect of operations-related corporate social responsibility activities on a restaurant firm's value performance (Tobin's Q) during favorable economic periods, while these activities added a firm's value during recessionary periods. Similarly, non-operations related corporate social responsibility activities had no significant effect on value performance during favorable economic times, but they appeared to harm a firm's value during recessionary periods. In sum, studies show that corporate social responsibility spending does not necessarily guarantee better performance in restaurant firms, and that a moderating variable may exist which affects the relationship.

2.7 Summary of literature gaps

A number of gaps are evident in the current literature. First, the tradition of inconsistencies in research findings signifies inadequacy of studies conducted into the corporate social responsibility interaction. Until a common ground is found, more studies are required to resolve the observed inconsistencies attributed to the methodological shortcomings in the prior studies. Second, the observed prevalent use of composite, aggregated multidimensional measures of corporate social

responsibility in most studies is fundamentally flawed. The possibility of imperfect correlation of individual components of corporate social responsibility ratings renders the use of composite measures inappropriate with the potential to produce inaccurate results (Goss and Roberts, 2011).

In view of this limitation, the studies in which the individual components of CSR are tested tend to be more reliable than those in which the aggregate/composite measures are tested (Goss and Roberts; Wu and Shen, 2013). In spite of this, it is in only a handful of studies that researchers tested the individual CSR components, indicating a significant gap in the current literature. Third, the mixed approach is prevalent in the literature whereby the study data of different industries in multiple countries are aggregated for the purpose of testing the study models. This is inconsistent with stakeholder theory, as interests and expectations of stakeholders are contextually diverse; they are divergent across the industrial and the geographical settings (Baird *et al.*, 2012; Soana, 2011). Dearth of studies of specific industries and specific countries on corporate social responsibility (CSR) and financial performance relation constitutes a weakness in the current literature that needs to be addressed.

2.8 Conceptual Framework

Diagrammatically the variable relationship between the independent, moderator and dependent variables is summarized below; economic responsibilities, legal responsibilities, ethical responsibilities, and discretionary responsibilities will be considered as the independent variables, social capital as the moderating variable and financial performance is the dependent variable. Figure 2.1 below shows the conceptual framework for the study.

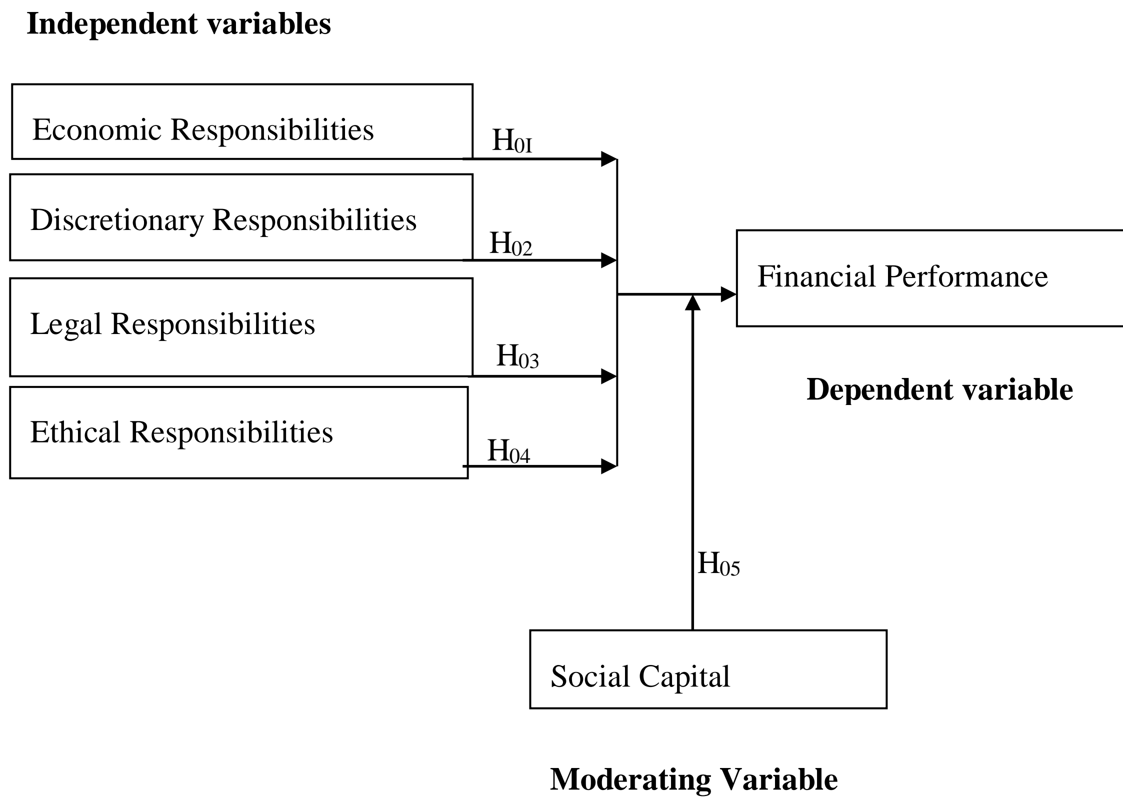

Figure 2.1: Conceptual Framework

Source (Author, 2019)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter presents the research design, target population, sampling design and sample size, data collection, data analysis and presentation, limitations of the study, ethical considerations and the measurement of the study variables

3.2 Research Design

The explanatory research design was used in the study. It was deemed appropriate for the study since the researcher aimed at explaining the causal relationship of the variables. According to Awino (2011), the explanatory research design is suitable when the researcher wants to get a better understanding of an issue and to come up with new ideas on what should be done to improve the current situation. Besides, Nyaribo, Prakash and Owino (2012) established that the explanatory research design is used to develop hypotheses that can explain the occurrence of specific phenomena and is a research conducted for a problem that has not been studied more clearly. Based on the arguments from the scholars, the study adopted the explanatory research design that will help determine the relationship between corporate social responsibility and financial performance of insurance companies in Kenya with the moderating role of social capital.

3.3 Target Population

The population of the study is the group of elements from where the researcher/researchers intend to make references from during research work (Singh,

2007). The target population of the study was 49 insurance companies in Kenya governed by Insurance Regulatory Authority (IRA) (IRA, 2015).

3.4 Sampling Design and Sample Size

Sampling is the process by which a relatively small number of individual, object or event is selected and analyzed in order to find out something about the entire population from which it will be selected (Cooper & Schindler, 2011). A sample is a selection of individuals within the subset of the population whose results can be generalized to the entire population (Malterud, Siersma & Guassora, 2016). Further, a sample frame is a list of all objects in the sample. According to Rahi (2017), sampling techniques available in research are simple random sampling, stratified sampling, systematic sampling, multi-stage sampling, cluster sampling, and quota sampling. The census approach was adopted for the study since the targeted population was small and manageable, thus conducting the census was appropriate.

3.5 Data Collection

Data collection involved development of appropriate study instruments and obtaining data from various sources described below.

3.5.1 Type and Source of Data

To successfully complete this study, the researcher used both primary and secondary data. To obtain the primary data, the researcher used the questionnaires whereby they were circulated to the respondents. Secondary data was obtained from financial statements of the insurance firms available from the year 2012 to 2016.

The primary data was obtained for the independent, dependent and moderating variables, that is, corporate social responsibility variables (Economic Responsibilities, Discretionary Responsibilities, Legal Responsibilities and Ethical Responsibilities),

financial performance and Social Capital. Secondary data was used for the dependent variable (ROA). The study used closed ended questions in the questionnaire and time series data of individual insurance firm financial statements (listed in Appendix I), over a five-year period from 2012 to 2016.

3.5.2 Data Collection Instruments

Primary data was obtained from the usage of the questionnaires that were administered to the top managers of insurance firms. Orodho (2004) defines a questionnaire as an instrument used to gather data, which allows a measurement for or against a particular viewpoint. A Likert scale of five responses was used. Likert scale is an interval scale that uses five anchors or any other of strongly disagree, disagree, neutral, agree and strongly agree. The Likert scale measures the level of agreement or disagreement. Likert scales are good in measuring perception, attitude, values and behaviour. The Likert scale has scales that assist in converting the qualitative responses into quantitative values (Mugenda and Mugenda, (2003) and Zikmund, Babin, Carr andGriffin, (2010). The questionnaire had closed ended questions.

For ROA, the secondary data was used. The study used pooled cross-section and time series data of individual insurance firm financial statements (listed in Appendix I), over a five-year period from 2012 to 2016.

3.5.3 Data Collection Procedures

Approval from the university was obtained to conduct the study; permission was obtained from the National Commission of Science Technology and Innovation (NACOSTI). The researcher then payed a courtesy call to the managers of insurance firms. Thereafter a letter to each of the managers was written requesting for permission to carry the study in their insurance companies. The questionnaires were

then distributed and collected same day or the following day with the help of the research assistant to increase the return rate.

3.5.4 Validity and Reliability of Instruments

Prior to using a questionnaire to collect data it should be pilot tested. The purpose of the pilot test is to refine the questionnaire so that respondents will have no problems in answering the questions and there will be no problems in recording the data (Saunders, Lewis and Thornhill 2012). The pilot test comprised of validity test and reliability test.

3.5.4.1 Reliability of the Instrument

Reliability refers to the repeatability, stability or internal consistency of a questionnaire (Jack and Clarke, 2011). Cronbach's alpha was used to test the reliability of the measures in the questionnaire (Cronbach, 2013). In this study, the data collection instrument which was a questionnaire was tested on 12% of the sample to ensure that the questions in the questionnaire were relevant and effective, thus 6 randomly selected respondents were used to test the reliability of the research instruments. However, these respondents were not included in the final study sample in order to control for response biasness. The closer Cronbach's alpha coefficient is to 1, the higher the internal consistency reliability (Sekaran, 2006). A coefficient of 0.7 is recommended for a newly developed questionnaire.

3.5.4.2 Validity Test

Validity refers to whether a questionnaire is measuring what it purports to measure (Bryman and Cramer, 2007). This study used both construct validity and content validity. To ensure content validity, the questionnaire was subjected to thorough examination by two randomly selected departments' heads, two experts and the

management. They were asked to evaluate the statements in the questionnaire for relevance; and whether they were meaningful and clear. On the basis of the evaluation, the instrument was adjusted appropriately before subjecting it to the final data collection exercise. Their review comments were used to ensure that content validity is enhanced.

3.6 Data Analysis and Presentation

According to Zikmund, Babin, Carr, and Griffin, (2010), data analysis refers to the application of reasoning to understand the data that has been gathered with the aim of determining consistent patterns and summarizing the relevant details revealed in the investigation. This involves coding, editing, data entry, and monitoring the whole data processing procedure. To determine the patterns revealed in the data collected regarding the selected variables, data analysis was guided by the aims and objectives of the research and the measurement of the data collected. The data and information obtained through the questionnaire were first checked for completeness. Data gathered from correctly filled questionnaires were coded, tabulated and analyzed using SPSS version 22. The study was analyzed using the descriptive statistics that included the mean, standard deviation and frequencies and the inferential statistics that included the pearson correlation and regression coefficient which analyzed the relationship of the dependent and the independent variables. Data was presented using graphs and tables.

3.6.1 Multivariate Regression

The analysis of variance (ANOVA) was checked to reveal the overall model significance. In particular, the calculated f statistic was compared with the tabulated f statistic. A critical p value of 0.05 was also used to determine whether the overall

model was significant or not. A multivariate regression model was used to link the independent variables to the dependent variable as follows;

Multiple Regression before moderation

$Y = \beta 0 + \beta 1X_1 + \beta 2X_2 + \beta 3X_3 + \beta 4X_4 + \epsilon$ ………………………………. (3.1)

Where,

Y= Financial Performance

X_1 = Economic Responsibilities

X_2 = Discretionary Responsibilities

X_3 = Legal Responsibilities

X_4 = Ethical Responsibilities

Є= Error term

In the model, β_0 = the constant term while the coefficient β_i = 1….4 will be used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables X_1, X_2, X_3 and X_4. Є is the error term which captures the unexplained variations in the model. Data collected and analyzed was presented using graphs and tables.

Assumptions of the Linear Regression Model

Linear regression is an analysis that assesses whether one or more predictor variables explain the dependent (criterion) variable. The regression has five key assumptions that include the linear relationship, multivariate normality, no or little multicollinearity, no auto-correlation and homoscedasticity. A linear relationship is a statistical term used to describe a straight-line relationship between variables and a constant. According to Horstmann, Fenske and Hankir (2015), linear relationships can

be expressed either in a graphical format where the variable and the constant are connected through a straight line or in a mathematical form where the independent variable is multiplied by the slope coefficient, added by a constant, which determines the dependent variable. Besides, the multivariate normality multiple regression assumes that the residuals are normally distributed and that there is no multicollinearity. The multicollinearity occurs when the independent variables are highly correlated with each other (Disatnik & Sivan, 2016). Correlation analysis is the statistical tool that can be utilized to determine the level of association between two variables (Levin and Rubin, 1998). This analysis can be seen as the initial step in statistical modeling to establish the relationship between the dependent and independent variables. A common method of testing for autocorrelation is the Durbin-Watson test (Ho, Duchêne, & Duchêne, 2015). Statistical software such as SPSS may include the option of running the Durbin-Watson test when conducting a regression analysis. The Durbin-Watson tests produce a test statistic that ranges from 0 to 4. Values close to 2 (the middle of the range) suggest less autocorrelation, and values closer to 0 or 4 indicate greater positive or negative autocorrelation, respectively (King, 2018). Lastly, the linear regression model assumes no homoscedasticity that describes a situation in which the error term is the same across all values of the independent variables (Raafat & Tolba, 2015).

3.6.2 Testing for Moderating effect of Social Capital

To test for moderation effect, Baron and Kenny (1986) procedures were used. Each of the independent variables will be interacted with social capital as shown in model 3.2.

Multiple Regression with a moderating Variable

$$Y = \beta 0 + \beta 1X_1{*}M + \beta 2X_2{*}M + \beta 3X_3{*}M + \beta 4X_4{*}M + \epsilon \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ (3.2)$$

Where;

Y= Financial Performance

X_1 = Economic Responsibilities

X_2 = Discretionary Responsibilities

X_3 = Legal Responsibilities

X_4 = Ethical Responsibilities

M = Social Capital

ϵ= Error term

3.6.3 Diagnostic Tests

It was essential to ensure non-violations of the assumptions of the classical linear regression model (CLRM) before attempting to estimate equation 3.1 and 3.2. Estimating these equations when the assumptions of the linear regression are violated runs the risk of obtaining biased, inefficient, and inconsistent parameter estimates (Brooks, 2008). Consequently, normality and the multicollinearity tests were conducted to ensure proper specification of equations 3.1, and 3.2 as given above.

3.6.3.1 Normality Tests

The normality assumption ($u_t \sim N(0, \sigma2)$) is required in order to conduct single or joint hypothesis tests about the model parameters (Brooks, 2008). In order to check if the data is normally distributed normal probability plots was used. In some cases, it can be hard to establish if the data is normally distributed by just looking at the scatter plot and hence Bera and Jarque (1981) tests of normality was performed.

3.6.3.2 Multicollinearity

Multicollinearity was tested in the study using VIF whereby the cut-off point for severe multicollinearity is 10 (Gujarati, 2003; Cooper and Schindler, 2008). Failure to account for perfect multicollinearity results into indeterminate regression coefficients and infinite standard errors while existence of imperfect multicollinearity results into large standard errors. Large standard errors affect the precision and accuracy of rejection or failure to reject the null hypothesis. During estimation, the problem is not the presence of multicollinearity but rather its severity.

3.6.4 Testing Hypotheses

The hypothesis testing involved running multivariate regression for independent variables against financial performance. The sub constructs of each variable were combined by getting their average. The rejection or acceptance criteria was, if the calculated F statistic is greater than critical F statistic; and also, P –value obtained is less than 0.05 at 5% level of significance, the null hypothesis was rejected, but if the P-value is greater than 0.05, the null hypothesis was not rejected.

3.7 Limitations of the Study

This research was limited by a number of constraints and this included unreturned questionnaires from the respondents. Biasness in actual data collection, unwillingness of the respondents to cooperate and the bureaucracy involved at insurance firms for authorization to access their information. The study used four variables only and thus this challenge was mitigated by recommending further studies using more and different variables.

The possible solution of unreturned questionnaires was administered by collecting questionnaires on the same day. Biasness was remedied by asking the respondents to give honest responses. The unwilling respondents were informed that the findings were going to be used only for academic purposes and giving them a choice not to indicate their identity; assurance of the confidentiality of information made also the respondent willing to give out information. The bureaucracy involved at insurance firms was solved by acquiring a letter of introduction from the university. This eased access to the organizations.

3.8 Ethical Considerations

Before interviewing the respondents, their consent was sought and an assurance given that the information given was solely used for academic purpose. For confidentiality purposes, the respondents were not required to write down their names on the questionnaires and hence any questionnaires remained were not going to be used for any other purpose other than academic and were not to be disclosed to third parties.

3.9 Measurement of the Study Variables

Table 3.1 presents the measurement of the study variables.

Table 3.1: Measurement of the Study Variables

Variable	Variable type	Measurement/Indicators	Scale of Measurement	Data Collection Tools
Financial performance	Dependent variable	• Financial perspectives - Increase in Gross Revenue - Increase in Net Profit - Decrease in Cost Base - Expansion of Market Share - Increase in Asset Base • ROA	Ratio/ Ordinal	Questionnaire/ Data collection form
	Independent variable	• Fair dividends and reasonable returns to investors. • Fair salaries and wages to employees. • Reasonable claims and policy benefits to policy holders. • Fair commissions to the insurance agents. • Loans and advances at reasonable interest rates.	Ordinal	Questionnaire
Discretionary responsibilities	Independent variable	• Donation to charities and the society • Staff members involvement in charity • Company involvement in project(s) with the local community. • Acting as a good citizen in matters beyond the law and ethical rules. • Returning of portion of revenues to the community	Ordinal	Questionnaire

Legal responsibilities	Independent variable	• Company operating under the laws • Company participating in improvement of the laws. • Timely payment of taxes to the state. • Development of insurance laws for paying valid claims efficiently. • Encouraging the community by developing positive laws on investment strategies.	Ordinal	Questionnaire
Ethical responsibilities	Independent variable	• Quality assurance criteria that are adhered to in insurance policies. • Respect of the society in which the company operates • Provision of full and accurate information on insurance policies • Fundamental ethical principles on insurance claims • Recognition of client rights during compensation process	Ordinal	Questionnaire
Social capital	Moderating variable	• Norms • Reciprocity • Networks • Interlocking directorates • Social trust	Ordinal	Questionnaire

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATIONS AND DISCUSSIONS OF FINDINGS

4.1 Introduction

This section comprises of the analysis of response rate, the reliability coefficient results and the demographic characteristics that included gender of the respondent, age of the respondent, level of education and years of operation in the insurance sector. Furthermore, the descriptive statistics were discussed. The section also discusses the inferential analysis, discussion of hypotheses testing and the discussions of the findings.

4.2 Response Analysis

The number of questionnaires that were administered was 43. A total of 42 questionnaires were properly filled and returned. This represented an overall successful response rate of 97.67% as shown on Table 4.1. According to Mugenda and Mugenda (2003) and also Kothari (2004) a response rate of above 50% is adequate for a descriptive study. Babbie (2004) also asserted that return rates of above 50% are acceptable to analyze and publish, 60% is good, 70% is very good while above 80% is excellent. Based on these assertions from renowned scholars, 97.67% response rate was excellent for the study.

Table 4.1: Response Analysis

Response	Frequency	Percent
Returned	42	97.67%
Not filled	1	2.33%
Total	**43**	**100%**

Source: Survey study (2018)

4.3 Test for Reliability

The reliability of an instrument refers to its ability to produce consistent and stable measurements. Bagozzi (1994) explains that reliability can be seen from two sides: reliability (the extent of accuracy) and unreliability (the extent of inaccuracy). The most common reliability coefficient is Cronbach's alpha which estimates internal consistency by determining how all items on a test relate to all other items and to the total test- internal coherence of data. The reliability is expressed as a coefficient between 0.00 and 1.00. The higher the coefficient, the more reliable is the test.

Table 4.2 shows the reliability results. All the statements were reliable since the cronbach alpha was above 0.7 which was used as a cut-off of reliability for the study. Therefore, the internal consistency reliability of the measure was excellent. This indicates that the data was reliable since an alpha coefficient higher than 0.70 signifies that the gathered data has a relatively high internal consistency and could be generalized to reflect the respondent's opinions on the study problem.

Table 4.2: Reliability coefficient

Variable	Cronbach's Alpha	Comment
Economic Responsibilities	0.734	Accepted
Discretionary Responsibilities	0.706	Accepted
Legal Responsibilities	0.701	Accepted
Ethical Responsibilities	0.813	Accepted
Social Capital	0.723	Accepted
Financial Performance	0.820	Accepted

Source: Survey study (2018)

4.4 Demographic Characteristics

This section consists of information that describes basic characteristics such as gender of the respondent, age of the respondent, level of education and years of operation in the insurance sector.

4.4.1 Gender of the respondents

The respondents were asked to indicate their gender. Majority of the respondents were male who represented 83% of the sample while 17% were female. This implies that majority of insurance top management positions are male dominated.

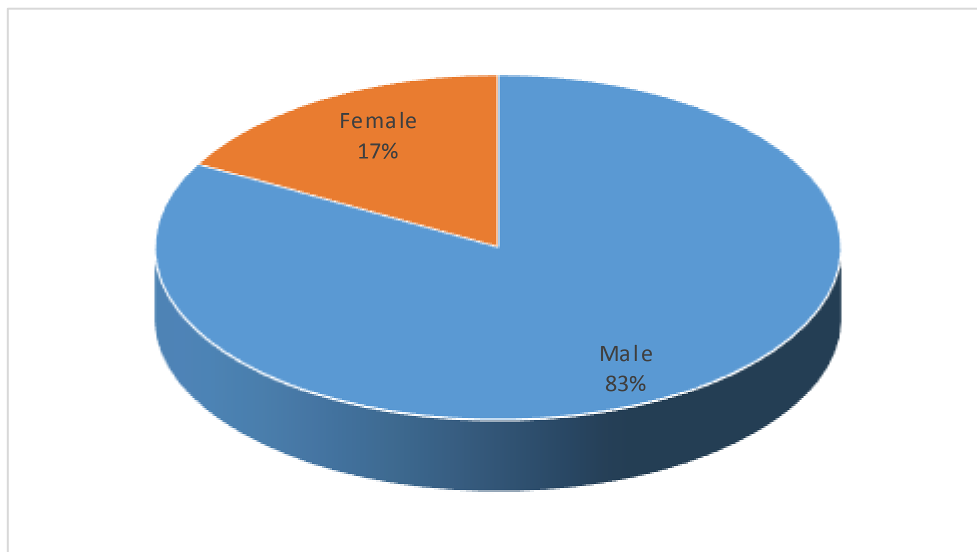

Figure 4.1: Gender of Respondents

Source: Survey study (2018)

4.4.2 Highest Level of Education

The respondents were asked to indicate their highest level of education. Results in figure 4.2 show that 51% of the respondents had their highest level of education being graduate level, 28% had post graduate level as the highest education level while only 21% had college qualification. In as far as the title of study is concerned, the results

imply that, the respondents were expected to understand the questionnaire and give valid response since they had better understanding as guided by the their level of education which in this case majority having university level as the highest level of education.

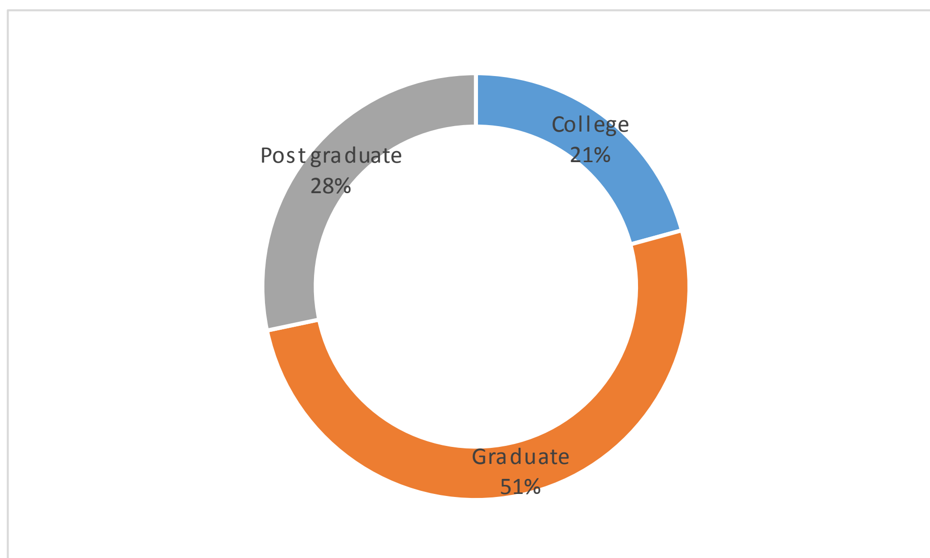

Figure 4.2: Highest level of Education of Respondents

Source: Survey study (2018)

4.4.3 Duration of operation in the Insurance Sector.

On the question of the duration being in operation, majority of the respondents (52.8%) have been in the operation for 11-15 years, 22.6% have been in the operation for over 15 years, 15.1% have been in the operation for 5-10 years while 9.4% have been in the operation for a period less than 5 years. This implies that majority of the respondents have been in the operation for a good period of time thus they were experienced.

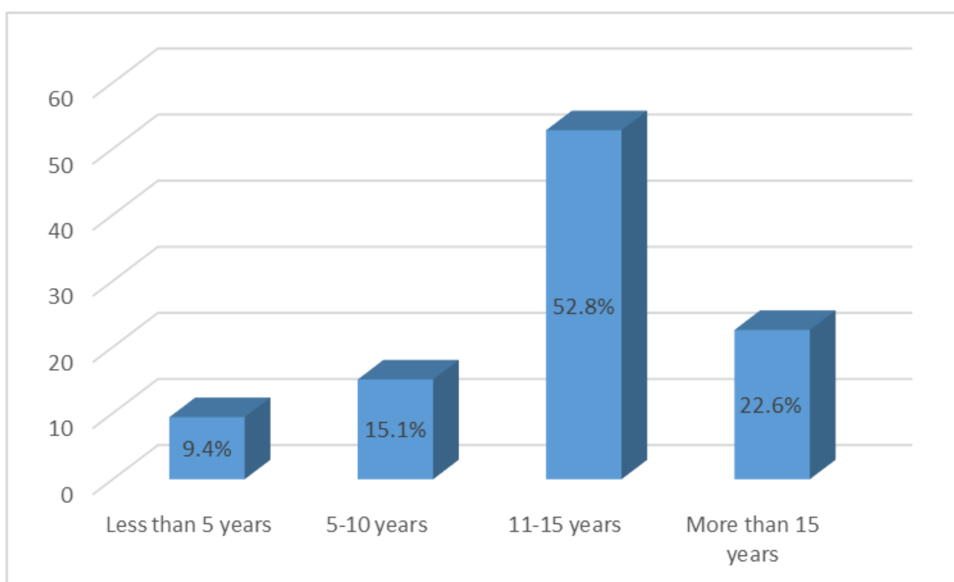

Figure 4.3: Duration of operation in the Insurance Sector.

Source: Survey study (2018)

4.5 Descriptive Statistics

This section presents the descriptive statistics on Economic Responsibilities, Discretionary Responsibilities, Legal Responsibilities, Ethical Responsibilities, social capital and financial performance.

4.5.1 Economic Responsibilities

The first objective of the study was to assess the relationship between economic responsibilities and financial performance of insurance companies in Kenya. The respondents were asked to respond on statements on economic responsibilities variable. The responses were rated on a five likert scale as presented in Table 4.3. Majority of 79.2%(50.9%+ 28.3%) of the respondents agreed with the statement that the company pays fair dividends and reasonable returns to investors, 71.7% agreed with the statement that the company pays fair salaries and wages to its employees, 66% of the respondents agreed that the company provides reasonable claims and policy benefits to policy holders, 79.3% of the respondents agreed that the company offers fair commissions

to the insurance agents, while 45.3% of the respondents agreed that the company offers loans and advances at reasonable interest rates.

On a five-point scale, the average mean of the responses was 3.70 which mean that majority of the respondents were agreeing with most of the statements; however, the answers were varied as shown by a standard deviation of 1.11.

Table 4.3: Economic Responsibilities Descriptive Statistics

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dev
The company pays fair dividends and reasonable returns to investors.	3.80%	7.50%	9.40%	50.90%	28.30%	3.92	1.02
The company pays fair salaries and wages to its employees.	3.80%	11.30%	13.20%	37.70%	34.00%	3.87	1.13
The company provides reasonable claims and policy benefits to policy holders.	11.30%	3.80%	18.90%	37.70%	28.30%	3.68	1.25
The company offers fair commissions to the insurance agents.	7.50%	7.50%	5.70%	58.50%	20.80%	3.77	1.10
The company offers loans and advances at reasonable interest rates.	3.80%	24.50%	26.40%	34.00%	11.30%	3.25	1.07
Average						**3.70**	**1.11**

Source: Survey study (2018)

4.5.2 Discretionary Responsibilities

The second objective of the study was to assess the relationship between discretionary Responsibilities and financial performance of insurance companies in Kenya. The respondents were asked to respond on statements on discretionary responsibilities variable. The responses were rated on a five likert scale as presented in Table 4.4. Majority of 69.8%(56.6%+ 13.2%) of the respondents agreed with the statement that Firm donates to charities and the society, 71,1% agreed with the statement that firm staff

members are involved in charity volunteer work on behalf of the company., 79.2% of the respondents agreed that the company is actively involved in a project(s) with the local community, 83% of the respondents agreed that the company acts as a good citizen in all matters beyond law and ethical rules., while 37.8% of the respondents disagreed that Return a portion of revenues to the community.

On a five-point scale, the average mean of the responses was 3.75 which mean that majority of the respondents were agreeing with most of the statements; however, the answers were varied as shown by a standard deviation of 1.17.

Table 4.4: Discretionary Responsibilities Descriptive Statistics

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dev
Firm donates to charities and the society	18.90%	3.80%	7.50%	13.20 %	56.60%	3.85	1.586
Firm staff members are involved in charity volunteer work on behalf of the company.	3.80%	15.10%	9.40%	39.60 %	32.10%	3.81	1.161
The company is actively involved in a project(s) with the local community.	3.80%	3.80%	13.20%	41.50 %	37.70%	4.06	1.008
The company acts as a good citizen in all matters beyond law and ethical rules.	3.80%	5.70%	7.50%	41.50 %	41.50%	4.11	1.031
Return a portion of revenues to the community.	5.70%	32.10%	35.80%	15.10 %	11.30%	2.94	1.082
Average						**3.75**	**1.17**

Source: Survey study (2018)

4.5.3 Legal Responsibilities

The third objective of the study was to assess the relationship between legal Responsibilities and financial performance of insurance companies in Kenya. The

respondents were asked to respond on statements on legal responsibilities variable. The responses were rated on a five likert scale as presented in Table 4.5. Majority of 69.8%(41.5%+ 28.3%) of the respondents agreed with the statement that the company operates under the laws and regulations when selling its insurance policies, 69.8% agreed with the statement that the insurance company participates in improvement of the laws in the country e.g. in laws on pension and insurance systems., 71.7% of the respondents agreed that the firm ensures timely payment of taxes to the state., 69.8% the company is committed to developing insurance laws for paying valid claims efficiently, while 56.6% of the respondents agreed that the insurance company is able to encourage the community by developing positive laws on investment strategies.

On a five-point scale, the average mean of the responses was 3.79 which mean that majority of the respondents were agreeing with most of the statements; however, the answers were varied as shown by a standard deviation of 1.28.

Table 4.5: Legal Responsibilities Descriptive Statistics

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev.
The company operates under the laws and regulations when selling its insurance policies.	7.50%	18.90%	3.80%	28.30%	41.50%	3.77	1.368
The insurance company participate in improvement of the laws in the country e.g. in laws on pension and insurance systems.	11.30%	11.30%	7.50%	18.90%	50.90%	3.87	1.442
The firm ensures timely payment of taxes to the state.	7.50%	3.80%	17.00%	34.00%	37.70%	3.91	1.181
The company is committed to developing insurance laws for paying valid claims efficiently.	7.50%	7.50%	15.10%	26.40%	43.40%	3.91	1.26
The insurance company is able to encourage the community by developing positive laws on investment strategies.	5.70%	17.00%	20.80%	37.70%	18.90%	3.47	1.154
Average						**3.79**	**1.28**

Source: Survey study (2018)

4.5.4 Ethical Responsibilities

The fourth objective of the study was to assess the relationship between Ethical Responsibilities and financial performance of insurance companies in Kenya. The respondents were asked to respond on statements on ethical responsibilities variable. The responses were rated on a five likert scale as presented in Table 4.6. Majority of 81.2%(34%+ 47.2%) of the respondents agreed with the statement that the company ensures quality assurance criteria that are adhered to in insurance policies., 71.7% agreed with the statement that the insurance company provides respect of the society

in which the company operates, 67.9% of the respondents agreed that the company provides full and accurate information on insurance policies, 69.8% of the respondents agreed that the company follows fundamental ethical principles on insurance claims, while 54.8% of the respondents agreed that the company recognizes client rights during compensation process.

On a five-point scale, the average mean of the responses was 3.83 which mean that majority of the respondents were agreeing with most of the statements; however, the answers were varied as shown by a standard deviation of 1.14.

Table 4.6: Ethical Responsibilities Descriptive Statistics

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev.
The company ensures quality assurance criteria that are adhered to in insurance policies.	3.80%	3.80%	11.30%	34.00 %	47.20%	4.17	1.03
The insurance company provides respect of the society in which the company operates.	3.80%	9.40%	15.10%	43.40 %	28.30%	3.83	1.07
The company provides full and accurate information on insurance policies	3.80%	11.30%	17.00%	28.30 %	39.60%	3.89	1.17
The company follows fundamental ethical principles on insurance claims	7.50%	11.30%	11.30%	34.00 %	35.80%	3.79	1.26
The company recognizes client rights during compensation process	7.50%	13.20%	24.50%	34.00 %	20.80%	3.47	1.19
Average						**3.83**	**1.14**

Source: Survey study (2018)

4.5.5 Social Capital

The fifth objective of the study was to establish the moderating effect of social capital on the relationship between corporate social responsibility and financial performance of insurance companies in Kenya. The respondents were asked to respond on statements on social capital variable. The responses were rated on a five likert scale as presented in Table 4.7. Majority of 60.3%(35.8%+ 24.5%) of the respondents agreed with the statement that norms influence performance of the company, 49.1% agreed with the statement that reciprocity influence performance of the company, 49% of the respondents agreed that networks influence performance of the company, 58.5% of the respondents agreed that Interlocking directorate influence performance of the company, while 52.8% of the respondents agreed that trust influence performance of the company.

On a five-point scale, the average mean of the responses was 3.42 which mean that majority of the respondents were agreeing with most of the statements; however, the answers were varied as shown by a standard deviation of 1.24.

Table 4.7: Social Capital Descriptive Statistics

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev.
Norms influence performance of the insurance company	9.40%	17.00%	13.20 %	35.80 %	24.50%	3.49	1.295
Reciprocity influence performance of the insurance company	1.90%	22.60%	26.40 %	30.20 %	18.90%	3.42	1.1
Networks influence performance of the insurance company	3.80%	37.70%	9.40%	24.50 %	24.50%	3.28	1.306
Interlocking directorate influence performance of the insurance company	9.40%	11.30%	20.80 %	37.70 %	20.80%	3.49	1.219
Trust influence performance of the insurance company	7.50%	20.80%	18.90 %	28.30 %	24.50%	3.42	1.278
Average						**3.42**	**1.24**

Source: Survey study (2018)

4.5.6 Financial Performance

The respondents were asked to respond on statements on financial performance. The responses were rated on a five likert scale as presented in Table 4.8. Majority of 51.3% (11.3%+ 40%) of the respondents indicated that the Gross revenue generated by the company has increased for the last five years to a small extent, 48.3% revealed that the Net profit of the company has increased for the last five years to a small extent.

52.8% of the respondents indicated that the Cost base of the company has decreased for the last five years to a small extent, 58.5% of the respondents indicated that the market share of the company has expanded for the last five years to a small extent, while 43.4% of the respondents indicated that the asset base of the of company has increased for the last five years to a small extent, On a five point scale, the average mean of the responses was 2.32 which mean that majority of the respondents were indicating that financial performance has improved in the last five years to a small extent; however the answers were varied as shown by a standard deviation of 1.23.

Table 4.8: Financial Performance Descriptive Statistics

Statement	Not at all	Small extent	moderate extent	Large extent	Very large extent	Mean	Std. Dev.
Gross revenue generated by the company has increased for the last five years	11.30 %	40.00 %	11.30%	28.30 %	9.10%	3.53	1.395
Net profit of the company has increased for the last five years	5.70%	42.60 %	15.10%	26.40 %	10.20%	3.53	1.295
Cost base of the company has decreased for the last five years	28.30 %	24.50 %	17.00%	9.4%	20.8%	3.38	1.319
The market share of the company has expanded for the last five years	3.80%	54.70 %	17.00%	13.20 %	11.30%	3.57	0.991
The asset base of the of company has increased for the last five years	20.80 %	22.60 %	39.60%	9.40%	7.50%	2.6	1.149
Average						**2.32**	**1.23**

Source: Survey study (2018)

Figure 4.4 shows the ROA trend for the 49 companies from the year 2012 to 2016. The trend line indicates that ROA trend has been fluctuating though with a decreasing trend.

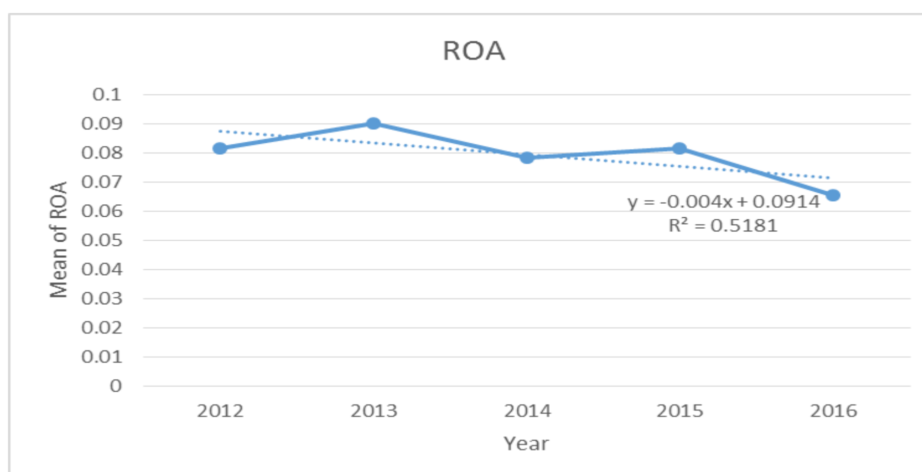

Figure 4.4: Trend of ROA for the year 2012-2016

Source: Secondary data (2012-2016)

4.5.7 Descriptive Diagnostic Tests

Prior to running a regression model pre-estimation and post estimation tests were conducted. The pre-estimation tests conducted in this case were the multicollinearity test while the post estimation tests were normality test. This is usually performed to avoid spurious regression results from being obtained

4.5.7.1 Normality Test

The test for normality was examined using the graphical method approach, Kolmogorov-Smirnov and Shapiro-Wilk Test. The graphical representation is as shown in the Figure 4.5 below. The results in the figure indicate that the residuals are normally distributed.

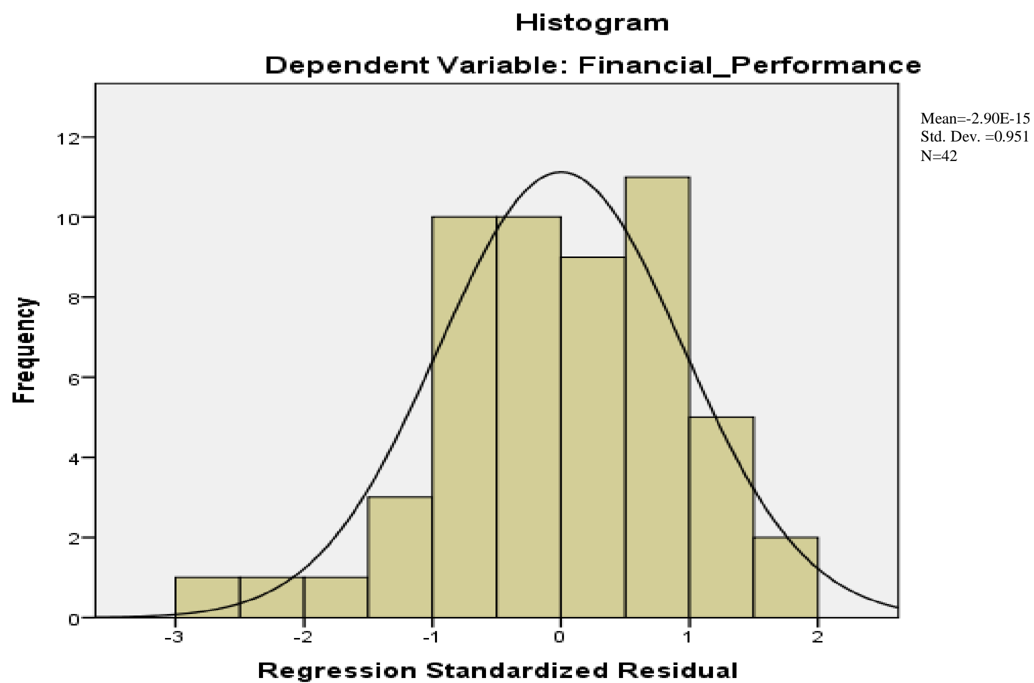

Figure 4.5: Normality Results

Source: Survey study (2018)

Further, Kolmogorov-Smirnov and Shapiro-Wilk Test were used to confirm the results obtained from the graphical representation. When non-significant results (>0.05) are

obtained for a score it shows the data fits a normal distribution. The data in Table 4.9 below shows the results of the Shapiro-Wilk test. The results obtained as shown in Table 4.9 indicate that the data in relation to each variable is normally distributed as the significance value in all cases is greater than 0.05 for both Kolmogorov-Smirnov and Shapiro-Wilk. This implies the data is suitable for analysis using correlation and regression analysis

Table 4.9: Results of Breusch-Pagan / Cook-Weisberg Test for Heteroscedasticity

H_o: Constant variance
chi2(1) = 0.010
Prob > chi2 = 0.9287

Source: Survey study (2018)

4.5.7.2 Heteroscedasticity Test

Since the data for this research is obtained from a cross-section of firms, it could raise concerns about the existence of heteroscedasticity. The Breuch-Pagan/Cook-Weisbergtest was carried out to confirm if the error variance was not constant in which case there could have been heteroscedasticity in the data. Running a regression model without accounting for heteroscedasticity may lead to biased parameter estimates. To test for heteroscedasticity, it was necessary to make a hypothesis in respect to the error variance and test the error variances to confirm or reject the hypothesis. For the purposes of applying the Breusch-Pagan/Cook-Weisberg test, a null hypothesis (H_0) of this was formulated that the error variance is not heteroscedastic while the alternative hypothesis (H_a) was that the error variance is heteroscedastic. The Breusch-Pagan/Cook-Weisbergtest models the error variance as $\sigma^2_i=\sigma^2 h\ (z'_i\alpha)$ where z_i is a vector of the independent variables. It tests H_0:

α=0versus H_a: α≠0. Table 4.24 shows the results obtained when the Breusch-Pagan/Cook-Weisbergtest was performed.

The results in Table 4.10 indicate that the p value is greater than 0.05 (0.9287) and so the null hypothesis set up for this test is supported. It was found that the variables under this study did not suffer from heteroskedasticity and so the required regression analysis for this study could be carried out without the results being distorted.

Table 4.10: Results of Kolmogorov-Smirnov and Shapiro-Wilk Test for Normality

	Kolmogorov-Smirnov			Shapiro-Wilk		
	Statistic	**df**	**Sig.**	**Statistic**	**df**	**Sig.**
Financial Performance	.120	42	.053	.967	42	.149
Economic responsibilities	.102	42	.200	.960	42	.077
Discretionary responsibilities	.161	42	.072	.895	42	.500
Legal responsibilities	.131	42	.063	.948	42	.721
Ethical responsibilities	.222	42	.300	.921	42	.302

Source: Survey study (2018)

4.5.7.3 Multicollinearity Test

According to William *et al.,* (2013), multicollinearity refers to the presence of correlations between the predictor variables. In severe cases of perfect correlations between predictor variables, multicollinearity can imply that a unique least squares solution to a regression analysis cannot be computed (Field, 2009). Multicollinearity inflates the standard errors and confidence intervals leading to unstable estimates of the coefficients for individual predictors (Belsley *et al*., 1980). Multicollinearity was assessed in this study using the variance inflation factors (VIF). According to Field (2009) VIF values in excess of 10 is an indication of the presence of Multicollinearity. The results in Table 4.10 present variance inflation factors results and were

established to be less than 10 and thus according to Field (2009) indicates that there is no Multicollinearity.

Table 4.11: Multicollinearity results using VIF

	Collinearity Statistics	
Variable	Tolerance	VIF
Economic Responsibilities	0.95	1.053
Discretionary Responsibilities	0.92	1.087
Legal Responsibilities	0.888	1.126
Ethical Responsibilities	0.917	1.091
Social capital	0.933	1.072

Source: Survey study (2018)

4.5.7.4 Panel Unit Root Tests

Unit root tests were conducted using the LLC test to establish whether the dependent variable was stationary or non-stationary. The purpose of this was to avoid spurious regression results being obtained by using non-stationary series. Results in Table 4.12 indicated that the variable was stationary (i.e. absence of unit roots) at 5% level of significance.

Table 4.12: Panel Unit Root Tests

Variable name	Statistic(adjusted)	P-value	Comment
ROA	2.232	0.006	Stationary

4.6 Inferential Analysis

The inferential analysis that were performed include correlation and regression analysis.

4.6.1 Correlation Analysis

Correlation analysis is the statistical tool that can be utilized to determine the level of association between two variables (Levin and Rubin, 1998). This analysis can be seen as the initial step in statistical modelling to determine the relationship between the dependent and independent variables. Prior to carrying out a multiple regression analysis, a correlation matrix was developed to analyze the relationships between the independent variables as this would assist in developing a prediction multiple model which will reveal no relationship in cases where the value of the correlation is 0. On the other hand, a correlation of ±1.0 means there is a perfect positive or negative relationship (Hair *et al*., 2010). The values are interpreted between 0 (no relationship) and 1 (perfect relationship). Also, the relationship is considered small when r = ±0.1 to ±0.29, while the relationship is considered medium when r = ±0.30 to ±0.49, and when r is ±0.50 and above, the relationship can be considered strong.

Table 4.13 below presents the results of the correlation analysis. The results indicated that there was a positive and a significant association between economic responsibilities and financial performance (r=0.305, p=0.026). In addition, the results revealed that there was a positive and a significant association between discretionary responsibilities and financial performance (r=0.268, p=0.005). The results indicated that there was a positive and a significant association between legal responsibilities and financial performance (r=0.404, p=0.003). Further, correlation analysis showed a positive and a significant relationship between ethical responsibilities and financial performance (r=0.314, p=0.022).

Table 4.13: Correlation matrix results

		Financial Performance	Economic responsibilities	Discretionary responsibilities	Legal responsibilities	Ethical responsibilities
Financial Performance	Pearson Correlation	1				
	Sig. (2-tailed)					
Economic responsibilities	Pearson Correlation	.305*	1			
	Sig. (2-tailed)	0.026				
Discretionary responsibilities	Pearson Correlation	0.268**	-0.026	1		
	Sig. (2-tailed)	0.005	0.551			
Legal responsibilities	Pearson Correlation	.404**	0.166	-0.163	1	
	Sig. (2-tailed)	0.003	0.235	0.243		
Ethical responsibilities	Pearson Correlation	.314*	-0.029	0.092	0.222	1
	Sig. (2-tailed)	0.022	0.635	0.513	0.11	

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Source: Survey study (2018)

4.6.2 Regression Analysis

The results presented in table 4.14 present the fitness of model used of the regression model in explaining the study phenomena. Economic Responsibilities, Discretionary Responsibilities, Legal Responsibilities and Ethical Responsibilities were found to be satisfactory variables in explaining financial performance. This is supported by coefficient of determination also known as the R square of 37.7%. This means that Economic Responsibilities, Discretionary Responsibilities, Legal Responsibilities and Ethical Responsibilities explain 37.7% of the variations in the dependent variable which is financial performance in insurance sector. The R squared is used to determine the level of variations of the dependent variable that is caused by the independent variables. This results further means that the model applied to link the relationship of the variables was satisfactory.

Table 4.14: Model Fitness without Moderation

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.614a	0.377	0.325	0.4055
a Predictors: (Constant), ethical, economic, discre, legal				

Source: Survey study (2018)

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant.

Table 4.15 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that the independent variables are good predictors of performance. This was supported

by an F statistic of 7.259 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level.

Table 4.15: Analysis of Variance without Moderation

ANOVAa						
Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	4.774	4	1.194	7.259	.000b
	Residual	7.893	38	0.164		
	Total	12.667	42			

a Dependent Variable: Financial Performance
b Predictors: (Constant), Mean_Ethical, Mean Economic, Mean_Discre, Mean Legal

Source: Survey study (2018)

Regression of coefficients results in table 4.16 shows that economic responsibilities and financial performance are positively and significantly related (β=0.186, p=0.03). This means that an improvement in economic responsibilities by one percent, leads to an increase in financial performance by 18.6%. The table further indicated that discretionary responsibilities and financial performance are positively and significantly related (β =0.213, p=0.009). This means that an improvement in discretionary responsibilities by one percent, leads to an increase in financial performance by 21.3%. It was further established that legal responsibilities and financial performance were positively and significantly related (β=0.205, p=0.004). This means that an improvement in legal responsibilities by one percent, leads to an increase in financial performance by 20.5%. Similarly, results showed that ethical responsibilities and financial performance were positively but insignificantly related (β =0.139, p=0.080).

The findings are consistent with that of Tarus (2015) who conducted a study on corporate social responsibility engagement in Kenya and found out a positive and significant relationship between employee CSR, product/service CSR and community

CSR and firm performance; environmental CSR, on the other hand, was not significant. The overall CSR index was found to be positive and significant to both measures of firm performance

Table 4.16: Regression of Coefficients Results without Moderation

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.680	0.512		1.328	0.190
Economic Responsibilities	0.186	0.083	0.259	2.234	0.030
Discretionary Responsibilities	0.213	0.079	0.315	2.702	0.009
Legal Responsibilities	0.205	0.068	0.365	3.020	0.004
Ethical Responsibilities	0.139	0.078	0.211	1.789	0.080

Source: Survey study (2018)

The specific model is therefore presented as follows

$Y = 0.680 + 0.186X_1 + 0.213X_2 + 0.205X_3 + 0.139X_4$

Where,

Y= Financial Performance

X_1 = Economic Responsibilities

X_2 = Discretionary Responsibilities

X_3 = Legal Responsibilities

X_4 = Ethical Responsibilities

4.6.2.1 Moderating effect of social capital on the relationship between corporate social responsibility and financial performance

To establish the moderating effect of social capital, each independent variable was interacted with social capital. Results revealed that the R squared improved from 37.7% (before moderating) to 40.9% (after moderation). Results are presented in table 4.17.

Table 4.17: Model Fitness with Moderation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.639	.409	.301	.41259

Source: Survey study (2018)

Table 4.18 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant with moderation. Further, the results imply that the independent variables are good predictors of performance. This was supported by an F statistic of 3.802 and the reported p value (0.002) which was less than the conventional probability of 0.05 significance level.

Table 4.18: Analysis of Variance with Moderation

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.177	4	.647	3.802	.002
	Residual	7.490	38	.170		
	Total	12.667	42			

Source: Survey study (2018)

Regression of coefficients results in table 4.19 shows the interaction of the independent variables and social capital was significant ($p<0.05$) except for the interaction of ethical responsibilities and social capital ($p>0.05$). This means that social capital moderated the relationship between economic responsibilities and financial

performance (β=0.073, p=0.005), the relationship between discretionary responsibilities and financial performance (β=0.08, p=0.003) and the relationship between legal responsibilities and financial performance (β=0.108, p=0.004). But it did not moderate the relationship between ethical responsibilities and financial performance (β=0.017, p=0.910).

Table 4.19: Regression of Coefficients Results with Moderation

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.		
	B	Std. Error	Beta			
	(Constant)	0.608	0.556		1.092	0.281
	Economic responsibilities	0.104	0.485	0.144	2.214	0.008
	Discretionary responsibilities	0.056	0.414	0.082	2.134	0.0029
	Legal responsibilities	0.604	0.479	1.077	2.261	0.002
	Ethical responsibilities	0.216	0.521	0.328	0.414	0.681
	Economic responsibilities *Social capital	0.073	0.137	0.493	3.534	0.005
	Discretionary responsibilities* Social capital	0.08	0.13	0.55	4.619	0.003
	Legal responsibilities* Social capital	0.108	0.133	0.805	2.811	0.004
	Ethical responsibilities * Social capital	0.017	0.15	0.113	0.113	0.91

Source: Survey study (2018)

$Y = 0.608 + 0.104X_1 + 0.056X_2 + 0.604X_3 + 0.216X_4 + 0.073X_1{*}M + 0.080X_2{*}M + 0.108X_3{*}M + 0.017X_4{*}M$

Where,

Y= Financial Performance

X_1 = Economic Responsibilities

X_2 = Discretionary Responsibilities

X_3 = Legal Responsibilities

X_4 = Ethical Responsibilities

X_1*M= Economic responsibilities *Social capital

X_1*M= Discretionary responsibilities* Social capital

X_1*M= Legal responsibilities* Social capital

X_1*M= Ethical responsibilities * Social capital

4.7 Discussion of Hypotheses Testing

4.7.1 Hypothesis testing for Economic responsibilities and Financial performance

The hypothesis was tested by using multiple linear regression (table 4.15, above). The acceptance/rejection criteria was that, if the p value is greater than 0.05, the Ho_1 is not rejected but if it's less than 0.05, the Ho_1 fails to be accepted.

The null hypothesis was that there is no statistically significant relationship between Economic Responsibilities and financial performance of insurance companies in Kenya. Results in Table 4.13 above show that the p-value was $0.03<0.05$. This indicated that the null hypothesis was rejected hence there is a statistically significant relationship between Economic Responsibilities and financial performance of insurance companies in Kenya.

This finding is consistent with that of Laursen (2007) who argues that a company's first responsibility is its economic responsibility that is to say; a company needs to be primarily concerned with turning a profit in order to harness more firm performance. This is for the simple fact that if a company does not make money, it won't last,

employees will lose jobs and the company won't even be able to think about taking care of its social responsibilities. Before a company thinks about being a good corporate citizen, it first needs to make sure that it can be profitable.

4.7.2 Hypothesis testing for Discretionary responsibilities and Financial performance

The hypothesis was tested by using multiple linear regression (table 4.15, above). The acceptance/rejection criteria was that, if the p value is greater than 0.05, the Ho_1 is not rejected but if it's less than 0.05, the Ho_1 fails to be accepted.

The null hypothesis was that there is no statistically significant relationship between discretionary Responsibilities and financial performance of insurance companies in Kenya. Results in Table 4.13 above show that the p-value was $0.009<0.05$. This indicated that the null hypothesis was rejected hence there is a statistically significant relationship between discretionary Responsibilities and financial performance of insurance companies in Kenya.

This finding agrees with that of Bloom (2006) who in his study argues that a business and its employees voluntarily assume discretionary responsibilities. They include public relations activities, good global citizenship and full corporate social responsibility which help in improving the firm performance of a company. Through public relations activities business leader attempt to enhance the image of their companies, products, and services by supporting worthy causes. This form of discretionary responsibility has a self-serving dimension.

4.7.3 Hypothesis testing for Legal responsibilities and Financial performance

The hypothesis was tested by using multiple linear regression (table 4.15, above). The acceptance/rejection criteria was that, if the p value is greater than 0.05, the Ho_1 is not rejected but if it's less than 0.05, the Ho_1 fails to be accepted.

The null hypothesis was that there is no statistically significant relationship between Legal Responsibilities and financial performance of insurance companies in Kenya. Results in Table 4.13 above show that the p-value was $0.004<0.05$. This indicated that the null hypothesis was rejected hence there is a statistically significant relationship between Legal Responsibilities and financial performance of insurance companies in Kenya.

This finding is consistent with that of Callster (2015) whose study asserts that legal responsibilities reflect the company's obligations to comply with the laws that regulate day-to-day business activities. The legal responsibilities are supplemental to the requirement that businesses and their employees comply fully with the general and criminal laws that apply to all individuals and institutions across the county hence creating greater firm performance. These include labor laws, insider trading and self-dealing, falsifying statistics, inflating revenues, hiding expenses, and defrauding investors and regulators. In recent years failures to adhere to the law have recently produced some of the greatest scandals in the history of American free enterprise.

4.7.4 Hypothesis testing for Ethical responsibilities and Financial performance

The hypothesis was tested by using multiple linear regression (table 4.15, above). The acceptance/rejection criteria was that, if the p value is greater than 0.05, the Ho_1 is not rejected but if it's less than 0.05, the Ho_1 fails to be accepted.

The null hypothesis was that there is no statistically significant relationship between ethical Responsibilities and financial performance of insurance companies in Kenya. Results in Table 4.13 above show that the p-value was $0.08>0.05$. This indicated that the null hypothesis was rejected hence there is no statistically significant relationship between ethical Responsibilities and financial performance of insurance companies in Kenya.

This finding disagrees with that of Singhapakdi *et al*., (2015) who found in their study that corporate ethical values seem to help sensitize marketers to the importance of ethics and social responsibility as a component of marketing decisions. Corporations may seek to improve CSR performance through creating common ethical values which provide direction for the organizations and their members by guiding behavior and decisions.

4.7.5 Hypothesis testing for the moderating effect of Social Capital

The hypothesis was tested by using multiple linear regression (table 4.18, above). The acceptance/rejection criteria was that, if the p value of the interaction term is greater than 0.05, the Ho_1 is not rejected but if it's less than 0.05, the Ho_1 fails to be accepted.

$Ho_{5\ (a)}$: Social capital does not significantly moderate the relationship between economic responsibilities and financial performance of insurance companies in Kenya.

$Ho_{5(b)}$: Social capital does not significantly moderate the relationship between discretionary responsibilities and financial performance of insurance companies in Kenya.

Ho5 (c): Social capital does not significantly moderate the relationship between legal responsibilities and financial performance of insurance companies in Kenya.

Ho5 (d): Social capital does not significantly moderate the relationship between ethical responsibilities and financial performance of insurance companies in Kenya.

Results in Table 4.18 above show that the p value of the interaction between economic responsibilities and social capital, discretionary responsibilities and social capital, legal responsibilities and social capital were significant and thus **Ho5 (a) Ho5 (b) and Ho5 (c)** were rejected. While the p-value of the interaction of ethical responsibilities and social capital was insignificant and thus **Ho5 (d)** was not rejected. This means that social capital moderated the relationship between all the independent variables and financial performance except for the ethical responsibilities.

According to (Saeed and Faria, 2012), social responsibility activities with internal and external stakeholders help an organization build certain intangible resources to the organization, such as social capital. Moreover, researchers explored a strong link between strategic management of human resources to social capital creation, which is made possible through responsible behavior toward employees. Similarly, many researchers have concluded that good reputations and an increased legitimacy as a result of a responsible citizenship behavior of a firm are an important intangible resource for an organization, which can increase organizational productivity (Tarus, 2015).

4.8 Discussions of the Findings

The descriptive statistics showed that the average mean of the responses of the economic responsibilities statements was 3.70. This implied that the majority of the respondents agreed with most of the statements; however, their answers varied, as shown by a standard deviation of 1.11. The correlation results indicated that there was

a positive and significant association between economic responsibilities and financial performance (r=0.305, p=0.026). Additionally, economic responsibilities and financial performance were positively and significantly related (β=0.186, p=0.03). This means that an improvement in economic responsibilities by one percent leads to an increase in business performance by 18.6%. Likewise, social capital moderated the relationship between economic responsibilities and financial performance (β=0.073, p=0.005). The results of the study concurred with the findings of Cheruiyot (2015), who established that there was a statistically significant relationship between CSR and financial performance.

The descriptive statistics showed that the average mean of the responses from discretionary responsibilities statements was 3.75. This implied that the majority of the respondents agreed with most of the statements; however, the answers were varied, as shown by a standard deviation of 1.17. The correlation results revealed that there was a positive and significant association between discretionary responsibilities and financial performance (r=0.268, p=0.005). The regression results indicated that discretionary responsibilities and financial performance were positively and significantly related (β =0.213, p=0.009). This means that an improvement in discretionary responsibilities by one percent leads to an increase in financial performance by 21.3%. Social capital moderated the relationship between discretionary responsibilities and financial performance (β=0.08, p=0.003). The results are in agreement with the findings of Mwangi and Jerotich (2013), who established a strong relationship between variables of manufacturing efficiency and capital intensity introduced to the model.

The descriptive statistics indicated the average mean of the statements of legal responsibilities was 3.79. This implied the majority of the respondents agreed with

most of the statements; however, their responses varied as shown by a standard deviation of 1.28. The correlation results showed that there was a positive and significant association between legal responsibilities and financial performance (r=0.404, p=0.003. Besides, the regression results indicated that legal responsibilities and financial performance were positively and significantly related (β=0.205, p=0.004). This means that an improvement in legal responsibilities by one percent leads to an increase in financial performance by 20.5%. The social capital moderated the relationship between legal responsibilities and financial performance (β=0.108, p=0.004). The results of the study concurred with the findings of Callster (2015) who established that legal responsibilities are supplemental to the requirement that businesses and their employees comply fully with the general and criminal laws that apply to all individuals and institutions across the county hence have a positive influence on the performance. Also, Anderson (2013) established that the company's legal responsibilities had a positive and significant impact on the performance of the insurance companies in the USA.

From the descriptive results, the average mean of the responses of ethical responsibilities was 3.83, which means that the majority of the respondents agreed with most of the statements; however, the answers were varied, as shown by a standard deviation of 1.14. The correlation results showed a positive and significant relationship between ethical responsibilities and financial performance (r=0.314, p=0.022). Similarly, the regression results showed that ethical responsibilities and financial performance were positively but insignificantly related (β =0.139, p=0.080). The social capital did not moderate the relationship between ethical responsibilities and financial performance (β=0.017, p=0.910). The results of the study concurred with the findings of Tarus (2015) who established that corporate values as beliefs held

in high esteem by corporate members regarding the means and ends that a corporation ought to identify in its operations, and a collective identity and shared a sense of purpose for the company and its members are positively related to the firm performance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter addresses the summary of findings, conclusions and recommendations. This is done in line with the objectives of the study.

5.2 Summary of Findings

The first objective of the study was to assess the relationship between economic responsibilities and financial performance of insurance companies in Kenya. The descriptive statistics showed that the average mean of the responses was 3.70, which means that the majority of the respondents agreed with most of the statements; however, the answers were varied, as shown by a standard deviation of 1.11. The correlation results indicated that there was a positive and significant association between economic responsibilities and financial performance ($r=0.305$, $p=0.026$). Additionally, economic responsibilities and financial performance were positively and significantly related ($\beta=0.186$, $p=0.03$). This means that an improvement in economic responsibilities by one percent leads to an increase in financial performance by 18.6%. Likewise, social capital moderated the relationship between economic responsibilities and financial performance ($\beta=0.073$, $p=0.005$). The results of the study concurred with the findings of Cheruiyot (2015), who established that there was a statistically significant relationship between CSR and financial performance.

The second objective of the study was to find out the relationship between discretionary responsibilities and financial performance of insurance companies in Kenya. On a five-point scale, the average mean of the responses was 3.75, which means that the majority of the respondents agreed with most of the statements;

however, the answers were varied, as shown by a standard deviation of 1.17. The correlation results revealed that there was a positive and significant association between discretionary responsibilities and financial performance (r=0.268, p=0.005). The regression results indicated that discretionary responsibilities and financial performance were positively and significantly related (β =0.213, p=0.009). This means that an improvement in discretionary responsibilities by one percent leads to an increase in financial performance by 21.3%. Social capital moderated the relationship between discretionary responsibilities and financial performance (β=0.08, p=0.003). The results are in agreement with the findings of Mwangi and Jerotich (2013), who established a strong relationship between variables of manufacturing efficiency and capital intensity introduced to the model. Also, Okoth (2012) found that CSR improves the financial performance of large and medium-sized banks, while the effect on the ROA of small banks is insignificant.

The third objective of the study was to establish the effect of legal responsibilities on the financial performance of insurance companies in Kenya. From the descriptive statistics, the average mean of the responses was 3.79, which means that the majority of the respondents agreed with most of the statements; however, their responses varied as shown by a standard deviation of 1.28. The correlation results showed that there was a positive and significant association between legal responsibilities and financial performance (r=0.404, p=0.003. The regression results indicated that legal responsibilities and financial performance were positively and significantly related (β=0.205, p=0.004). This means that an improvement in legal responsibilities by one percent leads to an increase in financial performance by 20.5%. The social capital moderated the relationship between legal responsibilities and financial performance (β=0.108, p=0.004). The results of the study concurred with the findings of Callster

(2015) who established that legal responsibilities are supplemental to the requirement that businesses and their employees comply fully with the general and criminal laws that apply to all individuals and institutions across the county hence have a positive influence on the performance. Also, Anderson (2013) established that the company's legal responsibilities had a positive and significant influence on the performance of the insurance companies in the USA.

The fourth objective of the study was to evaluate the relationship between ethical responsibilities and the financial performance of insurance companies in Kenya. From the descriptive results, the average mean of the responses was 3.83, which means that the majority of the respondents agreed with most of the statements; however, the answers were varied, as shown by a standard deviation of 1.14. The correlation results showed a positive and significant relationship between ethical responsibilities and financial performance ($r=0.314$, $p=0.022$). Similarly, the regression results showed that ethical responsibilities and financial performance were positively but insignificantly related ($\beta=0.139$, $p=0.080$). The social capital did not moderate the relationship between ethical responsibilities and financial performance ($\beta=0.017$, $p=0.910$). The results of the study concurred with the findings of Tarus (2015) who established that corporate values as beliefs held in high esteem by corporate members regarding the means and ends that a corporation ought to identify in its operations, and a collective identity and shared a sense of purpose for the company and its members are positively related to the firm performance.

5.3 Conclusions

Based on the hypothesis results, the study concluded that economic responsibilities have a positive and significant effect on financial performance. Good reputations and an increased legitimacy as a result of a responsible citizenship behavior of a firm are

an essential intangible resource for an organization, which can increase organizational productivity.

Also, based on the hypothesis results, the study concluded that discretionary responsibilities have a positive and significant effect on financial performance. There is a direct relationship between employee engagement and discretionary effort, such that improved workforce commitment results in increased firm performance.

Also, based on the hypothesis results, the study concluded that legal responsibilities have a positive and significant effect on financial performance. Businesses have begun to pay attention to the social impact of their economic activities. Many corporations have now adopted codes of conduct and reached out to various groups in society by engaging in purely discretionary social endeavors. Further, based on the hypothesis results, the study concluded that ethical responsibilities have a positive but insignificant effect on financial performance.

Lastly, the study found that social capital moderates the relationship between corporate social responsibility and financial performance of insurance companies in Kenya. Social responsibility activities with internal and external stakeholders help an organization build specific intangible resources to the organization, such as social capital.

5.4 Recommendations

5.4.1 Implication to Theory

The discoveries of the examination made crucial literature theoretical framework. The results of the study showed that ethical responsibilities and legal responsibilities had a positive influence on the financial performance. The results contribute to the social contracts theory that stipulates that an individual has ethical and political obligations

that relate to an agreement he has with every other individual within a society. This agreement can be written, as in the form of laws, or it can be an unspoken or unwritten agreement of social norms and customs. In the business world, social contracts theory includes the obligations that all businesses owe to the communities in which they operate and to the world as a whole.

Furthermore, the results of the study showed that economic responsibilities and discretionary responsibilities had a positive influence on the financial performance. The results contribute to the stakeholder theory that emphasizes on the responsibility of individual entities to manage the firms in such a way that balances the interests of all the stakeholder groups, practices social judgment skills, inspiring others and fostering collaboration within the institution that changes the financial performance of the organizations.

5.4.2 Implication to policy and practice

The study found out that economic, discretionary and legal responsibilities have a positive and significant effect on financial performance; therefore, the study recommends insurance firms to engage in corporate social responsibilities. Therefore, at insurance firms, there is need to quantify the exact benefits that accrue from every CSR activity in order to justify the performance. It is also increasingly becoming imperative for insurance firms to align every CSR activities to its strategic intent so that the CSR resources can contribute to the attainment of the company's objectives.

The study recommends that the insurance companies should be engaging in corporate social responsibility through economic responsibilities, discretionary responsibilities, legal responsibilities and ethical responsibilities since they had a positive impact to the financial performance.

Corporate social responsibility is no longer a luxury for companies. In today's global economy, it is critical for companies to embrace social and discretionary responsibility in order to meet the demands of their stakeholders – investors, consumers, employees, and communities where they serve thus bringing in more firm performance to the company.

5.4.3 Implication to Further study

The study sought to find the effects of the relationship between corporate social responsibility and financial performance. This called for the analysis of insurance companies only, thus area for further studies could consider conducting the same study but in other financial institutions like banks or micro finance institutions for the purpose of making a comparison of the findings with those of the current study.

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APPENDICES

Appendix I: Cover Letter

Antony Mulupi,

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Nairobi

Dear Respondent,

RE: DATA ON THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE OF INSURANCE COMPANIES IN KENYA: THE MODERATING ROLE OF SOCIAL CAPITAL.

I am a postgraduate student at Moi University undertaking a research investigation on the relationship between corporate social responsibility and financial performance of registered insurance companies in Kenya: The moderating role of social capital. I kindly request for your input by the provision of data in form of published audited reports, the IRA annual report, corporate social responsibility reports, brochures, websites and other relevant information. Note that your responses will be handled in the strictest confidence and used purely for academic purposes. Any additional information you may consider relevant to this research will be most welcome.

Your assistance is greatly appreciated.

Thank you.

Antony Mulupi

Appendix II: Questionnaire

This questionnaire seeks to establish the effect on the relationship between corporate social responsibility and financial performance of registered insurance companies in Kenya: The moderating role of social capital. Kindly answer the questions honestly and diligently following the instructions given. The answers you give will be treated with outmost confidentiality.

Section A: Demographic Information

1. Kindly indicate your gender

a) Male ☐

b) Female ☐

1. What is your level of education?

a) College ☐

b) Graduate ☐

c) Post Graduate ☐

2. How long have you worked in the insurance firm?

a) less than 5 year ☐

b) 6 to 10 years ☐

c) 11 to 15 years ☐

d) More than 15 years ☐

Please circle the choice that you feel suits your situation from the choices provided by the Likert scale (1-5)

Attitudinal survey questions—Neumann and Reichel, 1987 as cited in Preble and Reichel (1988) Likert scale:
1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

A. ECONOMIC RESPONSIBILITIES

1. The company pays fair dividends and reasonable returns to investors.	1	2	3	4	5
2. The company pays fair salaries and wages to its employees.	1	2	3	4	5
3. The company provides reasonable claims and policy benefits to policy holders.	1	2	3	4	5
4. The company offers fair commissions to the insurance agents.	1	2	3	4	5
5. The company offers loans and advances at reasonable interest rates.	1	2	3	4	5

B. `DISCRETIONARY RESPONSIBILITIES

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree					
1. Firm donates to charities and the society	1	2	3	4	5
2. Firm staff members are involved in charity volunteer work on behalf of the company.	1	2	3	4	5
3. The company is actively involved in a project(s) with the local community.	1	2	3	4	5
4. The company acts as a good citizen in all matters beyond law and ethical rules.	1	2	3	4	5
5.Firm returns a portion of revenues to the community.	1	2	3	4	5

C. LEGAL RESPONSIBILITIES

1. The company operates under the laws and regulations when selling its insurance policies.	1	2	3	4	5
2. The insurance company participate in improvement of the laws in the country e.g. in laws on pension and insurance systems.	1	2	3	4	5
3. The firm ensures timely payment of taxes to the state.	1	2	3	4	5
4. The company is committed to developing insurance laws for paying valid claims efficiently.	1	2	3	4	5
5. The insurance company is able to encourage the community by developing positive laws on investment strategies.	1	2	3	4	5

D. ETHICAL RESPONSIBILITIES

1. The company ensures quality assurance criteria that are adhered to in insurance policies.	1	2	3	4	5
2. The insurance company provides respect of the society in which the company operates.	1	2	3	4	5
3.The company provides full and accurate information on insurance policies.	1	2	3	4	5
4.The company follows fundamental ethical principles on insurance claims.	1	2	3	4	5
5.The company recognizes client rights during compensation process.	1	2	3	4	5

E. SOCIAL CAPITAL

To what extent do you agree on the following elements of social capital in your firm?

	SD	D	N	A	SA
1. Norms influence performance of the insurance company.	1	2	3	4	5
2. Reciprocity influence performance of the insurance company.	1	2	3	4	5
3.Networks influence performance of the insurance company.	1	2	3	4	5
4. Interlocking directorates influence performance of the insurance company.	1	2	3	4	5
5 Social trust influence performance of the insurance company.	1	2	3	4	5

F. FINANCIAL PERFORMANCE

Kindly rate the extent to which your company from the year 2012-2016 has performed in each of the following key financial performance indicators by ticking on the appropriate box.

Use the scale where 1= Not at all 2= Small extent 3=moderate extent 4= Large extent 5=Very large extent

	Financial - Criteria Domain					
a)	Gross revenue generated by the company has increased for the last five years.	1	2	3	4	5
b)	Net profit of the company has increased for the last five years.	1	2	3	4	5
c)	Cost base of the company has decreased for the last five years.	1	2	3	4	5
d)	The market share of the company has expanded for the last five years.	1	2	3	4	5
e)	The asset base of the of company has increased for the last five years.	1	2	3	4	5

SECONDARY DATA COLLECTION SCHEDULE ON FINANCIAL PERFORMANCE MEASUREMENT

ROA = NET INCOME/TOTAL ASSETS

COMPANY NAME	ROA 2012	ROA 2013	ROA 2014	ROA 2015	ROA 2016	AVERAGE

Appendix III: Insurance Companies in Kenya

Kenindia Assurance Company
AAR Insurance Kenya Limited
Kenya Orient Insurance
APA Insurance Limited
Kenya Reinsurance Corporation
Africa Merchant Assurance Co. Ltd
Madison Insurance Company Kenya
AIG Kenya Insurance Company Limited
Mayfair Insurance Company
British-American Insurance Company
Mercantile Insurance Company
Cannon Assurance Company Limited.
Metropolitan Life Insurance Kenya
Capex Life Assurance Company
Occidental Insurance Company
CFC life Assurance Ltd.
Old Mutual Life Assurance Company
CIC General Insurance Limited
Pacis Insurance Company
CIC Life Assurance Limited
Pan Africa Life Assurance
Continental Reinsurance
Phoenix of East Africa Assurance Company
Corporate Insurance Company
Pioneer Assurance Company
Direct line Assurance Company
Real Insurance Company
East Africa Reinsurance Company
Resolution Insurance Company
Fidelity Shield Insurance Company
Takaful Insurance of Africa
First Assurance Company
Tausi Assurance Company
GA Life Assurance Ltd.
The Kenyan Alliance Insurance Co. Ltd.
GA Insurance Limited
Heritage Insurance Company
Gateway Insurance Company Ltd
Jubilee Insurance Company Limited
Geminia Insurance Company
Monarch Insurance Company
ICEA LION Group
Trident Insurance Company
Intra Africa Assurance Company
UAP Insurance Company and UAP Life Invesco Assurance Company
Xplico Insurance Company