OWNERSHIP STRUCTURE DIMENSIONS, FIRM PERFORMANCE AND CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE AMONG LISTED FIRMS IN NAIROBI SECURITIES EXCHANGE, KENYA

BY

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DECLARATION

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I hereby declare that this thesis has not been accepted in substance for any degree and is not being concurrently in candidature for any degree. I further declare that this thesis is the result of my own investigations except otherwise stated. No part of this thesis should be re-produced without prior permission of the author and or/ Moi University.

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DEDICATION

This thesis is dedicated to my wife Sarah, Nancy and Emma and my children: Brian, Carson, Laura, Andy, Cassie and Jean without forgetting my Late Father Dr. Joseph Meya Lotulya for being the greatest gifts in my life.

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ABSTRACT

Corporate social responsibility (CSR) is picking pace in many listed companies in Kenya both as a marketing and sustainability tool. However, the existing literature is inconclusive about the relationship between ownership structure dimensions and corporate social responsibility disclosure. This is because it assumes, tacitly, that this relationship is direct. An alternative viewpoint that has received less attention is that this direct relationship can be mediated by other contextual variables such as firm performance. This study therefore investigated the relationship between ownership structure dimensions, firm performance and corporate social responsibility disclosure among firms listed at Nairobi Securities Exchange. Specifically, it determined the effect of managerial ownership, institutional ownership, foreign ownership, and concentrated ownership on corporate social responsibility disclosure and determined the mediating effect of firm performance on the relationship between ownership structure dimensions and corporate social responsibility disclosure. Explanatory research design is used. The theories that guided the study are Agency, Stakeholder, Resource-Based View, legitimacy, and stewardship theories and is anchored on positivism paradigm. Panel data was collected through content analysis of audited financial statements and annual reports from all the 44 listed firms in the Nairobi Securities Exchange that fit the inclusion criteria between 2007- 2018. Random effects model was chosen after evaluation using Hausman test. The most common ownership structure dimension among all the selected firms was concentrated ownership followed by institutional ownership with managerial ownership being the least. Ownership concentration was most common in the telecommunication industry, while institutional and managerial were most common in automobile and investment sectors, respectively. The highest performing firms were in the automobile sector followed by banking and telecommunication industries. Managerial ownership $(\beta = 0.0071, p < 0.05)$, Institutional ownership $(\beta = 0.0070, p < 0.05)$and Foreign ownership structure dimensions $(\beta = 0.0032, p < 0.05)$ had a positive and significant effect on CSR disclosure while concentrated ownership negatively affected CSRD $(\beta = -0.0022, p < 0.05)$. A positive mediation effect of firm performance was observed in the relationship between managerial ownership $(\beta = 0.165, p < 0.05)$, institutional ownership$(\beta = 0.025, p < 0.05)$ and concentrated ownership $(\beta = 0.024, p < 0.05)$ and CSR Disclosure. However, there was a negative mediation effect on foreign ownership and CSR disclosure $(\beta - 0.001, p < 0.05)$. There was a partial mediation of firm performance on the relationship between ownership structure dimensions and CSR disclosure. Financial scholars must consider the effect of firm performance when examining the relationship between CSR disclosure and the firm's ownership structure. Managers of listed firms should promote the possibilities of shareholders and other stakeholders' confidence in the firm through transparency and openness on CSR engagement and its disclosures.

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OPERATIONAL DEFINITION OF TERMS

Concentrated Ownership: The percentage of shares owned by Five or Ten largest shareholders of the firm (Karaca & Eksi, 2012).

Corporate Social Responsibility: Consideration and response by the company to issues outside the company's limited economic, technical and legal demands to achieve social benefits along with the traditional economic gains the company seeks (Davis, 1973).

Corporate Social Responsibility Disclosure: Making public of corporate social responsibility engagement activities in financial reports and other relevant forms of communication.

Firm Performance: Refers to the execution or fulfilment of a duty or function or the process of carrying out a function under test conditions; usually the objectives.

Foreign Ownership: It refers to the percentage of shares owned by non-citizens or foreign investors.

Institutional Ownership: It is the percentage of firm’s shares owned by both financial and non-financial institutions in the firm.

Managerial Ownership: It refers to the percentage of shares owned by the firm’s Managers.

Ownership Structure Dimensions: It is the distribution of equity in a firm based on fraction of shares held given total capital and identity of equity holders. In this case it includes managerial, institutional, foreign and concentrated ownership dimensions.

Stakeholders: Any group or individual who can affect or is affected by the achievement of the organization’s objectives.

ABBREVIATIONS AND ACRONYMS

AFM	Association of Future Markets
AIMS	Alternate Investment Market Segment
AKSB	Association of Kenya Stockbrokers
ATS	Automated Trading Systems
BC	Before Christ
CDSC	Central Depository and Settlement Corporation
CHU	Complaints Handling Unit
CMA	Capital Market Authority
CP	Company Performance
CSP	Corporate Social Performance
DF	Dickey- Fuller
DGP	Data Generating Process
DV	Dependent Variable
DW	Durbin Watson
FE	Fixed Effects
FISD	Financial Information Services Division
FISMS	Fixed Income Securities Market Segment
FTSE	Financial Time Stock Exchange
GEMS	Growth Enterprise Market Segment
IFRS	International Financial Reporting Standards
IPO	Initial Public Office
IPS	Im-Pesaran-Shin
ISO	International Standardization Organization
IV	Independent Variable

JB Jarque-Bera

KPSS Kwiatkowski-Phillips-Schmidt-Shin

LLC Levin-Lin-Chu

LM Lagrangian Multiplier

MIMS Main Investment Market Segment

MV Mediating Variable

NASI NSE All Share Index

NGO Non-Governmental Organization

NSE Nairobi Securities Exchange

OLS Ordinary Least Squares

RBV Resource Based View

RE Random Effects

ROA Return on Assets

ROE Return on Equity

ROS Return on Sales

SIIA Software and Information Industry Association

SMA Sustainable Management Accounting

UK United Kingdom

USA United State of America

WAN Wide Area Network

WBCSD World Business Council for Sustainable Development

CHAPTER ONE

INTRODUCTION

1.1 Overview

The chapter presents the study background, the statement of the problem, the general and specific objectives, and study hypotheses, significance of the study and scope of the study.

1.2 Background of the Study

Corporate social responsibility disclosure relates to the provision of information on companies' environmental and social performance (Gamerschlag *et al.,* 2011). The concept of corporate social responsibility (CSR) is ever more on the calendar of many business organizations (Tarus, 2015a). A company can express its most important moral behaviour towards society through CSR (Bowen, 1953). Despite literature suggesting different definitions of CSR, generally, it refers to the firm's consideration of and response to issues beyond the narrow economic, technical and legal requirements of the firm to accomplish social benefits along with the traditional economic gains which the firm seeks (Davis, 1973).

Corporate social responsibility (CSR) responsiveness has evolved as one of a modern company's main business mechanisms. The concept has also become of major interest to scholars, financial analysts and other stakeholders with major interests in the life of a firm (Meynhardt & Gomez, 2019). In recent years, the possibility that firms will develop a strategic advantage over competitors by engaging in corporate responsibility has been enormously caused by shifts in the behavior and attitudes of consumers towards society (Constantin & Manescu, 2011).

In Kenya, a majority of the listed companies across various sectors have been engaging in some form of CSR (Cheruiyot & Maru, 2014). Some of these companies have an independent budgetary allocation for CSR engagement; however, others include CSR in their marketing and emergency budgets. This budgetary allocation could affect the way CSR engagement is disclosed in the companies' financial statements. CSR activities have different classifications: protective, voluntary, promotional, competitive and transformative CSR activities (Rasli *et at.,* 2013).

Corporate social responsibility is characterized as defensive in the sense that all corporate sustainability and responsibility practices are undertaken only when it can be shown that shareholder value is protected as a result (Visser, 2008). It is charitable when a company supports various social and environmental causes through donations and sponsorships, typically administered through a Foundation, Trust or Chairman's Fund and aimed at empowering community groups or civil society organisations (Visser, 2016).

Furthermore, it is classified to be promotional by what happens when corporate sustainability and responsibility is seen mainly as a public relations opportunity to enhance the brand, image and reputation of the company. Strategic CSR involves connecting CSR operations with the main sector of the organization, such as Coca-Cola and water control, often, It adheres to CSR codes and social and environmental management frameworks application, usually requiring processes of production of CSR policies, setting priorities and objectives, implementation of services, auditing and monitoring (Carroll, 2009). A case in point is Safaricom (a listed firm in the telecommunication and technology sector) which has adopted a transformative CSR engagement methodology through its Safaricom (M-PESA) Foundation (Wahome,

2016). All its CSR engagement and disclosures are done through the M-PESA Foundation. The Equity Group Holdings (listed under banking sector) which conducts its CSR activities in education and entrepreneurship through Equity Foundation (Young Africa Works) have adopted a similar mode (Mwangi & Wanjira, 2019). Previous studies have indicated that totally owned local Kenyan companies do not disclose CSR as much as foreign owned international listed companies. This is because there is regulation in many foreign countries such as those in Europe and North America on CSR disclosure (Muthuri, 2013).

The adjustment in the structure of corporate ownership expands the presence of institutional investors, such as banks, hedge funds, suppliers of insurance and pension funds (Sundaramurthy *et al*., 2005). This allows researchers to explore the connection between institutional investors and social responsibility. Previous analysis has been criticized from two viewpoints, with the first point of view claiming a constructive connection between corporate responsibility and institutional investors. In this relationship, institutional investors are risk antagonistic (Mahoney & Roberts, 2007; Mahoney & Thorne, 2005) and the company's reputation in social and environmental justice reduces stock volatility (Petersen & Vredenburg, 2009); companies invested in social services and projects are capable of interesting many investors, especially institutional ones (Graves & Waddock, 1994).

The other perspective argues for a negative relationship between corporate social responsibility and institutional investors on the basis that social responsibility orientation does not match with institutional investors' investment horizon (Wahba & Elsayed, 2014). This is attributed to investments in measures of social responsibility that are expected to have substantial short-term and market costs that respond to long-

term social responsibility (Shank *et al*., 2005). Institutional investors tend to invest in fewer socially responsible firms while long-term funding for ventures owned by institutional investors, who generally favour near-term profits, is discouraged by short-term cycles (Bushee & Noe, 2000). The link between social responsibility and institutional expenditure has also been investigated in longitudinal research, providing inconclusive evidence (Saleh *et al*., 2010; Wahba & Elsayed, 2014).

Indeed, existing literature is inconclusive and thus can be challenged due to its implied and simplest conjecture that the relationship between institutional investors and firm performance is a direct relationship. Opposing and mixed findings in prior studies may be traced back to the fact that this relationship is not a direct relationship (Harris, 2018). Rather, this relationship can be mediated by other contextual variables such as investment in corporate social responsibility performance and other control variables, a point that has received less attention in literature (Wahba & Elsayed, 2014). Specifically, the main argument in this paper is that better (or worse) financial performance, and rather investment in corporate social responsibility, may in turn, be the guide for institutional investors when they make their investment decisions.

The emergence of social criteria may influence institutional investment activity, these criteria probably remain subordinate to economic criteria (Kiliç, 2016). For instance, although many investors value social responsibility, financial performance is still their main concern (Lins *et al.,* 2017). In addition, for ethical investors, not only are financial returns relevant (Tarus, 2015a), a consideration not supported by institutional investors on social responsible data unless presented in a financial forms (Teoh *et al.,* 1999).

In a systematic review, it is posited that the concept of CSR is novel to corporate firms for the last 45 years since its inception; this has been widely used in management and

accounting literature (Wood, 2010). Many organisations and communities have greatly raised their focus on CSR in recent years (Frost & Adams, 2006).

In a Chinese study (Huang *et al*., 2018), it was noted that corporations are increasingly allocating money, particularly on the topic of environmental contamination, to corporate social responsibility activities, information disclosure question, labour management relationship and other violations and illegal acts traditionally. Companies are obliged to focus on business strategies operations and profits for example profit diversity, differentiation, concentration, globalisation, and profit turnaround. CSR has been dubbed as an actions that extends the company into society (Carroll, 1979). Markets, improvement of society, donations, disaster relief, protection, are some of the actions CSR can bring to society. Other companies' social responsibility activities includes peace initiatives and reduction in pollution. The reasons behind the implementation of CSR are popularity (Baranchuk, 2011), business strategy (Lloyd-Reason & Mughan, 2002) and stakeholder pressures (McWilliams & Siegel, 2000).

The practice of CSR has been more prominent in the western developed countries, such as the United States of America (USA) and the United Kingdom (UK) *(*Chambers *et al.,* 2003) and it is unclear whether it translates easily into the developing and non-Western countries. Most companies in the developing countries such as those in Africa that practice CSR are either owned or supported by parent companies in the developed world (Muthuri, 2013). However, there are few locally owned companies in the developing countries that do independently engage in CSR, several authors who have described discrepancies when CSR is adopted between developed and emerging countries have deliberated on these basic instances (Cheruiyot & Maru, 2014). Several researchers, such as Edmondson and Carroll (1999), Burton *et al*. (2000) and Khan

(2005), have indicated that numerous cultural models and traditional traditions may mean that in developing countries, including those in East Africa, much of what is widely understood about CSR may not be valid (Archie & Carroll , 1991).

Before the advent of very large firms in the late eighteenth century, the owners were managers and managers were owners, but with the separation of ownership and managers, the emergence of securities markets, groups of professional managers, and a new approach introduced as a social phenomenon with title of stock company (Ogot, 2014). This led to the emergence of a conflict of interest between managers and owners. Shareholder composition may vary in different countries (Carroll, 2011).

However, ownership concentration or diffusion can have a major role in corporate governance system. Thus, different compounds can have different effects on the company performance, the methods of firm information reflect in markets and information asymmetry in firms. In this context, most attention is on the increasing presence of institutional investors, insider ownership and foreign ownership in public company's ownership circle, and the impact of active participation of these groups can have on organizations and their performance (Garcia-Sanchez *et al*., 2016). Institutional investors have the potential influence on activities of managers directly and indirectly through its traded shares and the direct or indirect influence of institutional investors can be particularly important (Rasli *et al*., 2013).

The relation between CSR and institutional ownership in developed markets has been discussed in several studies (Mahoney & Roberts, 2007). Previous findings have found that the disclosure of corporate social responsibility and institutional ownership has a positive and neutral connection. They revealed that institutional do not change the decidiond about companies' CSR disclosure activities such as annual reports. However,

institutional investment recognizes CSR details in their account if it is tuned to clear issues, including product development and fair trading practices. The association between CSR and the institutional ownership system was analyzed by Graves and Waddock (1994) and found that a clear positive relationship between CSR and institutional ownership numbers was positive. A British study explored the trend of UK institutional shareholding and its association with firms' socially conscious behaviour (Broadstock *et al*., 2018). It showed that social success was favorably correlated to long-term structural investment.

A research in Russia using time series analysis regression found that strong relationship exists between institutional investors and the return of shareholders (Mayorga *et al*., 2016). Parrino, Sias and Starks (2003) concluded that if institutional investors feel threatened, rather than have effects on management sell their investment and believe long-term returns are not significant (Parrino *et al*., 2003). In general, evidence of the relationship between institutional investors and shareholders was concluded to yield returns in the United States shows that this relationship is sometimes positive and sometimes negative (Holderness, 2003).

As opposed to previous studies, this study dwelled mainly on the mediating The effect of firm performance on the relationship between the dimensions of the ownership structure and the emerging disclosure scenario of corporate social responsibility by companies listed on the Nairobi Security Exchange. Previous research have only looked at the direct relationship between the aspects of the ownership system and the presence and transparency of corporate social responsibility. without looking at other variables that might have a strong indirect influence in this relationship (Carroll & Shabana, 2010). The more the company nourishes and starts to control, the more they

no longer expected to contribute to the world economy, but to reconcile and skillfully align the interest of customers on all lines and managers (Jamali & Karam, 2018; Jamali & Mirshak, 2007).

There is some new evidence that firms are generally more likely today to broaden the basis of their success evaluation of short-term financial emphasis to include long-term financial focus to include long-term social, environmental and economic impacts and added benefit. (Feng *et al*., 2018). The key concepts of concern in this study was ownership structure dimensions, firm performance and corporate social responsibility disclosure. Dimensions of the ownership structure were independent variable and were operationalized by, managerial, institutional, foreign and concentration ownership while firm performance was proxied by the use of return on assets. Firm performance can affect (mediate) the link between the dimensions of the ownership structure and the disclosure of the CSR. Corporate social responsibility disclosure was characterized by firm’s disclosure in their respective investments in selected social activities such environmental conservation, community projects, legal requirements, and education. The study considered legal requirements and employee development for instance training. The study controlled for the effects of firm size and firm age.

1.3 Historical Background of the Nairobi Securities Exchange

The Nairobi Stock Exchange (NSE) was registered in the year 1954 as a voluntary association of stockbrokers that was charged with the responsibility of developing the securities market and regulating trading activities in the East African regional market (NSE, 2020). Prior to this, trading in shares was done based on a gentleman's agreement with no physical trading floor. It was in 1953 that the London Stock Exchange (LSE)

officials accepted to recognize the setting up of the Nairobi Stock Exchange as an overseas stock exchange.

Much of the NSE business was done through telephone after it was registered and prices were determined through negotiations. Nevertheless, after Kenya attain independence in the 1963, the government started adopting new policies with the objective of shifting people' commercial and social power. This led to increased number of firms listed to 66, of which Kenya accounted for 45 percent. The transition of political regimes among the members of the East Africa Region influenced the free flow of capital and culminated in the de-listing of some of the companies in Uganda and Tanzania from the Nairobi Stock Exchange.

The Capital markets Authority (the local trading regulator) was constituted in January 1990 through the Capital Markets Authority Act (Cap 495A) and inaugurated in March 1990. The main purpose of setting up the CMA was to promote and facilitate the development of an orderly and efficient capital market in Kenya. In 1991, the NSE was registered as a private company limited by shares. Share trading moved from being conducted over a cup of tea, to the floor based open outcry system, located at IPS Building, Kimathi Street, Nairobi. CMA hiked the stockbrokers' initial paid-up capital from one hundred thousand to five million and one million for investment advisors. It became a compulsory with CMA amendment act of 1994 that securitites exchange approved by CMA be a limited company by guarantee and this has led to increase in number of stockbrokers.

In 1995, CMA formed an investor protection fund to reimburse customers for financial losses resulting from the inability of a registered broker to comply with the contractual obligations. In order to encourage professionalism and the establishment of examinable

curriculums for its partners and to expedite relationship with CMA and NSE, the Code of Conduct has been established. Capital Markets Authority published new rules and guidelines in 1999 on standard disclosures by listed comoanies. Reporting requirements on all public sales of shares and the continuation of reporting responsibilities. In that year, the Central Depository and Settlement Corporation (CDSC) was incorporated under the Company Act (Cap, 486). Core five shareholders of CDSC had an agreement thay was signed and paid up share of the capital in 2000.

NSE market was split in 2001 into Alternative Investment Market Segment (AIMS), Main Investment Market Segment (MIMS) and the Fixed Income Seurities Market Segment (FISMS) but Central Depository Act of 2000 was put in operation in June 2003. The commission of Central Depository Systems was done in November 2004 and that led to automation of the procedure of clearing and settlement of shares transacted in Kenya's capital markets. The electronic trading device even had the capacity to exchange corporate bonds and treasury bonds that were immobilized. By December 2007, the Wide Area Network platform was adopted by the NSE. When remote trading continued, brokers and investment banks no longer wanted a physical presence on the trading floor because they would be able to sell from terminals connected to the NSE trading engine in their offices. The Nairobi Stock Exchange launched the NSE All-Share Index (NASI) in 2008 to give investors a detailed indicator of capital market performance.

In December 2009, NSE trading was automated via the Automated Trading System on government bonds and all government bonds were uploaded to the system. Two years back, from the prior T+4 settlement period, the fairness agreement cycle switched to the T+3 decision cycle. Furthermore, in the same year (2011), Nairobi Stock Exchange Limited has changed its name to Nairobi Securities Exchange Limited as part of its

business strategy to become a full-service securities exchange representing the listing, clearing and settlement of equities, debt, derivatives and other related instruments.

In public entities, company segments have been reclassified. Equities were then among ten (10) segments of business. There were three (3) types of debt instruments, including preferred shares. NSE and FTSE International have jointly launched the FTSE NSE Kenya 15 and FTSE NSE Kenya 25 Indexes. In 2012, the NSE became part of the Financial Information Management Division of the Software and Technology Industry Association (SIIA) (FISD). The same year, the NSE Broker Back Office began operations with a device capable of improving the reputation of exchange trading networks by facilitating internet trading. The FTSE NSE Kenyan Shilling Government Bond Index was further implemented by the NSE together with FTSE International. This was Eastern Africa's first tool of its kind in the offered investors the ability to access current information and provided a credible measure of the success of the Kenyan government bond industry. Centum Investment Corporation started trading on the Nairobi Securities Exchange (NSE) Fixed Income Securities Market Segment in February 2013, when its Ksh.4.19 Billion Bond Issue began trading on the Nairobi Securities Exchange (NSE) Fixed Income Market Segment became the first company in East Africa to list an equity-related note.

In the same month, the Board of the Futures Market Association (AFM) accepted NSE as an agency member associate. The goal was to improve and encourage new derivatives and related markets to be developed. In July 2013, by launching the Development Business Industry Segment, Home Afrika made history by becoming the first organization to list (GEMS). The Capital Markets Authority (CMA) officially allowed the NSE to operate as a demutualized firm the following year (June, 2014).

This follows the approval by the NSE of the actual form which met the regulator's requirements as defined in Section 5(3) of the 2012 Regulations on Capital Markets.

In addition, the Capital Markets Authority (CMA) officially allowed Initial Public Offer (IPO) selling of its stock to the public and, subsequently, the self-listing of its shares in the NSE Key Investment Market Segment (MIMS). A month later (July 2014), the Initial Public Offering (IPO) of Nairobi Stock Exchange Limited was formally launched to collect Kshs.627 million by selling up to Kshs 66 million new shares at a price of 9.50 Kshs per share. Kshs 500 was the minimum reasonably obtainable number of shares available. After a profitable initial public offering, the Nairobi Securities Exchange listed its estimated Kshs 195 million released and entirely paid-up shares of the Main Investment Market Segment (MIMS) in the new sector - Stock Exchange Investment Services. The Exchange is the second African Exchange to be listed after the Johannesburg Stock Exchange, after its self-listing. In September 2014, the NSE was added as a constituent of the auspicious FTSE Mondo Vision Exchanges Index, the first Index in the world to focus on listed exchanges and other trading venues. It also launched a new more efficient, scalable and flexible system for trading corporate bonds and Government of Kenya Treasury Bonds allowing on-line trading of debt securities and is integrated with the settlement system at the Central Bank of Kenya (NSE, 2020).

1.4 Statement of the Problem

Corporate social responsibility engagement has been on the rise among listed firms in Kenya. However, there is limited documentation on the level of disclosure by the listed firms engaging in CSR. This disclosure is currently done voluntarily by the listed firms in Kenya as there is no mandatory requirement stipulated by the market regulator. Despite this, majority of the market regulators in the developed economies have made

it mandatory for listed firms to disclose their corporate social responsibility activities in their financial statements in addition to social and environmental accounting reports as opposed to those in developing economies where these disclosures are voluntary. There is need to enhance CSR disclosure through legislation in Kenya by the capital markets authority.

Progress has been made in the analysis of how ownership structure dimensions and other factors influence corporate social responsibility disclosure. Despite the progress, most studies have focused on the developed rather than the developing economies (Walls *et al*., 2018); this could lead to a bias in the study findings. Secondly, much of the research has focused on the role of institutional investors on corporate social responsibility disclosure without emphasizing on other ownership structure dimensions. Third, there have been mixed evidence on the relationship between institutional investors and CSR disclosure with some studies concluding the existence of a strong and positive relationship (Mahoney & Roberts, 2007; Oh *et al*., 2011; Petersen & Vredenburg, 2009) while other researchers found no relationship at all (Hart & Ahuja, 1996; Shank *et al.,* 2005; Walls *et al.*, 2018).

Prior studies have also indicated that top managers' shareholding is adversely correlated with the CSR transparency ranking of the company, whereas foreign manager ownership is not substantially associated. Higher levels of foreign investment have been believed to imply a greater impact of foreign practice (Yoshikawa & Phan, 2003). The majority of global investors do not always support social spending. It has also been documented that many American and European investment firms are engaged in antisocial practices (Yoshikawa & McGuire, 2008). Therefore, in order to assert the positive effect of foreign ownership on CSR accountability, it is important to consider

the profiles of foreign owners that can impact their investment orientations and preferences. In order to provide incentives to monitor management, concentrated ownership is widely recognized. Large shareholders might have a greater opportunity than dispersed shareholders to boost the social prestige of a corporation.

In prior research concerning the direct interaction between the shareholder structure of the firm and CSR disclosures, there has been an opposing and inconsistent finding and this owes to the issue that this arrangement is not a direct relationship, it may be interlinked. Rather, this relationship can be influenced by other contextual influences, such as financial performance, a point that has attracted less attention in literature. Several studies have used market measures in assessing firm performance while other studies have used accounting measures (Elsayed & Paton, 2005). Due to conflicting evidence from various studies, on the measurement and role of firm performance on CSR engagement and disclosure, this study hypothesizes that ownership structure dimensions of firms listed in NSE affects CSR disclosure via firm performance or simply ownership structure dimensions affects firm performance which in turn affects the engagement and disclosure of CSR. This study therefore aimed at determining the mediating effect of Firm Performance on the relationship between Ownership Structure Dimensions and Corporate Social Responsibility disclosures among firms listed in Nairobi Securities Exchange.

1.5 Study Objectives

This study sought to achieve the following general and specific objectives:

1.5.1 General Objective of the Study

To determine the mediating effect of Firm Performance on the relationship between Ownership Structure Dimensions and Corporate Social Responsibility disclosures among firms listed in Nairobi Security Exchange.

1.5.2 Specific Objectives

The specific objectives were to:

1. Determine the effect of Managerial Ownership on Corporate Social Responsibility disclosure.
2. Establish the effect of Institutional Ownership on Corporate Social Responsibility disclosure.
3. Find out the effect of Foreign Ownership on Corporate Social Responsibility disclosure.
4. Determine the effect of Concentrated Ownership on Corporate Social Responsibility disclosure.
5. Investigate the effect of ownership structure dimensions on firm performance.
    a. Managerial ownership on Firm Performance.
    b. Institutional ownership on Firm Performance.
    c. Foreign ownership on Firm Performance.
    d. Concentrated ownership on Firm Performance.
6. Evaluate the effect of Firm Performance on Corporate Social Responsibility disclosure.
7. Establish the mediating effect of firm performance on the relationship between ownership structure dimensions and Corporate Social Responsibility disclosure of listed firms in Nairobi Securities Exchange

a. Establish the significant mediating effect of firm performance on the relationship between Managerial Ownership and Corporate Social Responsibility disclosure of listed firms in Nairobi Securities Exchange
b. Establish the significant mediating effect of firm performance on the relationship between Institutional Ownership and Corporate Social Responsibility disclosure of listed firms in Nairobi Securities Exchange
c. Investigate the significant mediating effect of firm performance on the relationship between Foreign Ownership and Corporate Social Responsibility disclosure of listed firms in Nairobi Securities Exchange
d. Establish the mediate the relationship between concentrated ownership and corporate social responsibility disclosure of listed firms in Nairobi Securities Exchange

1.6 Study Hypotheses

To address the study objectives, the following research hypotheses were tested:

H_{01}: There is no significant effect of Managerial Ownership on Corporate Social Responsibility disclosure

H_{02}: There is no significant effect of Institutional Ownership on Corporate Social Responsibility engagement and disclosure.

H_{03}: There is no significant effect of Foreign Ownership on Corporate Social Responsibility engagement and disclosure.

H_{04}: There is no significant effect of Concentrated Ownership on Corporate Social Responsibility engagement and disclosure.

H_{05a}: There is no significant effect of Managerial Ownership on Firm Performance.

H_{05b}: There is no significant effect of Institutional Ownership on Firm Performance.

H_{05c}: There is no significant effect of Foreign Ownership on Firm Performance.

H_{05d}: There is no significant effect of Concentrated Ownership on Firm Performance.

H_{06}: There is no significant effect of Firm Performance on Corporate Social Responsibility disclosure.

H_{07a}: Firm performance does not mediate the relationship between Managerial Ownership and Corporate Social responsibility.

H_{07b}: Firm performance does not mediate the relationship between Institutional Ownership and Corporate Social Responsibility disclosure.

H_{07c}: Firm performance does not mediate the relationship between Foreign Ownership and Corporate Social Responsibility disclosure.

H_{07d}: Firm performance does not mediate the relationship between concentrated ownership and corporate social responsibility disclosure of listed firms in Nairobi Securities Exchange.

1.7 Significance of the Study

Corporate social responsibility has emerged as a major form of companies marketing strategy and sustainability; not only does it aim to improve an organizations turnover, but it is a brainchild of corporate governance of the firm (Abd-Elsalam & Weetman, 2003). However, the initial objective of CSR was to improve the communities in which the firms operate. This research has added to current literature by examining and expanding the relationship between the dimensions of the ownership structure and the disclosure of corporate social responsibility as a direct relationship. Public accountability in public companies is profoundly impacted by social, political, educational, legal, economic and technical influences (Rizk *et al*., 2008).

This is purely brand-new study in the context of emerging economy like Kenya. The study focuses to investigate four major components of ownership structure dimensions, together with an intervening variable (Firm performance) believed to be of major effect on the direct relationship. This research, therefore, contributes significantly to the empirical studies on the relationship between CSRD and FPP and Ownership structure dimensions in the following ways:

First, for developing economies like Kenya, this report is definitive, since the scope of corporate social responsibility includes more than just social and environmental practices and questions regarding human rights, and CSR plays a major role in reducing poverty and reduces information asymmetry through legitimatization of its disclosure. Second, significance to business practitioners, policy makers and stakeholders at large. To managers, the study recommends the need to utilize various risk management practices to enhance efficiency in firm performance and in return engage and disclose more CSR activities. To policy makers, the findings will prompt them to come up with legislations that will regulate and guide the implementation and disclosure of CSR activities by listed firms. Finally, the stakeholders of the listed firms will be updated on the firm's potential CSR policies, activities, financial allocation, and the implications of the firms' performance to the interest groups.

1.8 Scope of the Study

The study adopted a cross-sectional time series using panel data of companies listed at Nairobi Securities Exchange for the period between 2007 and 2018. The ownership structure dimensions include managerial, institutional, foreign and concentrated ownership. Firm performance is measured by return on assets while corporate social responsibility disclosure is proxied by unweighted index of socially responsible activities undertaken by the firms.

Control variables are firm size and firm age. The study is pegged on and conceptualized from corporate finance and organizational theories to explain the aspects of study variables. The information relating to the firms is obtained from the Capital Market Authority (CMA) the market regulator, Nairobi Security Exchange, and the company's websites. Firms were stratified based on their economic activity such as Agriculture, Banking, Insurance, Telecommunication and Technology, Manufacturing and as Service Industry.

CHAPTER TWO

LITERATURE REVIEW

2.1 Overview

This chapter reviews the extant literature by providing a review of concepts, theories and empirical studies leading to conceptual framework.

2.2 Conceptual Discussions

This section gives an overview of the constructs of this study. The study concepts include ownership structure dimensions represented by managerial, institutional, foreign and ownership concentration, firm performance, and corporate social responsibility disclosure.

2.2.1 Concept of Corporate Social Responsibility Disclosure

The theme of corporate social responsibility (CSR) has been captioned under many names, including strategic philanthropy, corporate citizenship, social responsibility and other monikers (Carroll & Brown, 2018; Orlitzky *et al*., 2003). Bowen (1953) the father of CSR, defined CSR as: "the obligations of businessmen to pursue policies, to make decisions, or to follow lines of action which are desirable in terms of the objectives and values of our society" (Bowen, 1953; Carroll, 1991). Bowen's concept was further reiterated by Ringo & McGuire, (1964), that the organization has not only economic and legal obligations, but also some social obligations that extend beyond traditional firm obligations.

According to the World Business Council for Sustainable Development (2000), CSR is an ongoing commitment to ethical actions, and to contribute to economic development, while at the same time, improving the quality of life of workers and their families, as well as local communities and societies as a whole. On the other hand, the Commission

of the European Communities (2006) defines CSR as a concept for companies to integrate social and environmental concerns on a voluntary basis in their business operations and in their interactions with stakeholders.

In addition, the International Organization for Standardization (ISO) 26000 identifies CSR as the organization's responsibility for the effects of its decisions and activities on society and the environment. This is executed by being transparent and exercising ethical acts that are consistent with sustainable development and social welfare; taking into account the aspirations of stakeholders; Compliant with relevant legislations and international standards of conduct that are incorporated into the organization (ISO 26000, 2007).

Corporate social responsibility disclosure (CSRD) involves the provision of financial and non-financial information relating to a firm's interaction with its physical and social environment (Guthrie & Mathews, 1985). It is the process of communicating the social and environmental effects of an organization's economic action to interest grouping within society and to the society at large (Gray *et al*., 1986). This involves the provision of information on staff, legal standards, education, engagement in community events and environmental reporting (Yuan Hu *et al.,* 2016). Study by Gray *et al*.(1995) suggested that it is not necessarily constrained by comparison with selected recipients of information and that the information considered to be a CSR which, in essence, cover any subject.

According to this model, the business aim is to generate shareholder value, in such a manner that it also generates value for society, presenting itself as being a win-win proposition (Brieger *et al*., 2020), 2019; Nohria *et al.,* 2009). In one case, the idea aims to reconcile the detractors of CSR from the left and the right, since the notion of CSR

had the highest likelihood of being criticized by both sides of the ideological spectrum (Aupperle *et al.,* 2018).

While the organizations social awareness is becoming one of the most important business intangible assets in competitive environment, CSR is being considered a more essential factor for organizations performance, maintenance and survival (Cheit, 2012; Mahoney & Roberts, 2007). Gal breath (2009) stated that companies can build CSR into strategy effectively and achieve their goals successfully. Over the last decade, a rising number of investors have integrated environmental and social factors into their investment decisions (El-mahallawy *et al.,* 2015). Increased exposure of investors to corporate social responsibility (CSR) has raised the question of its financial impact. There are many claims in the academic literature that indicate that progress in CSR will have an effect on the market value of firms. From a theoretical perspective, positive corporate performance will boost efficiency and financial performance as it implies a good relationship with vital company's stakeholders (Tarus, 2015b).

Moreover, the studies explain that good CSR performance can provide a competitive advantage, increasing innovation capacity (Muthuri *et al.*, 2008; Yong *et al.,* 2016). CSR performance may also create value by developing intangible assets (Epstein, 2017). By meeting the aspirations of stakeholders driven by growing understanding of CSR, companies generate credibility capital and strengthen their social legitimacy, which can help to boost revenue and raise customer loyalty (Brooks & Oikonomou, 2018; Muthuri *et al.,* 2009) or make it possible to recruit more high-quality employees (Ochoti *et al.,* 2013).

Therefore, there are numerous and recent evidence on financial consequences of the increasing attention on corporate social responsibility from investors, but few studies

analyse the effect of CSR performance on firms' financial policies. If we consider that CSR performance has a negative impact on cost of equity and reduces information asymmetry, socially responsible firms would have more advantages than others to issue equity would and would be less leveraged. Instead, the literature on CSR and its transparency presents risk mitigation as one of the potential advantages of these investments. Therefore, thanks to this influence, an efficient market should understand and accept the 'ethical financial premium' for socially responsible firms, driven by enhanced corporate performance and ownership structure organisation.

Over the last few years, multinational corporations have paid more attention to corporate responsibility concerns, increasing the amount of capital devoted to activities generically labelled as CSR investments. One inspiration behind this movement can be identified in the belief that there is a connection between corporate social responsibility and outcomes. Risk management has been a key factor contributing to superior economic success among the many drivers of performance. In this context, companies have sought to create sustainable practices designed to avoid different types of risks, particularly those related to integrity. In other words, they have begun to use CSR image, as they have previously done with advertising, brand awareness and the environment.

Corporate Social Responsibility now plays a central role both in the literature and in business policies and practices that must respond to global climate change, emissions, and energy-saving measures, among others. To now, however, many of these investments and related disclosure regulations and policies have been seen as mere marketing measures or window dressing activities, an attempt to 'appear' socially conscious, to improve the corporate image, but without effective and real organizational

and managerial changes. In certain instances, the organizational structure of the company seemed to be relegating the CSR role to the supervision of the Public Relations function. The focal point is that, at present, social and environmental responsibility has played a dynamic role in business strategies, becoming more of a governance concern than a mere communication activity, with a profound impact on the structural and financial success of a modern organization.

2.2.2 Perspectives of CSR Disclosure

There are various perspectives on CSR disclosure. These perspectives are categorized as either economic, ethical, or legal. Even though CSR is current term, it has been appreciated from the earliest times i.e. from the fourth century BC as it provides suggestions informing its emergence in the business arena, which is the significance of the business ethics (Blowfield & Frynas, 2005). From the historical point of view on CSR, there has been a long standing and persistent debate concerning the importance of business together with its interactions with social and cultural issues.

The current model of CSR can be traced back during colonial and the period after the Second World War where the provision of foodstuffs to the victims was reported (Ciulla, 1991). Furthermore, the current literature (Cochran, 2007) is also tracing the definition of corporate social responsibility previously to the debates between two scholars in America, Adolf Berle and Merrick Dodd in 1930s concerning the fiduciary activity of the team leaders to their seniors. Seminar study by Kramer in the year 2002 expand the 18-year-old fascination in the changing case of CSR activities, granting CSR a very significant position when it comes to emergence of the term corporate social responsibility.

Nevertheless, it is very necessary to keep in mind that there is no agreement among the scholars on what exactly should be used to describe the term corporate social responsibility (Welford, 2007). Among the key issues that intensifies the persistent debate on the idea of corporate social responsibility is lack of agreed and documented meaning of the concept. The study by Welford *et al*., (2007) demonstrated challenges to describe corporate social responsibility for the reason that it is specific to its location for its definition to be clear: This means that the concept of a company's corporate social responsibility should not mind taking into consideration the demands and the general concerns of the entire team of stakeholders.

This reciprocated act of depending on each other is related to the concerns of positive externalities, whereby the findings of business activities are of great importance to the community, and likewise, develops a conducive environment where businesses thrive successfully. The indication here is that devoting resources to these social problems could establish a competitive advantage for firms (Bagnoli and Watt 2003; Baron, 2001; McWilliams and Siegel, 2001).

The moral perspective, contrary to method of business opportunity, conceptualises corporate social responsibility as a degree of fitness of what the society is aspiring and the guidelines of the firm or the business entity (Zenisek, 1979). Pendleton (2004) widens the horizon of this concept to include corporate-driven initiatives that are voluntary and altruistic. This definition clearly suggests that there may be other conceptualizations of CSR, where firms may be constrained to commit resources to social causes.

The fact that the definition of CSR may be location-specific in terms of taking into account the needs and priorities of its stakeholders does not detract from the view that

they may be other worldwide CSR issues like conservation of the natural environment and employee welfare that may underpin its definition. These global issues may naturally arise as externality effects of firms' productive activities (Crane & Matten, 2005) to CSR in compliance to strict regulatory constraint, and as such may undermine their CSR in the absence of legal and regulatory pressure (Engle, 2007).

It should be noted that some of the organizations that leads in the world have sought to give Corporate Social Responsibility a clear definition. For the World Business Council for Sustainable Development (WBCSD), CSR refers to the effort of businesses to philosophically conduct themselves and lead to sustainable economic development, and yet at the same time creating a positive effect on the workforce of businesses and society at large (WBCSD, 2000). Correspondingly, the World Bank (2002) views Corporate Social Responsibility as a modern network, once the single obligation of the government, for economic and community development, disaster relief, environmental protection, health promotion and a host of other welfare programs. Via an economic perspective, for objectives other than their economic attempts to produce profits, businesses are established. They are also supposed continue providing society with goods and services (Davidson and Spong 2010). It is suggested, according to Bakan (2004), that if a company defaults on its status as a profit-making organization, it will not have enough resources to satisfy other interconnected commitments, nor will it survive long enough to have other meaningful social effects. This is the constructive approach to CSR (Graafland & Van de Ven, 2006).

Ethical responsibilities of CSR are those behaviours and activities that are prohibited by the society even though may not be necessarily codified into law. The ethical argument reinforced by the fact that, firms exist in mutual interaction with their host

communities, and that their productive activities usually inflict harm on the environment (Eweje, 2007; Fort & Schipani, 2004). These therefore, ethical responsibility allows businesses to dedicate themselves to mitigating the social issues resulting from their productive operations, even if their profitability may be impacted by such CSR requirements (Whetten *et al*., 2002) and even though they're not enforced by law. And as such, it is argued that ethical responsibilities require businesses to act in a way that is compatible with society's principles (Chen *et al*., 2008).

The Core business ethics under considerations will be issues of equal jobs, environmental protection, pollution-reduction technologies and instead of only compensation for labour. The benefit or motive may not be a valid justification for participation in CSRR, as suggested (Paine, 2003; Marom, 2006). In the context of the formal regulatory system under which business was historically governed, Murphy (2009) considered CSR to be a defining feature of modern-day business. Constitutionally, Carroll (1991) argued that although the company not only requires the company to pursue its intent of benefit maximization, it also requires the company to conduct its duties within the framework of the law specified by the government in its areas of operation as a link between the company and the company in the agreement.

Legal duty is the second part of its definition and reflects, "A perspective of codified ethics in the manner that it represents the basic concepts of fair practice as stipulated through our lawmakers" (Carroll, 1991). Research by Chen *et al*., (2008) agree with this analysis, nevertheless remember that this was not easy to explain the line between company legal and financial requirements. The security of goods and the effects of production methods on the terms and conditions of employment, for example, would each be regarded both in terms of economic and legal obligation.

2.2.3 Corporate Social Responsibility Dimensions

A study by Dahsrud (2006) on how corporate social responsibility is defined: an analysis of 37 definitions identified five dimensions for corporate social responsibility, as they are shown with related issues on Table 2.1. The firm's corporate association with all its stakeholders, comprising customers, workers, companies, owners/investors, government, suppliers and competitors, is corporate social responsibility. This concept encompasses social, economic and environmental stakeholders (Khoury *et al.*, 1999). The moral or socially conscious treatment of the organization and its stakeholders concerns corporate social responsibility. Stakeholders exist in and outside a company. Voluntary, social and stakeholder acts are part of this concept (Hopkins, 1998).

Table 2. 1: Dimensions of CSR and Related Issues

Dimension	**Related Issues**
The environmental dimension	The relationship between the natural environment and business
The social dimension	The relationship between society and business
The economic dimension	Socio-economic or commercial aspects, including the definition of CSR as a business activity
Dimension of the stakeholder	The link between stakeholders and the organization
The Willingness Factor (Philanthropist)	Acts not prescribed by legislation

Source: Dahlsrud, (2006)

2.2.4 CSR Disclosure Measurement Methodologies

Studies by Elsayed & Paton (2005) and Griffin &Mahon (1997) identified two reasons why CSR studies cannot be used to formulate generalized results. The first reason was that there is no recognized reliable definition of CSR, and the second factor was the different methodologies used. These methodological limitations are a major issue, and have been discussed by several authors (Ruf *et al.*, 2001) who mention factors such as

sample size, the nature of the data, the use of control variables, analysis techniques, and CSR and CP measurements as the crucial methodological issues for CSR studies.

The use of the event study method has shown a short-term relationship only with shareholders, rather than the other stakeholders (Mcwilliams & Siegel, 2001). Some studies have not considered control variables, whereas others have used very small sample sizes (Mcwilliams & Siegel, 2001; Waddock & Graves, 1997), this means that it is impossible to generalize them to other populations (Spicer, 1978).Usage of the case study strategy instead of other stakeholders revealed a short-term partnership with shareholders only (McWilliams & Siegel, 2001a). Studies performed in the 1970s and 1980s, were at the infancy stage and CSR studies quality was low and therefore their performance results cannot be understood in relation to current benchmarks (Elsayed & Paton, 2005).

As stated earlier, in Empirical investigations, the analysis approach selected is very important. In previous CSR research, many analytical approaches have been used and have yielded a variety of results. Nevertheless, studies have proposed cross sectional or pooled data sets. Any use of shared data has many advantages, including the tracking of non - observable company-specific results. Moreover, it has the ability and provide a significant and strong basis for evidence (Elsayed & Paton, 2005; Russo & Fouts, 1997). A panel regression model and descriptive statistics panel were used by Saleh *et al*. (2008) to test bivariate relationships. Their research found a high correlation between CSR and corporate performance (Saleh et al., 2010).

A system for panel data regression was used by Elsayed and Paton (2005) to test the impact of environmental performance on corporate performance. Between these two factors, they considered a neutral interaction. Ruf *et al*. (2001) provided two types of

results; summary analysis on the economic variables used in their model, accompanied by a description of a positive relationship between ROS change and performance management changes. ROE modifications were not related to improvements in corporate social efficiency. From the other extreme, the findings of their logistic regression indicated a strong relationship between shifts in social responsibility with ROE and ROS for a one-year sample, with a negative association for a three-year sample. In order to evaluate the relationship between CSR and corporate performance. Tsoutsoura (2004) had to use a multiple regression and demonstrated a statistically significant and positive connection between both.

2.2.5 CSR, Information Asymmetry and Agency Costs

Recent articles further indicate that the success of the CSR contributes to a decrease in data asymmetry. Dhaliwal *et al.*, (2011) stress that by publishing a CSR report combined with efficient CSR results, information asymmetry is decreased. To understand this connection, such researchers studied the effect of the publication of the CSR report on analyst forecasts. They find that it eliminates errors in their forecasts when this knowledge is disclosed. This insight improves the accountability of businesses, plays a complimentary impact on financial statements and also helps investors to better forecast the revenues of future companies. In such a related manner, Hong and Kacperczyk (2009) argued that because shares are less covered by financial experts and far less controlled by institutional investors, and they're less owned by institutional investors, they are much more prone with what these authors term influences on social norms.

Moreover, these authors explain that businesses with high CSR results seem to be more willing to share information on their CSR policies. Comparably, Dhaliwal *et al.*, (2011)

say that a larger percentage of institutional investors would be attracted by a good CSR performance. Such stakeholders are attributed to the changes in tracking (Shleifer & Vishny, 1986), which would also be correlated with the decrease in agency conflicts and asymmetric information. Furthermore, as socially aware businesses tend to be a little more accessible (Gelb & Strawser, 2001), several studies indicate that such companies are much less likely to control earnings (Chih *et al*., 2008; Hong & Andersen, 2011; Kim *et al*., 2012.

The detrimental consequences of CSR success on information asymmetry are also compatible with any of these findings, as environmentally accountable financial information tends to be of better quality, increased business transparency. More recently, CSR performance has been shown to improve market liquidity and reduce bid-ask spreads (Cho *et al.,* 2013). Finally, the success of the CSR can also contribute to a reduction in the costs of the gency. Furthermore, businesses with stronger CSR performance are much more engaged with their shareholders, decreasing the risk of unscrupulous actions and reducing total contracting cost (Hsu *et al*., 2013).

2.2.6 The Relevance of CSR Disclosure in Accounting and Finance Research

Accountants may provide a framework to hold companies responsible for what they are doing. This is because their daily job is keeping corporations accountable. The functions of accountants can be defined as: financial accounting, accounting management and audit. Although previous accounting research focused on financial responsibility, accountants are already at the centre of the study and philosophy of social and environmental performance (Lehman, 2007). The goal is to broaden their understanding about the role of accounting.

Corporate social responsibility (CSR) focuses on concerns related to the relationship between businesses and society. These subjects includes; ethics, politics, social events, product protection, equal opportunity, human rights and environmental activities (philanthropy and community participation). As a consequence, the initial socially responsible revolution (Drucker, 1965) and the modern environmental movement, the activities are part of social accounting (Drucker, 1965), (Gray and Guthrie). This corporate social reporting is also part of social and environmental performance or good corporate reporting for sustainability accounting (CSD).Corporate social disclosure is simply financial accounting, based on the branches of accounting initially described.

Processes that are directly linked to the role of trained accountants in improving the sustainability of accounting are including accountability, standards, involvement of stakeholders, codes of ethics, benchmarking, enforcement, monitoring and evaluation. Moreover, the implementation in many countries of the International Financial Reporting Standards (IFRS) has meant the adoption of the Planning and Production Processes for Income Statement. Key categories of client accounts are described in the system as: current and prospective owners, workers, creditors, employees and business partners creditors, consumers, policymakers, their departments and the wider community.

The purpose of the financial reporting is to provide information on the financial position, success and progress of a company's financial situation which is suitable for a variety of users of financial statements. Finally, the preparation of audits or statements of assurance for CSR and sustainability reports is an essential activity for the accounting profession in the CSR. The number of reports accompanied by some form of independently drafted statement of guarantee has increased significantly (Owen, 2007).

In the practice of CSR and sustainability assurance, however, there is evidence of a lot of uncertainty (O'Dwyer & Owen, 2005; Owen, 2007). Although the auditor is not the first individual to speak regarding sustainable development, social sustainable development and social justice, accounting professionals are more interested than ever before when their positions are objectively taken into account.

2.3 Concept of Ownership Structure

Hayam and Elsayed studied the mediating effect of financial performance on the relationship between social responsibility and ownership structure of all firms listed in the Egypt social responsibility index during the period from 2010 to 2014. The findings of the panel analysis revealed that financial performance mediates the effect of social responsibility on institutional investors. In fact, the studies have shown that social responsibility has a negative effect on financial performance, which in turn has a negative impact on institutional investors as well. In simple terms, the findings indicate that better (or worse) financial results and, rather, social responsibility are at the forefront while institutional investors make investment decisions.

In the relationship between corporate responsibility and institutional investors, the consequence of this outcome is that financial performance plays an important mediating role. As a result, overlooking the possible subordination to economic standards of the relationship between social responsibility and institutional investors could lead to dubious conclusions.

Yong Oh *et al.* (2011) analysed the impact of the ownership structure on the evidence of corporate social responsibility by Korean companies. Using a sample of 118 large Korean firms, they believed that different types of shareholders would have different reasons for the company's CSR involvement. The study divided ownership into several

shareholder dimensions: institutional, administrative and foreign ownership. Their results have shown that there is a significant and constructive association between CSR ratings and ownership by institutions and foreign investors. In the other hand, shareholding by top executives is negatively correlated with the CSR ranking of the company, although non-director ownership is not important. The research concluded that the various owners had different effects on the company's CSR dedication.

2.4 Concept of Firm Performance

Firm Performance refers to the execution or fulfilment of a duty or function or the process of carrying out a function under test conditions; usually the objectives (Wamba *et al.*, 2017). As such, any meaningful evaluation of firm performance should be approached from the objectives of the firm. The theory of the stakeholder (Andersen *et al.*, 2015) identifies the corporation as a constellation of interests that raises legitimate expectations about the company's goals. This, thus, gives various descriptions of the company's success by different stakeholders based on the company's inherent needs. Similarly, based on their professional orientation, various disciplines will still define performance.

Firm performance is one of the most significant business strategy principles. Notwithstanding its significance and ubiquitous use, there is no consensus on its exact meaning and dimensionality, limiting progress in theory. Firm performance is a major concern of many organizations and other stakeholders, whether state, corporate or private companies (Nguyen *et al.*, 2013). Researchers have sought to figure out why some organisations do better than others (Barney, 2001; Michieka & Ogollah, 2012; Momaya *et al.,* 2006). Studies have been conducted which indicate that success in organizational performance is not dependent on a single factor (Machuki & Aosa, 2006;

Ogollah, 2012). These and other studies show that several variables are dependent on firm results. Capital structure, corporate governance and corporate social responsibility are some of these considerations.

Performance is the capacity to discern the consequences of organizational operations (Ukko *et al.*, 2009). Performance may be both financial and non-financial (Ittner & Larcker, 2008; Lau, 2015). It is possible to calculate non-financial success using main organizational performance metrics such as market share, innovation rate or customer satisfaction (Lau, 2015). It is hypothesized in this analysis that company success was positively linked to CSR. Learning and growth of staff, organizational processes, customer satisfaction and financial results are used as corporate performance metrics focused on organization productivity and profitability. The rapidly evolving market environment demands satisfaction from the company's multiple stakeholders, according to Sweeney (2009). Failure to take cognizant of social responsibility for the consequences of all stakeholders in stakeholder responses, including workers withdrawing their loyalty, consumers refusing to purchase the goods of the business, societies not tolerating the company, and legal action taken by the government.

2.5 Theoretical Foundation of the Study

This section presents the theoretical foundations of the study. The philosophical basis for this analysis is a synthesis of approaches to agency philosophy in a succinct manner, which is focused on shareholder preferences and stresses management judgments and self-interest. The philosophy of legitimacy, which focuses on the idea that a 'social contract' exists between a corporation and the society in which it works. The theory of stakeholders is focused on the gains accruing to other stakeholders, the theory of stewardship based on each person who is influenced by the accomplishment of the goals

of the organization; whereas the theory of resource-based view seeks to address the fundamental question why businesses are different and how companies gain and retain competitive advantage.

2.5.1 Agency Theory

Agency theory emanates from agency relationships which are looked at as contracts under which one or more persons (the principal) engages another (the agent) to perform some service on their behalf which involves delegating decision-making authority to the agent (Jensen & Meckling, 1976). In the event both parties to the relationship are utility maximisers, the agent may not always act in the best interests of the principal.

The concept of separating the ownership from control of the firm was first highlighted by renowned economist Adam Smith (Jensen & Meckling, 1976; Smith, 1776). In this seminal work, it was argued that the emergence and the rising prevalence of the joint stock company could create a dangerous gulf between the owners and managers of a firm (Smith, 1776). This work on the wealth of nations was further build upon by other authors (Berle & Means, 1932; Fama & Jensen, 1983, 2019). Contrary to the work of primary agency theory publication (Jensen & Meckling, 1976), the modern agency theory (Eisenhardt, 1988) suggests that the principal-agent relationships should reflect efficient organization of information and risk bearing costs.

Over the years, Agency theory has stopped being solely a domain for the economists as it has been by multiple scholars spanning different academic disciplines such as organizational behaviour (Eisenhardt, 1988), law, marketing (Bergen *et al.,* 1992), healthcare (Jiang e*t al.,* 2012), accounting (Buallay *et al*., 2017) and family businesses (Sahasranamam *et al*., 2019). These studies have hinged around either the principal-

agent problem (principal agent relationship/delegated responsibility) or governance mechanisms (positivist research).

Although the initial agency theory did not factor in the role of risk and deficiency in its analysis, the modern agency theory includes several variables such as risk, investment decisions, financial decisions, moral and ethical perceptions and dividend valuation (Eisenhardt, 1988, 2018). This further builds on the fact that firms are highly unlikely to behave in the value maximizing way that was common to so much of the modelling and analysis in economics and finance (Jensen & Meckling, 1976).

It is possible to analyse the conflict of interest between the involved human beings and the resulting equilibrium behaviour of the organizations. This conflict of interest may cause problems and affect the financial losses to the parties involved, who may have a strong motivation to minimize the agency costs of the cooperation. The initial agency theory (Jensen & Meckling, 1976) discussed mainly the source of agency costs, that which emanates from the conflicts of interest between people. However, in a follow-up study (Jensen, 1994), a second major source of agency costs was determined. These are costs incurred because of the self-control problems actions that people take that harm themselves as well as those around them was determined. Richard Thaler characterized agency problems with one's self (Thaler & Shefrin, 2011). Agency theory postulates that because people are eventually self-interested, they will have conflicts of interests over at least some issues any time they attempt to engage in cooperative endeavours.

This study employs the agency theory as one of the theories to inform the relationship between ownership structure dimensions and corporate social responsibility disclosure. The agency theory is concerned with the interests of the shareholders by reducing the agency problem will lead to increased value maximization of the firm. Therefore,

agency theory can be used to examine the direct link between ownership structure dimensions and corporate social responsibility disclosure. The overarching interest of shareholders is for value maximization of the firms. In the past, classical economics considered corporations as owned, managed and controlled by shareholders. However, with the advent of industrialization and development of capital markets, the ownership and control of corporations is now separated.

Principals charge the running of the business to the managers (Clarke, 2004). In such scenario, managers might have more information about the company than the principles and they might not be controlled. Therefore, managers might be hard-nosed or self-interested and only think their own utility while managing company. The goals or expect of agency and principal might be different and this conflict brings to agency problem. Because many managers do not own the companies they run, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private co-partner frequently watch over their own (Smith, 1776). Agents do not generally decide for welfare maximization of company shareholders.

Moreover, agency problem rises either when the principle cannot control or know what the agent is doing in detail. Therefore, agency theory aims to prevent and provide necessary monitoring to reduce agency problems between agent and principal. Agency theory model will be of great value addition shading light to the study by helping to understand ownership structure dimensions on the effect of ownership structure dimensions and corporate social responsibility. The agency relationship formation and strength will be expected to have a great effect on how the company will engage in other stakeholders interest as well as influencing performance of the firm. It is for this reason that the theory will be considered in this study.

2.5.2 The relevance of Agency theory in this study

Agency Theory (Jensen & Meckling, 1976) describe agency relationships as a connection between the company owner (principal) and the agent by delegating the decision- making authority to the agent. The existence of a relationship between the agent and principal can trigger a conflict of interest where the owner is more interested in maximizing the returns and the price of the securities of the investment; while the agent has wide psychological and economic needs that includes maximizing the compensations.

The Signalling theory emphasizes the importance of information released by the company against the investment decisions of the party outside the company. The signal theory indicates the presence of asymmetrical information between the company management and the parties concerned with the information. Therefore, the signal theory emphasizes that the company will tend to present complete information to obtain a better reputation than a company that does not disclose which will eventually attract investors and the corporate performance will increase.

2.5.3 Legitimacy Theory

Legitimacy theory derives its being from the concept of organizational legitimacy. It is a condition which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is part of (Dowling & Pfeffer, 1975). When a disparity, actual or potential exist between the two value systems, there is a threat to the entity's legitimacy. The theory posits that, organizations continually seeks to ensure that they operate within the bounds and norms of their respective societies. In adopting legitimacy theory outlook, a company would voluntarily report on activities if management perceived that those activities were expected by the communities in which it operates (Deegan, 2002). Academic work on CSR accounting

has produced a number of theories on what motivates firms to report or disclose information on their CSR activities. This is derived from the broad political economy theory (Gray *et al*., 1988, 1996; Gray & Guthrie, 2007).

Legitimacy theory suggests that reporting is used as a communication mechanism to inform and/or manipulate the perceptions of the firm's actions (Gray & Guthrie, 2007). It is a generalized perception that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definition (Deephouse & Suchman, 2008). It relies on the notion that there is a 'social contract' between a company and the society in which it operates (Deegan, 2002; Deegan & Blomquist, 2006; Deegan & Gordon, 1996; Deegan & Rankin, 1997). Any social institution and business operates in a society by means of a social contract, expressed or implied. The firm's survival and growth depends on the delivery of some socially desirable ends to society in general; and the distribution of economic, social or political benefits to groups from which it derives its power.

The social contract is used to represent the myriad expectations society has about how an organization should conduct its operations (Deegan, 2002). Specifically, an organization's survival will be threatened if society perceives that it has breached its social contract (Sacconi, 2012). In the event the society is not satisfied that the organization is operating in a legitimate manner, it will revoke the organization's 'contract' to continue its operations (Deegan & Rankin, 1997). For instance consumers may reduce the demand for the organization's products; factory suppliers may eliminate the supply of labor and financial capital to the business; or constituent's may lobby government for increased taxes, fines or laws to prohibit those actions which do not conform with the expectations of the community (Deegan & Blomquist, 2006). This

legitimacy gap between the expectations of the 'relevant publics' relating to how an organization should act, and how the organization does act (Garas & ElMassah, 2018). Whenever a legitimacy gap occurs, there is a threat to the entity's legitimacy as it is a resource on which an organization is dependent on for its survival (Dowling & Pfeffer, 1975). Legitimacy theory suggests that whenever managers consider that the supply of certain resource is vital to organizational continued existence, they will pursue strategies to ensure the continued supply of that resource. Such strategies may include targeted disclosures.

2.5.4 Legitimacy Theory in Management Accounting Research

The objective of Legitimacy Theory is to understand an organization's behaviour in implementing, developing, and communicating its social responsibility policies. Sustainable management accounting is a valuable tool of legitimacy for socially responsible companies (Zyznarska-Dworczak, 2018). Furthermore, accounting legitimizes the status of a socially responsible corporate entity. Legitimacy theory treats corporate social and environmental performance and disclosure of this information to fulfil the organization's social contract that enables the recognition of its objectives. The sustainability of legitimacy theory is based on the management heritage that connects traditional norms and values with modern ethics (Burlea-schiopoiu & Popa, 2013). Socially responsible enterprises that ignore their impact on the environment but strive to acquire knowledge of their own socio-economic and environmental potential, measure, manage and communicate it to their stakeholders.

Legitimacy has further been defined as the mandate to act, give something legal force and to sanction (Deephouse & Suchman, 2008). An enterprise's legitimacy is derived from its subordination to social norms and the law. In a study by Van der Laan *et al*

(2008), it was reported that there is a positive correlation between the size of the enterprise and its drive for legitimacy. This is because the theory of legitimacy is premised on the belief that a company influences the society in which it operates. At the same time, the company is also socially influenced, that is why its functioning is like a kind of social contract aimed at obtaining and maintaining social acceptance (Kozarkiewicz & Lada, 2014). From the perspective of a socially responsible company, legitimizing is the authorization to act justified by rational basis.

Because legitimacy theory borrows a lot from management, institutional and stakeholder theories, it is often used in accounting research (Burlea-schiopoiu & Popa, 2013). The use of legitimacy theory in social accounting research has improved on the understanding of the motives and the incentives that lead firms' managers to engage in social disclosure activities (Archel *et al*., 2009). Despite this, the theory of legitimacy is still an underdeveloped and is need of further refinement due to limited scientific research using legitimacy theory in other areas influenced by sustainability as relates to management accounting (Archel *et al*., 2009).

There are two dimensions of social accountability, namely: internal and external dimensions. The internal dimension relates to resource management in an enterprise while the external dimension relates to reporting and communication of the results to the external auditorium. Each dimension aims at forming the appropriate basis for enforcement of corporate social responsibility, based on internal and external accounting and to legitimize the status of a sustainable enterprise. These two dimensions of social responsibility accounting in the light of the theory of legitimacy can be considered from the perspective of the division of legitimization into institutional legitimacy and strategic legitimacy. Institutional legitimacy determines

external reporting, while strategic legitimacy determines the role of internal accounting. The strategic perspective of legitimacy assumes that legitimacy can be managed in order to achieve organizational goals.

2.5.5 How management accounting legitimizes socially responsible companies

Although Legitimacy theory is rarely used in management accounting, the long-term impact of legitimacy on the economic and financial performance of the organization will generate many internal conflicts of the multi-dimensional construct of legitimacy, which will influence the transition from legitimacy to illegitimacy and from illegitimacy to legitimacy. There is need to use internal tools for managing legitimacy in an enterprise. These internal tools include management accounting. social responsibility

Internal social responsibility accounting indicates that its main objective is to enable accountability of the corporate activities undertaken for sustainable development. Sustainable management accounting (SMA) involves is both theoretical and practical in its approach. Its development has had a significant impact on the legitimacy of sustainable aspirations of companies. It depends mainly on the research undertaken and on the effectiveness of its practical implementation. It allows for a socially responsible enterprise to manage strategic legitimacy, empowering it to act based on harmonization of economic, social, environmental, and cultural goals adopted in the corporate social responsibility strategy. Furthermore, it ensures the transparency of the accounting system data related to CSR and thus increases the credibility of CSR reports for external and internal stakeholders. Therefore, social aspects in accounting research result from the search of legitimacy of a socially responsible business.

2.5.6 The Relevance of Legitimacy Theory in this Study

Most research considering CSR focuses on firms that are 'defending' their legitimacy due to a real or perceived threat. Such threats most commonly include bad publicity from the media surrounding a particular event, such as the Exxon Valdez oil spill (C. Chen *et al*., 2008; Cho & Patten, 2013; Sun *et al*., 1996) or are measured by proxies for public or political 'visibility' such as size or industry (Frost & Adams, 2006). Other studies choose to focus on industries that are more likely to attract attention due to their activities in environmentally or socially sensitive areas (Campbell *et al*., 2012). Most studies have found evidence to support the notion that firms use communication or accounting to defend or maintain legitimacy in the eyes of society and/or their stakeholders.

2.5.7 Stewardship Theory

In Stewardship theory, a steward protects and maximizes shareholder's wealth through the firm's performance, because by so doing, the steward's utility functions are maximized (Donaldson & Davis, 1991). Stewardship theory assumes that the manager is a steward of the business with behaviours and objectives consistent with those of the owners. The theory suggests that the firm's purpose is to contribute to humanity by "serving customers, employees and the community" (Karns, 2011). In this theory, company executives and managers working for shareholders are stewards. Unlike agency theory, stewards protect company and make profit for the shareholders. It is on the perspective of individualism as agency theory (Donaldson *et al*., 1991), that stewards aim to achieve firms' targets and integrate their goals as the top of management. Stewardship perspective states that the stewards are satisfied and motivated when the firm makes profits and hence shareholder wealth maximization.

The executive manager, under stewardship theory, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets. Thus, stewardship theory holds that there is no inherent, general problem of executive motivation. Given the absence of an inner motivational problem among executives, there is the question of how far executives can achieve the good corporate performance to which they aspire. Thus, stewardship theory holds that performance variations arise from whether the structural situation in which the executive is located facilitates effective action by the executive.

The issue becomes whether or not the organization structure helps the executive to formulate and implement plans for high corporate performance" (Donaldson & Preston, 1995). According to this stewardship theory, managers have the propensity and devotion to make the firms succeed financially. Thus, managers perform the company under company goals and satisfaction of shareholders and other participants. It is perceived by the theory that managers perform actions as stewards for the shareholders' benefits (Hines, 2009).

Many empirical studies have investigated the impact of corporate governance and firm performance for developed markets. Many of them show that having good corporate governance practices provides the significant increase in economic value, firm value, higher productivity, and lower risk of systematic financial failure for countries.

The stewardship theory relates to the relationship between ownership structure and the management of the firm. As much as the owners identify and choose the stewards of the firm; if they do not meddle into the operations of the firm and give the stewards a favourable environment to achieve their objectives, then they will maximize the wealth of the firm. The current study will employ stewardship theory to study the firm

ownership dimensions on corporate social disclosure requirements. The study aims at fostering the need to bring academic theory on corporate social disclosure requirements given the clear inadequacy of reported studies in Kenya.

2.5.8 Stakeholder Theory

Stakeholder theory defines a stakeholder as any group or individual who can affect or is affected by the achievement of the organization's objectives (Freeman, 1984). Freeman first introduced the theory in the strategic management programme in 1984. A stakeholder approach (Freeman *et al.*, 2004) states that a company holds corporate accountability to a wide range of stakeholders. Freeman further argued that firms have moral responsibilities that extend far beyond simply maximising profits for shareholders. A firm rather has a moral responsibility to consider impacts on and to seek to meet the interests of all stakeholder groups.

The general perspective of stakeholder theory is that, the big firms that can affect the society pervasively should be accountable to all parts of the society, not only to their shareholders. Stakeholders are not only being affected by companies but also, they are affective on companies by holding a stake in the company rather than simply a share. Milton Friedman separates market from nonmarket stakeholders. Market (primary) stakeholders engage in economic transactions with the firm as it carries out its primary purpose of providing society with goods and services. Market stakeholders include employees, suppliers, distributors, customers, creditors, and stockholders. The nonmarket (secondary) stakeholders are people or groups who—although they do not engage in direct economic exchange with the firm—are affected by or can affect the functions of the firm. These nonmarket stakeholders include the communities, governments, general public, business support groups, media and non-governmental

organizations (Friedman, 1970, 2002, 2016). The analysts of the stakeholder theory state that all parties with legitimate interests in the company shall get benefits and there is no priority in terms of these interests and benefits (L. Donaldson et al., 1991).

The Stakeholder Model posits that all participants who share the risk and make profits for the firms are stakeholders and they should obtain a balance share of the riches created by joint efforts (Jensen & Meckling, 2005). Charron principles state that it is compulsory for managers to observe the following principles; Monitor and respond to concerns and interests of all legitimate stakeholders, communicate with stakeholders about their concerns, contributions, and risks, act with sensitivity to each stakeholder group, attempt to achieve a fair distribution of benefits and burdens, Insure that risks are minimized and harms are compensated, never jeopardize inalienable human rights or deceive concerning risks and deal with the conflicts of its self-interest and the interest of stakeholders through public institutions, public reports, incentive systems, and third-party review (Charron, 2007).

A further revision of the theory has made a distinction between stakeholder analysis and stakeholder management. It argues that Stakeholder management is premised on a relationship anchored on communication, negotiation, contracting, managing relationships and motivation between the management and the stakeholders. While the previous studies have only focused on stakeholder analysis (Freeman *et al*., 2004; Harrison & John, 1994).The difference between agency and stakeholder theory is that stakeholder theory focuses on the interest of all parties in a corporation; agency theory only focuses on the interests of shareholders. Stakeholder theory is a theory of organizational management and ethics. Under this theory, managers should care not only shareholders value, but also benefits of other stakeholders (Clarkson, 1995).

Stakeholder theory spreads out legitimacy arguments to reflect not only society as a whole but specific stakeholder groups (Deegan, 2002), hence the two theories are said to be 'overlapping perspectives of the issue (of reporting behavior)' (Gray *et al*., 1995a, p. 52). Different stakeholders demand different information and firms will respond to their demands in a variety of ways (Deegan, 2006). Competing demands from stakeholders has led researchers to consider 'stakeholder management' as a chauffeur of CSR activity and reporting (Gray *et al*., 1996). This is known as the positive or managerial branch of stakeholder theory, where more influential stakeholders, that is, those with more control over resources, are more likely to receive attention from the firm (Ullmann, 1985). Another branch is known as the ethical (moral) or normative branch (Deegan, 2006). The normative branch of Stakeholder theory suggests that all stakeholders have the right to be treated fairly by an organization. Questions of stakeholder power are not directly significant, and it assumes that management should manage the organization for the benefit of all stakeholders. Under ethical stakeholder theory, the firm is a vehicle for coordinating stakeholder interests and management have a fiduciary relationship to all stakeholders: where interests conflict, business is managed to attain optimal balance among them (Hasnas, 1998). Each group merits consideration in its own right and has a right to be provided with information, whether or not that information is used (Deegan, 2006).

The theory therefore provides linkage between ownership structure dimensions, firm performance and corporate social responsibility disclosure. The theory is of relevance because it assumes that firm aims at maximizing stakeholders' value. Stakeholders' benefits and interests are reflected by engagement in CSR activities. Investment in CSR is a sacrifice foregone by the owners by reducing investible funds and dividends expected.

2.5.9 Stakeholder Theory and CSR Disclosure

Corporate Social Responsibility and stakeholder theory are the two major concepts of business ethics. However, there has been little clarity on the relationship between CSR and stakeholder theory. Previous studies have assumed that one concept is a subset of the other (Garriga & Mele, 2004; Wood, 1991), while others have considered these concepts as competing views in the field (Brown & Forster, 2013; Schwartz & Carroll, 2008). However, some scholars have built their arguments on the complementarity of CSR and stakeholder theory (Russo & Perrini, 2010; Jamali, 2008; Kurucz, Colbert, & Wheeler, 2008; Roberts, 1992). Because of this divergence in opinion, majority of the scholars in business ethics have written either within one or the other stream of research without carefully examining the relationship between the two.

There is need for clarity to resolve unnecessary tension or confusion between the two streams of thought. This is because stakeholder theory and CSR are distinct concepts with some overlap. The main similarity between the two concepts is that both stakeholder theory and CSR stress the importance of incorporating societal interests into business operations. Businesses are embedded in society always. They are never as separate as the defenders of neoclassical theory try and pretend. At the same time, the two concepts differ in that stakeholder theory posits the key responsibilities of the business overall, i.e. corporate responsibilities, where responsibility to the society (which is often represented by the communities where business operates) is a very important but only one part among other corporate responsibilities.

CSR prioritizes one aspect of business – its orientation toward the society at large– over the other business responsibilities. Stakeholder theory on the other hand argues that the essence of business primarily lies in building relationships and creating value for all its

stakeholders. This is because all stakeholders are equally important for the company and any trade-off among the stakeholders should be avoided. Rather executives need to find ways that these interests can be guided into the same direction.

Corporate Social Responsibility is an umbrella concept for a company's activities oriented toward society at large that includes charity, volunteering, environmental efforts, and ethical labour practices. Differently from stakeholder theory, CSR neither attempts to understand what business in its entirety is about nor tries to stipulate its overall range of responsibilities. Instead, CSR focuses on one stream of business responsibilities – responsibility to local communities and society at large – to ensure business does deliver on it. Although sometimes social responsibilities could be organized per stakeholder, social orientation would still prevail there.

Both stakeholder theory and CSR stress the importance of company responsibility toward communities and society. However, stakeholder theory tends to centre its attention within a reasonable reach of company's activities, thus focusing on local communities where the company operates and surrounding society, a bigger area where local communities reside. When it comes to company responsibilities toward employees and customers, CSR mainly focuses on ethical labour practices and environmental efforts, while stakeholder theory tries to embrace company responsibilities toward these stakeholders in full, as well as the stakeholders' responsibilities towards the company and its other stakeholders (so responsibility is multi-directional). Stakeholder theory also addresses company responsibilities toward financiers and suppliers; while CSR does not emphasize these particular stakeholder groups (even though recently there has been some work on sustainable supply chains

with suppliers) and sees responsibility as unidirectional (from the company to communities and society).

Another way to explain differences between stakeholder theory and CSR is to recognize the difference in perspectives from which each of these concepts looks at the company. Stakeholder theory mainly looks at the company from the perspective of the company itself, and from the perspective of company's immediate stakeholders. This perspective is formed by stakeholder theory's claim that the company has responsibility to operate in the interests of all its stakeholders (Freeman, 1984). Furthermore, stakeholder theory posits that stakeholders are interdependent, and creating value for one stakeholder creates value for the others (Freeman *et al.*, 2010). CSR looks at the company from another perspective – society at large.

Subsequently, CSR prioritizes certain company responsibilities over the others, namely company responsibilities to society (mainly communities and partially employees and customers, in stakeholder terms) over the responsibilities to other stakeholders (e.g. to financiers, suppliers, and omitted responsibilities to employees and customers). Although CSR and stakeholder theory often look at the same issues in management, from different perspectives, we believe that the languages of both concepts can be useful, and their application is dependent on the problem we want to solve. If we look at the company holistically, taking into account its overall purpose, mission, values, effectiveness, productivity, and its impact on all company stakeholders, then stakeholder theory can be a useful tool to provide guidance on how the company should operate overall. Stakeholder theory stipulates company's responsibilities to all their stakeholders - such as responsibility to customers, responsibility to employees, responsibility to financiers, responsibility to suppliers, and responsibility to

communities. Altogether, all these company's responsibilities to stakeholders could be denoted under the term corporate responsibilities. At the same time, it does sometimes make sense to separate out some key stakeholder relationships i) for special expertise, similarly to how marketing does it with customers, or finance with financiers, or ii) for those areas where a company is doing an especially poor job. This is where the language of CSR can often be a useful tool to single out responsibility to communities, or society at large, as worthy of special attention.

To demonstrate the point, we may refer to the civil rights movement "Black Lives Matter" in the US. Of course, all lives matter. But given a long history of oppressing African Americans in the country, it makes sense to prioritize one part of the society so that everyone's attention is drawn to the current problem until civil rights violations toward the oppressed group have been resolved. In other words, when we talk about how a company should operate in general, we can use the term corporate responsibilities referring to company's responsibilities to all its stakeholders, who are all equally important. At the same time, there will also be occasions when it makes sense to narrow down our focus to company's responsibility to a stakeholder and denote it correspondingly. For instance, when we want to stress company's responsibility to local communities or society at large, we may add social to emphasize the need for social orientation of the company, thus arriving to the term corporate social responsibility.

Indeed, corporate social responsibility (or CSR) mainly deals with social issues. For instance, the scope of CSR would typically be improving access to education among community members (or society at large), providing them with better health care opportunities, or improving their environmental conditions. However, CSR does not go beyond social responsibility of the company. For example, CSR is not the term that

comes first to mind when the company has to deal with the issues of creating meaningful work or long-term career opportunities for company employees. Also providing sustainable contract terms or building reliable partnerships with company suppliers, addressing consumer needs or providing the best value for money for customers, informing investors about the key strategic decisions or utilizing shareholders' assets in the most productive way. These issues are part of corporate responsibilities that go beyond the CSR domain.

2.5.10 Aligning CSR and Stakeholder Theory

There are common elements of CSR and Stakeholder theory are: Purpose, Value Creation, and Stakeholder Interdependence. Primarily, a company's existence starts from its purpose. There is usually some need in the world that inspires the birth of an organization and as the company matures, its purpose should never be forgotten. Therefore, each company should be purpose-driven by determining the direction in which the company is heading and stipulating corporate responsibilities along the way. This is because purpose should lie within the ethical domain. Such morally situated purpose defends an organization against the rise of false dichotomies and creates value for all.

Stakeholder theory argues that companies need to create value for all stakeholders. This is how their Purpose gets materialized in practice. Realizing that business is about creating value for customers, employees, financiers, suppliers, and communities counteracts a temptation to use CSR for covering wrongdoing with some other stakeholders as the reason for wrongdoing some other stakeholders is weakened. Doing good in the area of CSR is as important as creating value for other stakeholders. This resonates with Freeman *et al.*'s (2010) description of residual and integrated approaches

to CSR, where the latter is giving back to society only after profits are made, while the former is about integrating economic with social, environmental, and ethical decision-making criteria. Stakeholder Interdependence. It is a common belief that business is about making decisions, and in the world of limited resources, business decisions involve trade-offs. If companies help communities, then shareholders will receive a lower return on their investment. It should also be factored that stakeholders are interdependent and creating value for one stakeholder also contributes to creating value for others. Helping communities can make shareholders better off in many ways (more motivated and productive employees, better company reputation, bigger sales, higher corporate credit rankings); likewise, satisfying suppliers or employees is also beneficial for customers.

2.5.11 The Relevance of Stakeholder Theory in this Study

Stakeholder theory extends legitimacy arguments to consider not only society, but also particular stakeholder groups (Deegan, 2002), hence the two theories are said to be 'overlapping perspectives on CSR disclosure'. These stakeholders demand different information and firms will respond to their demands in a variety of ways (Deegan, 2006). Competing demands from stakeholders has led researchers to consider 'stakeholder management' as a driver of CSR activity and reporting. The positive (managerial) branch of stakeholder theory is when powerful shareholders (concentrated owners) are more likely to receive attention from the firm's management.

The Ethical branch of stakeholder theory suggests that all stakeholders have the right to be treated fairly by an organization. Issues of stakeholder power are not directly relevant, and it assumes that managers should lead the organization for the benefit of all stakeholders. Under ethical stakeholder theory, the firm is a vehicle for coordinating

stakeholder interests and management have a fiduciary relationship to all stakeholders: where interests conflict, business is managed to attain optimal balance among them. Each stakeholder group merits consideration and has a right to be provided with information, whether that information is used (Deegan, 2006). The most used definition of a stakeholder is: any identifiable group or individual who can affect the achievement of an organization's objectives or is affected by the achievement of an organisation's objectives (Freeman and Reed, 1983).

The major stakeholders in a company could include shareholders, employees, creditors, suppliers, customers, banks, government, community, public interest groups and the public in general (Ogan and Ziebart, 1991; Tilt, 1997, 2007). Primary stakeholders in the firm are the shareholders. Secondary (non-economic) stakeholders are those who influence, affect, or are influenced or affected by, the corporation, but do not engaged in transactions with the corporation. previous research has shown that while a variety of stakeholder groups have an interest in the CSR activities of businesses, most consider their voluntarily produced reports to lack credibility and are generally sceptical of firms' social responsibility reporting (Tilt, 1994). The firms themselves confirm the view that some stakeholders are particularly important (such as shareholders, investors, creditors) but others less so (Tilt, 2007).

2.5.12 Resource Based View Theory

Resource-based view (RBV) theory is an approach to achieving competitive advantage that emerged in 1980s and 1990s after the major works published by Wernerfelt, B. (The Resource – Based View of the Firm, Prahaland and Hamel (The Core Competence of the Corporation), Barney, J (Firms Resources and Sustained competitive advantage).

The Resource Based View theory also has its roots in the works of Penrose in the late 1950s but later introduced in the field of strategic management in the 1980s and became a dominant framework in the 1990s. The central premise of the theory is to address the basic question of why firms are different and how firms achieve and sustain competitive advantage (Hoskisson & Hitt, 1999). The resource-based view (RBV) emphasizes the firm's resources as the fundamental determinants of competitive advantage and performance. It adopts two assumptions in analysing sources of competitive advantage (J. Barney, 1991; Peteraf & Barney, 2003).

First, this model assumes that firms within an industry (or within a strategic group) may be heterogeneous with respect to the bundle of resources that they control. Second, it assumes that resource heterogeneity may persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms (for instance, some of the resources cannot be traded in factor markets and are difficult to accumulate and imitate). Resource heterogeneity (or uniqueness) is a necessary condition for a resource bundle to contribute to a competitive advantage and firm performance. The argument goes if all firms in a market have the same stock of resources, no strategy is available to one firm that would not also be available to all other firms in the market (Costa *et al.,* 2013).

The theory is an efficiency-based explanation of performance differences (Peteraf & Barney, 2003). Performance differentials are viewed as derived from rent differentials, attributable to resources having intrinsically different levels of efficiency in the sense that they enable the firms to deliver greater benefits to their customers for a given cost (or can deliver the same benefit levels for a lower cost) (Peteraf & Barney, 2003). The assumed heterogeneity and immobility are not, however, enough conditions for

sustained competitive advantage. According to Barney (1991), a firm resource must in addition be valuable, rare, and imperfectly imitable and substitutable in order to be source of a sustained competitive advantage.

A study by Peteraf (1993) presented four conditions underlying sustained competitive advantage: superior resources (heterogeneity within an industry), ex post limit to competition, imperfect resource mobility and ex ante limits to competition. A follow up study (Peteraf and Barney, 2003) confirmed that the frameworks are consistent once some terms are unambiguously defined. The RBV has developed remarkably interesting contributions, among others, with regard to imitation with the concepts of isolating mechanisms (Rumelt & Lamb, 1984), time compression diseconomies, asset mass efficiencies, and causal ambiguity (Dierickx & Cool, 1989). Recently, much resource-based research has focused on intangible assets, which include information (Sampler, 1998), knowledge (Spender, 1996), and dynamic capabilities (D. J Teece et al., 1997).

The essence of the RBV is the view of the firm as a bundle of resources traced to the works of Penrose in 1959 in her theory of the growth of the firm. Penrose view of the firm is one where a firm is a collection of productive resources. It is argued that it is the heterogeneity of the productive services available from its resources that gives a firm its unique resources (Hoskisson *et al*., 1999). This means that the differentials of performance of firms can be explained by the strategic resources the organization has. The idea that the firm attain a unique character by virtue of their heterogeneous resources is the basis of RBV hence the use of this theory to ground this study.

Differences in profiles among firm's accounts for the differences in the firms' competitive postures and their performance (Carmeli & Tishler, 2004). (Barney, 1991)

presented a framework for assessing the resources that give competitive advantage. He proposed that resources that confer competitive advantage are valuable, rare, inimitable (that is they are costly for competitors to imitate), substitutable (competitors are not able to have a substitute to fulfil the same function) and immobile (they cannot be easily purchased). Many studies that have been done have linked resources and performance. Wernerfelt, (1984) examined the relationship between resources and profitability and found that the first mover is an attractive resource that may lead to high returns in markets where the resource in question dominates. (Dierickx & Cool, 1989) found that resources can be differentiated as either assets flow or assets stocks and they explained that sustainable rent can be generated by resources with limited imitability. Other studies have examined the resources that explain differentials in performance.

The resources studied include; response lags (Lippman & Rumelt, 1982), routines (Richard & Sidney, 1982), unique combination of business experience (Huff, 1982; Prahalad & Bettis, 2000)(Huff, 1982) organizational culture (Barney, 1986; Fiol, 1991) invisible assets that are by nature difficult to imitated (David Teece *et al.*, 2009), entrepreneurship (Nelson, 1991), functionally based distinctive competencies (Hitt & Ireland, 1985;Desarbo *et al.*, 2005). This study assesses the resources of the firm based on the managerial experience and ownership, foreign owner's competencies and ownership, concentration of ownership of the firm and profitability of the firm.

The theory has been criticized that it looks at resources as singular distinct factors (Black & Boal, 2007) which may not be the case in firms. (Carmeli & Tishler, 2004) noted that, a competitive position is derived not from one single factor but a combination of several resources and capabilities. They gave an example of Wal-mart

and say that the competitive advantage of the supermarket is based on successful integration of several resources and capabilities and not one factor.

This study therefore seeks to employ RBV theory as core theoretical anchor to relate ownership structure dimensions and firm performance on corporate social responsibility disclosure by firms to provide insight and understanding to the continued enquiries; why firms differ, how they behave, how they choose strategies and how they are managed. The study relationship appreciates and recognizes RBV emphasis that firm’s resources is one of the core determinants of competitive advantage.

2.6 Empirical Review

This section examines the previous studies on the subject matter. It identifies and examines the gaps and extant literatures. It establishes the background for developing research hypotheses and conceptual framework upon which the research is anchored, by exploring the variables and their relationships. It helps to identify appropriate methodology for the study and provide information for formulation research tool.

2.6.1 The Effect of Managerial Ownership on CSR Disclosure

Managerial ownership refers to the percentage of shares held by the management who actively participate in corporate decisions including the commissioners and directors. This ownership dimension allows managers to dominate the company and decide which strategies and policies the company will take (Khan *et al*., 2013). This is because the manager also acts as a shareholder. In a study by (Agustia *et al.*, 2019) (2018), it was reported that managerial ownership positively affects corporate social responsibility disclosure. Furthermore, managerial ownership has no effect on corporate performance but on corporate social responsibility disclosure. The study further reported that

corporate social responsibility disclosure mediates the effect of managerial ownership against firm performance.

Murwaningsari (2009) found that managerial ownership had a significant positive effect on Tobin’s Q while Harjoto & Jo (2011) demonstrated that insider ownership positively affects Tobin's Q. Furthermore, (Retno & Prihatinah, 2012) reported a positive influence of CSR disclosure on Tobin's Q. However, these findings contrasted those of (Agustia *et al.*, 2019) that did not find the effect of managerial ownership on corporate performance.

Agency theory (Eisenhardt, 1988; Jensen & Meckling, 1976) suggests that top managers have the power to allocate resources among a broad range of stakeholders in a way that assures support from them. However, the theory also suggests that providing stock to managers is an effective way to mitigate agency problems by aligning the interests of the managers with those of the owners. If the managers own significant equity, they are more likely to make decisions maximizing the shareholders’ value (D. J. Denis *et al.*, 1997b; McConnell & Servaes, 1990). If socially responsible actions increase the firm’s value, as good management theory implies, stock ownership might increase the managers’ incentives to engage in CSR. Empirical findings also support the positive relationship between ownership by managers and CSR engagement.

There is a positive relationship between top management equity and social performance in terms of environment and product quality (Johnson & Greening, 1999). On the other hand, owner managed companies may not invest heavily in socially responsible activities because the costs of investing in these activities may far outweigh its potential benefits, hence less amount of CSR information can be expected in owner managed companies (Ghazali, 2007). The study by Oh *et al.*, (2011) also suggested that, financial

markets in developing countries may not value social investments as highly as in developed economies. If true, it would mean that stock-owning managers may not reap the benefits of social investments. As a result, the company's CSR rating may suffer.

The study by Murwaningsari (2009) has quoted Rob Gray *et al*., (1988) as saying that managers will disclose social information in order to enhance the corporate image, although they must sacrifice resources for the activity. Managers are motivated to disclose private information voluntarily because the company expects the information to be interpretation of a positive signal about the firm's performance and reduce asymmetric information (Osterwalder *et al*., 2010). This implies that when managerial ownership increases, there is a greater chance of corporate social responsibility disclosure.

A study done by (Nurleni et al., 2019) analysed the effect of ownership structure that consists of managerial ownership and institutional ownership in relation to corporate social responsibility (CSR) disclosure. The population under study was manufacturing companies listed in Indonesia Stock Exchange (BEI),). The selected sample were the companies which meet certain criteria (purposive sampling) which published the complete annual financial statements from 2011 to 2015. The study used partial least square method to measure the effect of the ownership structure consisting of managerial and institutional ownership on CSR disclosure. The results of the study showed that there is negative, and significant correlation between managerial ownership and CSR disclosure, however, institutional ownership had a positive and significant effect on CSR disclosure.

Salehi et al.(2017) examined the relation between structure of the board of directors and company ownership on social responsibility disclosure of listed companies on the

Tehran Stock Exchange. The variables of study included independent board of directors, institutional ownership, managerial ownership, family ownership and family-managerial ownership. The population of study consisted of 125 listed companies on the Tehran Stock Exchange during the years 2009-2014. Content analysis used to measure social responsibility disclosure level and hypothesis testing was performed using multiple regression analysis. The findings of the study demonstrated that there was no significant relationship between any of the independent variables and the level of social responsibility disclosure.

Abdulkadir & Alifiah, (2020) sought to understand the influence of Good Corporate Governance on the Disclosure of Corporate Social Responsibility in companies listed in the 2013-2018 period of BEI that published a Sustainability Report. Good Corporate Governance was proxied with the Independent Board of commissioner Proportion, Board of commissioner Measurement, Managerial Ownership, and Institutional Ownership. Sampling done with a saturated sample method until the amount of samples obtained reached 110 companies. The study used a regression analysis method, testing with the Determination Coefficient Test (R2) and p test. Based on the Regression analysis result, the study concluded that the Board of commissioner Proportion, Board of commissioner Measurement and Institutional Ownership do not have a significant influence on the Disclosure of Corporate Social Responsibility. Whereas Managerial Ownership has a significant influence on the Disclosure of Corporate Social Responsibility.

Prasetio & Rudyanto (2020) sought to find empirical evidence about the effect of ownership structure on corporate social responsibility disclosure. The study used non-financial companies that consistently listed in Indonesia Stock Exchange from the year

2013 to 2017. Samples were obtained using purposive sampling method, in which 62 companies listed meet the sampling criteria; resulting 310 data available are taken as sample. Multiple linear regression and hypothesis test were used during data analysis. The results of the study showed that managerial ownership positively affect corporate social responsibility disclosure, while other ownerships (foreign ownership, institutional ownership and government ownership) have no effect on corporate social responsibility disclosure. The findings of the study indicated that reducing agency problem with increased managerial ownership is effective on increasing corporate social responsibility disclosure in Indonesia.

Raimo, Vitolla, Marrone, & Rubino (2020) analysed the role of ownership structure in Integrated Reporting context. The study used agency theory and was based on a sample of 152 international companies that have adopted Integrated Reporting. The results of the study indicated a positive effect of institutional ownership and a negative effect of ownership concentration, managerial ownership and state ownership on the quality of integrated reports. The results of the study are also consistent with the level of alignment of integrated reports with the Integrated Reporting framework.

2.6.2 The Role of Institutional Investors on CSR Disclosure

Institutional investors can catalyse greater engagement in CSR on the part of corporations through two different routes, either through more intimate participation in their decision-making processes, or investing in those firms that consider investing in activities of social responsibility (Tang & Li, 2009). Although some Institutional investors such as mutual funds look for short-term returns, most of them seek stable returns on their investments in the long- run in order to deliver their promises (Aguilera *et al.*, 2006; D. K. Denis & McConnell, 2003). Therefore, they are interested in long-

term profitability of the companies in their portfolios and hence have the incentive to get engaged in corporate strategic management rather than switching. Given the increasingly documented positive correlations between long run health of companies and their social behaviour, institutional investors have an incentive because they look for long- term cash flows- to take the social responsibility of companies into account.

Nevertheless, Aguilera *et al*., (2006) suggested that institutional investors often enhance CSR actions for two different reasons. First, some instrumental motives exist because good social corporate reputation is an indicator of competent managerial behaviour. Second, relational and moral motives exist because of the social laws in a number of European industries and in the acts of many European investors. Despite these appealing reasons, Aguilera *et al.*(2006) assertions are not supported by any empirical evidence.

Furthermore, the study by (Barnea & Rubin, 2006) did not find significant empirical evidence to relate the power of institutional investors with CSR. On the other hand, previous studies also support the positive relationship between institutional holdings and CSR. Furthermore, the study by (Sethi, 2005) argued that public pension funds tend to consider the firm’s long-term effects on the environment, sustainability, and good corporate citizenship when they make an investment decision. The findings by (H. Y. Teoh & Shiu, 1990) empirically showed that institutional investors look favourably at firms actively engaging in CSR. Given this description, the study hypothesized that institutional ownership would positively associate with the firm’s engagement and disclosure in CSR.

2.6.3 The Role of Foreign Ownership on CSR Disclosure

It is assumed that higher levels of investment from abroad might indicate a greater influence of foreign practices (Jeon *et al*., 2011; Yoshikawa *et al*., 2010). For example, the current trends of CSR implementation in many developing countries have been largely influenced by Western-style management practices, which have been confirmed by many studies to have higher levels of social engagement. Empirical findings also support this argument. For instance, a study by (Chambers *et al*., 2005) noted that globalization enhances firms' CSR engagement in Asian countries.

Research undertaken by Sundaramurthy & Brancato (1999) has argued that U.S. shareholders have pressured firms to address social responsibility issues for more than 60 years. A potential caveat of that argument, however, has been found in oversimplified attributes of foreign investors and overlooking the variability of their profiles. For instance, one may argue that all foreign investors are not always in favour of social investments. Many U.S. and European investment companies have often been involved in antisocial behaviours (Yoshikawa *et al*., 2010) . Hence, in order to assert the positive influence of foreign ownership on CSR, it is necessary to identify the foreign owners' profiles that may indicate their investment orientations and preferences.

Another line of argument relies on the idea of uncertainty reduction that CSR investments may bring, that is to say Investing in a foreign country is risky and uncertain due to increased information asymmetries (Gehrig, 1993). In this case, investing in socially responsible companies is a way to reduce risk for the institutional investor as well as a way to show its clients that the institutional investor itself is highly reputable. Given this line of reasoning, it is rational for foreign investors, especially

institutional investors, to invest in socially responsible companies. This line of reasoning does not preclude active participation of foreign investors in decision-making.

Once foreign investors have made investment, they are more likely to pressure managers/stewards of the company to make socially responsible decisions so as not to lose their investments due to bankruptcy or regulatory/legal sanctions. Given the discussions above, we therefore expect foreign ownership to be associated with higher levels of firms' CSR ratings.

2.6.4 Ownership Concentration and Firm Performance

According to a study by Leech & Leahy (1991), the ownership structure essentially defines distribution of voting power and the control among shareholders and thereby restrain managerial decisions to divert from shareholders' interests. The effects of ownership concentration on firm performance are theoretically complex and empirically ambiguous. Concentrated ownership is widely acknowledged to provide incentives to monitor management. Large shareholders might have the greater incentive to improve firm performance than do dispersed shareholders.

The empirical corporate governance literature offers no plain response to the costs and benefits of concentrated ownership with corporate performance (Gorton & Schmid, 2000; Mitton, 2002; Yasser & Mamun, 2017) others a negative association (Demsetz & Villalonga, 2005). The effective control of large shareholders enables them to influence key decision-making and affect key corporate policies (Balla & Ros, 2014). The findings by Yasser & Mamun (2017) on the impact of ownership concentration on firm performance concluded that ownership concentration gives the owners better

control and motivation to monitor over the firm's activities, hence mitigating the agency problems.

2.6.5 Firm Performance

Measuring company performance (CP) is common in CSR studies, however, there is little consensus regarding the measurement instrument to apply. Several studies have used market measures (Alexander & Buchholz, 1978) while other studies have used accounting measures (Elsayed & Paton, 2005). For example, Waddock & Graves (1997) used three accounting measures: ROA, ROE and ROS. The study by Cochran & Wood, (1984) measured company performance (CP) using three accounting returns including the ratio of operating earnings to assets, the ratio of operating earnings to sales, and excess market valuation. Tsoutsoura (2004) used ROA, ROE and ROS to measure CP, while (Simpson & Kohers, 2002) utilized ROA and loan losses and Berman *et al.,* (1999) only applied ROA (Tsoutsoura, 2004).

Some studies have used both accounting data and non-accounting data (Han & Suk, 1998; Saleh *et al*., 2008) with three variables such as ROA, stock market return and Tobin's q ratio (Q). Moreover, Han & Suk, (1998) used stock returns as a dependent variable to measure Company performance. These two methods show different perspectives on the evaluation of a company's Corporate Performance and have different theoretical implications (Hillman & Keim, 2001). The findings of the studies have found that each of the measure of performance is subject to certain biases (McGuire *et al*., 1988). The use of these two different methods of measuring Corporate performance means that it is difficult to compare the results of the different studies directly (Tsoutsoura, 2004). Several accounting measures have been used to evaluate CP, including ROE, ROS and ROA (Waddock & Graves, 1997). The reason for using these three variables to measure CP is that these data are less likely to have been

manipulated, and are also the most widely used measurements of a company's performance (Yoshikawa & Phan, 2003).

The inherent limitation of these financial accounting measures is that they only capture historical aspects of CP. Secondly, these data may be biased by managerial perceptions and the different accounting procedures adopted by different companies (Nohria *et al.*, 2009). However, market-based CP avoids certain of the limitations associated with accounting limitations since it shows forward-looking factors and focuses on market performance (Brooks & Oikonomou, 2018). These measures are less subject to accounting procedures and are the investors 'index of choice for evaluating a company's ability to generate future returns. However, the use of stock market-based measures of CP also has limitations.

It has been reported that the more companies disclose on human capital information, the better their performance compared to companies that disclose the information slightly (Lajili & Zéghal, 2006). Financial disclosures provide a signal for investors in making investment decisions. If the announcement contains a positive value, it is expected that market participants will react. The market therefore expected to receive positively the signal and hence better the performance of the company. Consequently, companies are motivated to disclose through their annual reports, thus they are better off than companies with limited disclosures.

2.7 Conceptual Framework

Conceptual framework may be defined as a result of bringing together a number of related concepts to explain or predict a given event or give a broader understanding of the phenomenon of interest – or simply, of a research problem (Patrick *et al.*, 2017). The process of arriving at a conceptual framework is akin to an inductive process

whereby small individual pieces (in these case, concepts) are linked together to reflect a bigger map of possible relationships. Thus, a conceptual framework is derived from concepts, as far as a theoretical framework is derived from a theory.

The conceptual model depicts a situation where the effect of ownership structure dimensions on corporate social responsibility disclosures can be best explained by a mediator variable, which is caused by the independent variable and is itself a cause for the dependent variable. Instead of facets of the ownership structure that have a direct impact on corporate social responsibility transparency, elements of the ownership structure have an effect on corporate performance. The study explored several factors that could confound the relationship between the dimensions of disclosure of social responsibility, financial performance, and the structure of ownership. Control factors include firm size, firm size and heterogeneity in the sector following previous work (Cox, 2004; Elsayed & Paton, 2005; Graves & Waddock, 1994; Johnson & Greening, 1999; H Wahba, 2010).

This study focused on Firm size (SIZE), a variable believed to confound the relationship between social responsibility disclosures and ownership structure dimensions for several alternative arguments. First, large corporations are anticipated to have more capital and this increases the potential of a business to possess and process social data, which in turn provides the company with more strategic advantages (Russo & Fouts, 1997) and greater exposure (Museve *et al*., 2018).

Secondly, the scale of the organization may reflect the concept of credibility or the degree to which the company is recognizable to the public, since a large company either is viewed as a market pioneer (Henriques & Sadorsky, 1996) or is likely to have more environmental danger (Cohen *et al*., 1995). Third, it is also argued that the link between

social policy and the orientation of stakeholders could be influenced by firm size (Buysse & Verbeke, 2003). Finally, the presence of economies of scale found in socially focused investment has been attributed to company size (Chapple *et al*., 2005; Elsayed & Paton, 2005).

Firm age (AGE) was also controlled for as management problems and principles are rooted in time (Greiner, 1972, 1997). Further, controlling for firm age is becoming important on the basis that, the more developed the firm, the greater is the likelihood that problems associated with path dependency would hinder strategic change in the firm (Figure 2.1).

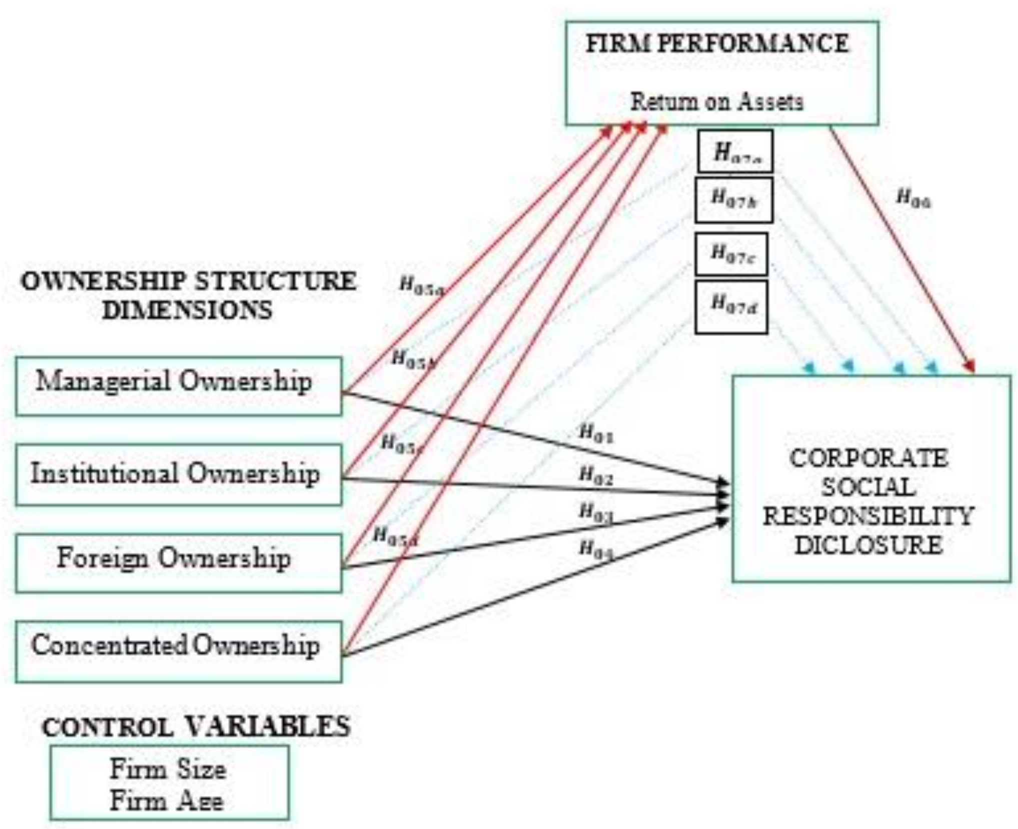


Figure 2.1: Conceptual Framework

Source: Researcher, 2019

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Overview

This chapter introduces the paradigm of research and research design that was adopted by the researcher. Its organized as follows, research paradigm, study setting, the study population, study design, unit of analysis, data collection methods, data analysis techniques, analytical framework, operationalization of variables and ethical considerations.

3.2 Research Paradigm

A research paradigm can be defined as a fundamental collection of beliefs or assumptions that drives research (Cresswell, 1998). Therefore, a fitting model must be established before choosing an appropriate technique for analysis. As asserted by other researchers such as (Denzin & Linkoln, 2005; Mertens, 2007), a research paradigm influences each level of the research, from agreeing on the research problem to analysing and interpreting the results.

This research takes a positivist view that a study conducted using the same methodology no matter the number of investigators should give the same outcome. On the relationship between dimensions of ownership structure and corporate social responsibility, however, there has been divergence in conclusions due to analysis of a direct relationship between the study variables. Majority of the previously conducted studies have not taken into account the indirect effect of other variables of significant influence. This study therefore aimed to test the mediating effect of firm performance on the relationship between the study variables.

3.3 Research Design

A master plan that specifies procedures and methods for data collection and analysis that answers research questions intended for any research is referred to as research design (Zikmund *et al.*, 2013). It provides a framework or action plan for research. It acts as a blueprint that helps to structure the collection, analysis, and interpretation of data (Chava & David, 1996). There are several design approaches including exploratory, explanatory and descriptive (Zikmund, 2010).

This research used explanatory research design, as the study sought to ascertain the impact of the relationship between the aspects of the ownership system, corporate performance and declarations of corporate social responsibility among the Nairobi Security Exchange listed firms. The research design was used to explore and understand the cause-effect relationship between the mediating variable (M.V), independent variables (I.V) and dependent variable (D.V) under the study. A study by (Saunders *et al.*, 2011) employed explanatory research design to establish the causal relationship between study variables.

This research is longitudinal in nature, in terms of time horizons. The longitudinal research involved retrospectively extracting data from the same sample (for example, from individuals or organizations) for twelve years. The volume and duration of the snapshots or data collection points is primarily dependent on the study goals. This analysis used panel data spanning the period from 2007 to 2018.

3.4 Study Setting

The study is conducted by collecting data from firms listed at the Nairobi Securities Exchange (NSE), which is the most active securities exchange in East Africa.

3.5 Target Population

All the listed firms in NSE formed the study population. The firms were stratified based on their economic activities that is Banking, Commercial and Services, Agriculture, Construction and Allied, Energy and Petroleum, Automobiles and Accessories, Insurance and Investment. There were sixty-five (65) listed companies in the NSE comprising of various economic sectors (NSE, 2019; Appendix 1) during the study period. To ensure completeness of data, only companies listed at Nairobi Securities Exchange within the study period between 2007 and 2018 are considered for the study.

3.6 Unit of Analysis

The unit of analysis used in this study is drawn from the population of listed firms operating in Nairobi Securities Exchange in Kenya. The study utilized census approach with purposive exclusion of firms operating with non-commercial motive. The purpose of collecting data of all firms is that the data estimates are not subject to sampling error. The research design utilized panel data covering the period 2007 to 2018. The research design was used to explore and understand the cause-effect relationship between the mediating variable (MV), independent variables (I.V) and dependent variable (D.V) under the study.

3.6.1 Inclusion Criteria and Exclusion Criteria

The concept of inclusion and exclusion is a counting technique that computes the number of elements that satisfy at least one of several properties (Swift & Wampold, 2018). In this study, inclusion exclusion criteria is used to sample out firms. Firms that traded consistently and had adequate information met inclusion criteria for the period 2007 to 2018 while those with inconsistent, inadequate, delisted or suspended due to lack of regulatory compliance are excluded. Initially, there were 65 listed firms in NSE,

the research was able to study 44 firms that made the inclusion and exclusion criteria. These are the listed companies with audited financial statements over the study period.

3.7 Sources of Data

Secondary data was used in this study as information were compiled by virtue of a document and review of the contents of reported and unpublished documents, such as published annual financial reports, special reports and business website records. The data of interest included financial and non-financial data for the sample period was 2007 to 2018.

3.8 Methods and Instruments Used in Data Collection

The list of all the scales to be used in this study in their original form is in appendix 5. The variables of interest include dependent variable (corporate social responsibility disclosure), independent variables (ownership structure dimensions) and mediator variable (firm performance). Usually, majority of the companies disclose their CSR information in different ways for example, advertisement, publishing articles, annual detailed report detailing the operations of the organization, interim and periodic accounts, corporate blogs, group social activities booklets or leaflets, employee surveys, environmental reports, special announcements and news releases. Secondary data from audited financial accounts and other publications of the listed companies chosen was collected for the period under consideration (2007 – 2018).

The central and the most social interaction of CSR activities is the communication (Weber, 2008). Companies convey their intentions and actions to societies in which they are located through website dissemination. There is an advantage of using websites over other sources of the data for research purposes (Gilbert, 2008). Document analysis is used to gather secondary quantitative data regarding the firms’ involvement in

corporate social responsibility disclosures, firm performance, and ownership structure dimensions.

3.9 Measurements of Variables

Ratio scale because of its superior informational value compared to other measurement scales was used to measure all variables under study (Bettany & Whittaker, 2014). Additionally, ratio scales are suited for analysis using regression (Livingstone, 2009).

3.9.1 Corporate Social Responsibility Disclosure

Provision of information and corporate social responsibilities have a link on social and environmental performance (Ramin *et al.*, 2011). Different studies have identified CSR calculation indices, mostly covering common aspects, such as the company's CSR activities. To build the CSR index that ranges from 0 to 1 to allow analysis of CSR scores over years, CSR net counts have been transformed. Transformation that maintains the relative distances between the CSR net count values for firms within the same (Fama-French, 1997) n industries in year t. CSR disclosure were classified into employee, environment, education, government social campaign, and legal requirements. A dichotomous method is used to calculate and measure CSR disclosure. The CSR if disclosed is assigned the value 1 and if not disclosed, CSR is assigned 0. The entire worth of each object is determined to be the product of each company's overall appraisal (Haniffa & Cooke, 2005b).

Corporate social responsibility disclosure is measured using a nominal scale because of its dichotomous (binary response) nature. The study approach was similar to those of (R. A. Baron & Tang, 2011; Harjoto & Jo, 2011). Specifically, CSR index (CSR_{it}) based on the following formula was constructed:

$$CSR_{it} = \frac{\sum X_{ij}}{N_{ij}} \qquad 3.1$$

Where CSR_{it} - corporate social responsibility disclosure index for firm i at year t, $\sum X_{ij}$ is CSR disclosure net count for firm i in year t; N_{it} is the number of disclosure items.

The CSR index is calculated from the normalization of CSR scores with respect to the total number of disclosure items. Relative to its rivals in the same industry and in the same fiscal year, the CSR index is interpreted as the CSR rating of a company. First, the number of counts from: population, diversity, staff, climate, and commodity is determined as the CSR net counts.

To assess the level of CSR disclosure of a corporate annual report, weighted and unweighted approaches are the two frequently used approaches to designing a disclosure scoring system

In this study, the unweighted method is used to score items included in the index by considering the equivalent value of all observed items. A dichotomous technique is adopted in this approach, in which an object scores one (1) if revealed and zero (0) if not disclosed. We may sum up all the things revealed by the company in this way. To calculate the total CSRD score for a company, the following unweighted formula is used,

The specific disclosure items were employee diversity, employee appreciation and welfare, employee training, health and Safety, environmental policy, donation and funding of charities, involvement in public social campaigns, community services (health and education) and product quality and safety (Bahari *et al*., 2016). Employee-

related disclosures encompass general employee practices, benefits for workers, recruiting and production of incentive and advancement, career preparation, employee assistance services, wellness promotion, absenteeism and turnover, leaves of absence, women in management and accounting, day care and family housing, interaction with employees and health and safety at work.

General consumer policy, customer communication, product protection, customer issues and unique customer programs are the customer specific disclosures. Energy and material protection, environmental assessment, environmental auditing, recycling and waste control would be environmentally related disclosures. Public health, safety and security, community affairs, charitable contributions and donations and project, intent or organizational codes are considered as general/public stakeholder-related disclosures.

3.9.2 Firm Performance

Firm Performance reported that return on asset (ROA) and return on equity (ROE) are the best performance measures for CSR activities. In order to calculate company's efficiency, this analysis used return on assets (ROA). ROA was calculated as the ratio of earnings before interest and tax to total assets (Cox, 2004; Rao *et al*., 2016; Hayam Wahba & Elsayed, 2015). This measurement indicates the output process for asset quality and the success of management.

The study by Bhagat & Bolton (2008) suggested that greater asset return (ROA) means productivity and efficiency in the use of assets, thus maximizing value for the shareholders. Return on equity (ROE) was measured as the profit before interest and tax ratio (Ibrahim *et al*., 2010). According to the shareholder's point of view, ROE is best for examining the business's financial performance (Brown & Caylor, 2009).

3.9.3 Ownership Structure Dimensions

Ownership structure dimensions used are managerial, institutional, foreign and ownership concentration. The proportion of shares owned by managers in the company is measured by managerial ownership (Heng *et al*., 2019; Mandaci & Gumus, 2019). The proportion of the shares held by the institutions to the total amount of shares held by the company is institutional ownership. Foreign ownership refers to the percentage of both individual and corporate shares owned by international investors and the total shares held by the corporation. The concentration of ownership is justified as the concentration factor of the top five or ten shareholders (Karaca & Eksi, 2012).

3.9.4 Control Variables

Firm size is a key variable in corporate finance when use as control variable. In research literature, various metrics are used for firm size, total assets, total revenue, and equity market value are key (Kisavi *et al*., 2015). Firm size matters a lot in empirical studies in corporate finance, but results diverge with respect to the industry. Nearly all the time, firm size has a significant and positive effect, but sometimes it has an insignificant and negative effect. This study measured firm size by taking a natural log of the value of total assets (Dang *et al*., 2018).

Firm age is also controlled for management problems and principles are rooted in time (Greiner, 1972). In addition, corporate age management is becoming relevant on the basis that the more mature the organization, the greater the possibility that the path dependence issue will influence the company's strategic changes (Henderson, 1999). Firm Age is defined by the duration of time from the date of incorporation and the year of study (Elsayed & Wahba, 2013). Therefore, the study employed the following measurements as indicated in Table 3.1.

Table 3.1: Measurements of the Study Variables

Variable	Definition	Description and Measurement	Source
CSR	Corporate Social Responsibility Disclosure	Unweighted index or dichotomous scores. % of the items under disclosure	Baron *et al.,* (2011), Jo and Harjoto (2012), Esa and Ghazali (2012); Esa and Zahari (2017), Rizk *et al.,* (2008)
FP	Firm Performance (ROA)	Return on Assets (ROA) = Operation/ Total Assets	Cox et a., (2004) Wadha & Elsayed, (2004)
MO	Managerial Ownership	% of shares held by managers to the total number of shares	Farouk & Luka (2013), Shehu *et al.,* (2012)
IO	Institutional Ownership	% of shares held by institutions to the total number of shares	Hamze, Bentolhoda & Hamed (2012), Shehu *et al.,* (2012), Cox *et al.,* 2004; Graves & Waddock, 1994; John & Greening, (1999)
FO	Foreign Ownership	% of shares held by foreigners to the total number of shares	Hamze *et al.,* (2012), Shehu *et al.,* (2012)
CO	Ownership Concentration	% of shares held by majority of shareholders to the total number of shares	Farouk and Luka (2013), Shehu *et al.,* (2012)
FA	Firm Age	Natural log of number of years since incorporation.	Elsayed and Wahba (2013). Majumdar, (1997); Dogan, 2013; Halil and Hassan (2012)
FS	Firm Size	Natural log of the value of the Total Assets	Elsayed and Wahba (2013); Crisostomo and Freire (2015)

Source: Researcher, 2019

3.10 Statistical Tests

The goal of this research was to establish the mediating impact of firm performance on the relationship between the dimensions of the ownership structure and the disclosure of corporate social responsibility for companies listed in the Nairobi Securities Exchange, by applying panel data multiple regression analysis. First the analysis was done through; data description that includes descriptive statistics and correlation matrix for the sampled firms; Second, panel data multiple regression analysis approach to find

the effect of ownership structure dimensions on corporate social responsibility disclosures with five explanatory variables during the period (2007-2018).

The study of panel data depends on the creation of three OLS models: The fixed effects model, the random effects model and the pooled effects model. Then a Breusch and Pagan Lagrangian Multiplier (LM) and Hausman test is applied to pick from the two models the one that was most appropriate for the data.

3.10.1 Descriptive Statistics

Descriptive statistics is used to demonstrate the pictorial view of the data. Mean, standard deviation, minimum and maximum values of each of the variables under analysis is determined. The descriptive statistics is used to identify any missing values and outliers.

3.10.2 Correlation Analysis

Correlation analysis assessed the nature of and strength of interaction between variables. This analysis is done before conducting regression analysis or model estimation. This research aimed to develop the relationship between aspects of the ownership system, financial performance, and disclosures of corporate social responsibility. Pearson (r) correlation coefficient computed gives the interval nature of the data and the need to test the direction and strength of association that exist among the study variables. The correlation coefficient is a measure of the intensity of the concentration of the probability for X and Y about the line of best fit (Robert *et al.*, 2019). Where X is an N by K matrix of the independent variables and Y is the dependent variable.

3.11 Diagnostic Tests

In this study, the following ordinary least squares regression assumptions are tested: Normality, serial correlation and heteroscedasticity.

3.11.1 Normality Test

Normality is an important regression assumption. It is prudent in any research to test whether the residuals follows a normal distribution. A data that follows normal distribution has skew of zero and kurtosis of 3. This study used Jarque-Bera test for normality. A data that follows normal distribution has skew of zero and kurtosis of 3. This study used Jarque-Bera test for normality.

The test statistic *JB* can be defined as;

$$JB = \frac{n-k+1}{6}\left(S^2 + {}^{1}/_{4}\,(C-3)^2\right) \ldots\ldots 3.2$$

Where, n is the number of observations, k is the number of variables, *S* is the skewness and *C* is the kurtosis. Its null hypothesis is that the data follows normal distribution against the alternative hypothesis that the data is non-normal. If the p-value of *JB* statistic is greater than 0.05, null hypothesis is accepted.

3.11.2 Serial Correlation

In statistics, the link between independent variables and a lagged version of itself over many time intervals is serial correlation. Repeating patterns often show serial correlation when the level of a variable affects its future level. If the variables are identically independent distributed, then serial correlation is zero. Consider the following equation according to Durbin & Watson (1951);

$$\sum(y_i - y_{i-1})^2 = \sum(y_i^2 + y_{i-1}^2) - 2\sum y_t y_{t-1} \ldots\ldots 3.3$$

Suggests that it is important to study a serial correlation in terms of $\sum(y_t - y_{t-1})^2$. It is also suitable to test that $y_t \ldots y_n$ are independent against the alternative that $y_1 \ldots y_n$ satisfy an autoregressive process. Serial correlation is detected by calculating DW statistic

$$d = \frac{\sum(z_i - z_{i-1})^2}{\sum z_i^2} \qquad 3.4$$

Where, $z = y - Xb = [I - X(X'X)'X']y$, I is the identity matrix, b the coefficients.

The value DW statistic d ranges between 0 and 4. The value 0-1.5 implies there is positive serial correlation, 1.5-2.5 indicating no serial correlation 2.5-4.0 then there is negative serial correlation.

3.11.3 Heteroscedasticity Across Panels

The variance for each of the panels varies in several cross-sectional datasets. It is common to have data on countries, states, or other units that have variation of scale. The heteroscedastic model is characterized by the choice of panels, which implies that Ω is an identity matrix expressed as follows:

$$\Omega = \delta_{it}^2 I \qquad 3.5$$

The study tested the presence of heterogeneity of variance using Breusch-Pagan test. The null hypothesis is that there is homoscedasticity across panel. If the Breusch-Pagan test probability is greater than a 5 percent significance level, then hypothesis is thus accepted and inferred that variations are homoscedastic.

3.12 Measurement Goodness of Fit of the Model

Evaluating ordinary least squares model requires examination of both the goodness of fit measures and the estimated coefficients (Long & Freese, 2003, Allison, 1991 and Wolfe & Gould, 1998). The model specification requires that a measure of Goodness of fit is estimated Cameron and Trivedi (2005) Cameron and Trivedi (2009). Following Greene (1996), the procedure facilitated the analysis by use of percent correction prediction method. The model that is used to estimate the goodness of fit is defined as follows.

$$\hat{Y}_i^* = 1 \; if \; Y_i^* > 0.5 \; else \; \hat{Y}_i^* = 0 \quad \text{..3.6}$$

A two by two matrix would be generated. The generated matrix would be used to calculate percentage of correct prediction for both conditions $Y_i = 1$ and $Y_i = 0$.

3.13 Panel Unit Root Test

The unit root test examines the stationarity of the data. The data series is stationary if the mean and variance are constant over time and the magnitude of the covariance between the two time periods just depends on the distance or lag between the two time periods (Damodar & Down, 2010). For a combined time series and panel results, the use of a unit root test will substantially increase the strength of the test (Levin *et al.*, 2002). It was necessary to test for unit root because regressing time or panel series variables that are not stationary leads to spurious regression. If the series are nonstationary, they are differenced until they become integrated. Therefore, this study employed Levin-Lin-Chu test to examine stationarity of the data. Before carrying out regression analysis, Panel unit root test was tested on each individual series. (Judge *et al.*, 1985) and (Greene, 2012) recommends use of different panel unit root tests to check

for consistency and robustness. Therefore, the following panel unit root tests are estimated.

3.13.1 Levin-Lin-Chu Panel Unit Root Test

The Levin-Lin-Chu panel data unit root test is performed on the following model;

$$\hat{\rho}_{Yi}^{2} = \frac{1}{T-1}\sum_{t=1}^{T}\Delta Y_{it}^{2} + 2\sum_{L=1}^{\bar{K}}\omega\bar{K}L\left[\frac{1}{T-1}\sum_{t=2+L}^{T}\Delta Y_{it}\Delta Y_{it-L}\right] \quad 3.8$$

Where ε_t a white noise process is $\rho = 1$ indicates a unit root $0 < \rho < 1$ implies stationarity (Levin *et al*., 2002; Phillips & Moon, 2000, 1999). (Levin *et al*., 2002) suggests a panel unit root test against a homogeneous stationary hypothesis for the null hypothesis of unit root.

3.13.2 Im-Pesaran-Shin Unit Root Test

An expansion of the Dickey-Fuller (DF) assessment is Im-Pesaran-Shin, (IPS). For pure time series, the classic DF test usually presented as;

$$\Delta Y_{it} = \phi_i Y_{i,t-1} + Z_{it}'\gamma_i + \varepsilon_{it} \quad 3.7$$

Where ε_t is a white noise $\rho = 1$ indicate a unit root $0 < \rho < 1$ implies stationarity (Im *et al*., 2003; Maddala & Wu, 1999; Pesaran *et al*., 1997; Pesaran & Smith, 1995). The null hypothesis for this is that all panel contain unit root.

3.13.3 Maddala-Wu-Fisher Panel Unit Root Test

Maddala-Wu- Fisher panel unit root test is used to test for unit roots in the variables under study. This model specification is as follows.

$$\Delta Y_{it} = \phi_i Y_{i,t-1} + Z_{it}'\gamma_i + \varepsilon_{it} \quad 3.9$$

Where ε_t is a white noise $\rho = 1$ indicates a unit root $0 < \rho < 1$ implies stationarity (Hoechle, 2007; Kwiatkowski *et al*., 1992; Maddala & Wu, 1999). The study by Harris & Tzavalis (1999) presented the critical values for panel data unit root test similar to Breitung panel unit root test (Breitung, 2000). Studies by Breitung & Das (2005) and Choi (2001) applied this test and found that they were consistent. Madala-Wu-Fisher tests unit root under null hypothesis that panels as nonstationary against the alternative that the panels are stationary.

3.14 Specification of the Model

Contemporaneous correlation generalized least squares (GLS) regression with correlated disturbances were fitted into the data. Following Baltangi (2005), Hsiao, (2007), Manuel, (2005) and Semykina & Wooldridge (2010) the case of autoregressive autocorrelation between panels and cross-sectional correlation and heteroscedasticity, the programmed syntax allows for estimation. Panel data regression models are more useful when the outcome variable is believed to be dependent on explanatory variables that are not measurable but consistent with the explanatory variables observed. When such omitted variables are constant over time, panel data estimators cause the impact of the explanatory variables observed to be consistently calculated. Therefore, the equation from which the estimation model was developed is as follows:

The model considers a multiple linear regression for individual $i = 1 \ldots N$ which is observed at several time periods $i = 1 \ldots T$

$$y_{it} = \alpha + x_{it}'\beta + z_i'\gamma + c_i + u_{it} \qquad 3.10$$

Where y_{it} is the response variable, x_{it}' is a time *K*-dimensional row vector-different independent variables and z_i' is an *M*-dimensional row vector of time-invariant

independent variables except the constant, α is the intercept, β is a parameter K-dimensional column vector, gamma is a parameter M-dimensional column vector, c_i is an individual-specific effect, and u_{it} is an idiosyncratic error term. It is assumed that each individual *i* is observed in all time periods *t*. The *T* observations for individual *i* can be summarized as;

$$y_i = \begin{bmatrix} y_{i1} \\ \vdots \\ y_{it} \\ \vdots \\ y_{iT} \end{bmatrix} \quad X_i = \begin{bmatrix} x'_{i1} \\ \vdots \\ x'_{it} \\ \vdots \\ x'_{iT} \end{bmatrix} Z_i = \begin{bmatrix} z'_i \\ \vdots \\ z'_i \\ \vdots \\ z'_i \end{bmatrix} u_i = \begin{bmatrix} u_{i1} \\ \vdots \\ u_{it} \\ \vdots \\ u_{iT} \end{bmatrix} \quad \ldots\ldots 3.11$$

and *NT* observations for all individuals and time periods as

$$\mathrm{y} = \begin{bmatrix} y_1 \\ \vdots \\ y_i \\ \vdots \\ y_N \end{bmatrix} \quad X = \begin{bmatrix} X_1 \\ \vdots \\ X_i \\ \vdots \\ X_N \end{bmatrix} \quad Z = \begin{bmatrix} Z_1 \\ \vdots \\ Z_i \\ \vdots \\ Z_N \end{bmatrix} \quad u = \begin{bmatrix} u_1 \\ \vdots \\ u_i \\ \vdots \\ u_N \end{bmatrix} \ldots\ldots 3.12$$

The data generation process (dgp) is described by:

PL1: Linearity

$$y_{it} = \alpha + x'_{it}\beta + z'_i\gamma + c_i + u_{it} \ldots\ldots 3.13$$

Where $E(u_{it})$ = 0 and $E(c_i)$ = 0.The model is linear in parameters α, β, γ, effect c_i and error u_{it}.

PL2: Independence

$\{X_i, z_i, y_i\}N_{i=1}$*i.i.d.* (independent and identically distributed). The results are distinct across individuals, though not generally over time. Random selection of individuals ensures this.

PL3: Strict Exogeneity

$E(u_{it}|X_i, z_i, c_i) = 0$ (mean independent). The idiosyncratic error term u_{it} is believed to be uncorrelated to the explanatory variables of the same individual's past, present and future time periods. This is a powerful assumption, which rules out dependent variables that are lagging. PL3 also assumes that the idiosyncratic error is unrelated to the particular effect of the entity.

PL4: Error Variance

$V(u_i|X_i, z_i, c_{i)}) = \sigma_u^2 I,\ \sigma_u^2 > 0$ and finite (homoscedastic and no serial correlation)

$V(u_i|X_i, z_i, c_i) = \sigma_{u,it}^2 > 0$, finite and ……………………………………………...3.14

$Cov(u_{it}, u_{is}|X_i, z_i, c_i) > 0\ \forall_s \neq t$ (no serial correlation)………………………….......3.15

$V(u_i|X_i, z_i, c_{i)}) = \Omega_u, (X_i, z_i)$ is p.d and finite…………………………...………3.16

Two sets of assumptions separate the remaining assumptions: the model of random effects and the model of fixed effects.

3.14.1 The Random Effects Model

In the random effects model, the individual-specific effect is a random variable that is uncorrelated with the explanatory variables.

RE1: Unrelated effects

$SE(c_i|X_i, z_i) = 0$………………………………………………………………3.17

RE1 presumes that the individual-specific effect is a random variable that is not associated with the explanatory variables of the same individual's past, present and potential time periods.

RE2: Effect Variance

V$(c_i|X_i, z_i) = \delta_c^2 < \infty$ (homoscedastic)……………………………………………3.18

V$(c_i|X_i, z_i) = \delta_{c,i}^2(X_i, z_i) < \infty$ (heteroscedastic)……………………………..…3.19

RE2a assumes constant variance of the individual specific effect.

RE3: Identifiability

rank(W) = *K* + *M* + 1 <*NT* and *E*$(W_i{'}W_i) = Q_{WW}$ is probability density (p.d) and finite. The typical element $w_{it}' = \left[1\; x_{it}' z_i'\right]$.

rank(W) = *K* + *M* + 1 <*NT* and *E*$(W_i{'}\Omega_{v,i}^{-1}, W_i) = Q_{WOW}$ is a probability density and finite. $\Omega_{v,i}$ is defined below.

RE3 assumes that the constant regression is not entirely collinear, that all regressors have a variance of non-zero and not too many extreme values (but constant). The model of random effects can be written as

$y_{it} = \alpha + x_{it}'\beta + z_i'\gamma + v_{it}$…………………………………………...……..3.20

Where $v_{it} = c_i + u_{it}$. Assuming the *PL2, PL4* and *RE1* in the special versions *PL4a* and RE2a leads to

$$\Omega_v = V(v \mid X, Z) = \begin{pmatrix} \Omega_{v,1} & \cdots & 0 & \cdots & 0 \\ \vdots & \ddots & & & \vdots \\ 0 & & \Omega_{v,i} & & 0 \\ \vdots & & & \ddots & \vdots \\ 0 & \cdots & 0 & \cdots & \Omega_{v,N} \end{pmatrix}_{NT \times NT} \quad \text{.................................... 3.21}$$

With typical element

$$\Omega_{v,i} = V(v_i \mid X_i, z_i) = \begin{pmatrix} \sigma_v^2 & \sigma_c^2 & \cdots & \sigma_c^2 \\ \sigma_c^2 & \sigma_v^2 & \cdots & \sigma_c^2 \\ \vdots & \vdots & \ddots & \vdots \\ \sigma_c^2 & \sigma_c^2 & \cdots & \sigma_v^2 \end{pmatrix}_{T \times T} \quad \text{.......................................3.22}$$

Where $\sigma_v^2 = \sigma_c^2 + \sigma_u^2$. Therefore, under PL4a and RE2a, this special case is referred to as the model of equicorrelated random effects.

3.14.2 The Fixed Effects Model

The individual-specific effect is a random variable permitted to be compared with the explanatory variables in the fixed effects model.

FE1: Associated effects

FE1 specifically notes the absence in RE1 of the presumption of unrelatedness.

FE2: Variance of Influence

The absence of the assumption in RE2 is clearly stated by FE2.

FE3: Recognizability

$rank(\ddot{X}) = K < NT$ and $E(\ddot{x}_i' \ddot{x}_i)$ is probabilistic density and finite

Where the typical element $\ddot{x}_{it} = x_{it} - \bar{x}_i$ and $\bar{x}_i = 1/T\sum_t x_{it}$

FE3 claims that the time-varying explanatory variables are not completely collinear, that they have non-zero variance within a given individual (variation over time) and not too many extreme values. Therefore, constant variables or time-invariant variables should not be used. Notice that in the fixed effects model, only the parameters β, but neither β nor γ are recognizable.

3.14.3 Random Effects versus Fixed Effects Estimation

The random effects model will accurately measure both the RE estimator and the FE estimator. The RE estimator is preferred where there is a certainty that the individual-specific effect is not an unrelated results (*RE1*). This is tested by (Durbin-Wu) Hausman test. However, the Hausman test is only valid under homoskedasticity and cannot include time fixed effects. By running an auxiliary regression, the unrelatedness statement (RE1) is best-checked (Mundlak, 1978; Semykina & Wooldridge, 2010):

$$y_{it} = \alpha + x_{it}'\beta + z_i'\gamma + \bar{x}_i'\lambda + \delta_t + u_{it} \quad \text{...3.24}$$

Where $\bar{x}_i = 1/T\sum_t x_{it}$ the time averages of all time-varying regressors. If they are included in the RE and FE forecast, provide the period fixed. Joint Wald-test for tests $H_0: \lambda = 0$ .... RE1. Use cluster –robust standard errors to allow for heteroscedasticity and serial correlation.

Note: The RE1 assumption is a very strong assumption and the estimator of FE is usually more convincing than the estimator of RE. Not ignoring RE1 does not imply endorsing it. Interest in the effect of time-invariant variables is not a justification enough to use the RE estimator (Baltagi *et al.*, 2013).

$Y_{it} = \beta X_{it} + \varepsilon_{it}$ ……………………………………………………..……3.25

Where $i = 1,2,\cdots,N$ is the number of selected firms that are listed at Nairobi Securities Exchange Y_{it} was either return on asset or assets turnover $t = 2007 \ldots 2018$ years X_{it} were the independent variables. This is stated as;

$$\begin{bmatrix} Y_{1t} \\ \vdots \\ Y_{5t} \end{bmatrix} = \begin{bmatrix} X_{1t} \\ \vdots \\ X_{5t} \end{bmatrix} \beta + \begin{bmatrix} \varepsilon_{1t} \\ \vdots \\ \varepsilon_{5t} \end{bmatrix}$$ …...3.26

The data generation process is described by linearity, independence, strict exogeneity (mean independence) and error variance. The variance matrix of the disturbance terms is expressed as:

$$\text{E } \varepsilon\varepsilon'] = \Omega = \begin{bmatrix} \sigma_{,1}\Omega_{1,1} & \sigma_{1,2}\Omega_{1,2} & \cdots & \sigma_{1,5}\Omega_{1,5} \\ \sigma_{2,1}\Omega_{2,1} & \sigma_{2,2}\Omega_{2,2} & \cdots & _{2,5}\Omega_{2,5} \\ \vdots & \vdots & \ddots & \vdots \\ \sigma_{5,1}\Omega_{5,1} & \sigma_{5,2}\Omega_{5,2} & \cdots & \sigma_{5,7}\Omega_{5,5} \end{bmatrix}$$

…..3.27

In these models, it is assumed that the coefficient vector β is the same for all panels and consider a variety of models by changing the assumptions on the structure of Ω. Following Madala and Lahiri (2006) this amounted to assuming that Ω had the structure given by:

$\Omega = \delta_{it}^{2} I$ …..3.28

3.14.4 Hausman Test

In order to decide between fixed or random effects, Hausman test is needed (Green, 2008). It tests whether the unique errors (μ_i) are correlated with the regressor. Hausman test null hypothesis is that the random effect is appropriate versus the alternative that fixed effect is appropriate. If the probability of the Hausman test is more than 5 percent significance level, random effect model is appropriate otherwise fixed effect model. To carry out the Hausman test, the following estimators are calculated.

$\hat{\beta}_{RE} - \hat{\beta}_{FE}$ and its covariance. The effective estimator's covariance with its difference from the inefficient estimator should be zero. The following is the evaluation under the null hypothesis..

$W = (\beta_{RE} - \beta_{FE})'\hat{\Sigma}^{-1}(\beta_{RE} - \beta_{FE})$ Follows a chi-square distribution with k degrees of freedom. If $W$is significant, random effects estimator should not be used

3.15 Data Processing, Analysis and Presentation Procedures

This section presents data processing, data analysis and specification of the econometric model data presentation, explanations and assumptions of the regression model.

3.15.1 Data Processing

Data processing involved four steps, which include coding the data, cleaning, screening the data, and selecting the appropriate data analysis strategy for testing the hypotheses. Coding of data involved assigning of numerical symbol to enable quick data entry, to minimize errors, and to facilitate further analysis.

This research used the annual audited financial statements as a primary focus of the reporting of the company and thus established the review bounds. Gray *et al.* (1995) pointed out in this context that the annual audited report is universally regarded as a

significant official and legal document published on a regular basis by a company and serves as a valuable medium for the presentation of the communication of the company on social, political and economic demands of the environment.

3.15.2 Data Analysis and Specifications of Econometric Model

Using descriptive and inferential statistics, data is evaluated to satisfy the purpose of this study. Descriptive refers to the transformation of raw data into a form that offers information in a situation that makes it easy to understand and interpret a collection of variables to explain (Zikmund, 2000; Sekaran, 2000). Inferential statistics refers to the cause effect relationships between variables. The equation 3.29 and 3.30 are used to answer the first hypotheses on the direct relationship between the dependent variable and the independent variables.

$$CSR_{it} = \beta_0 + \beta_1 MO_{it} + \beta_2 IO_{it} + \beta_3 FO_{it} + \beta_4 CO_{it} + v_{it} + \mu_{it} \qquad 3.29$$

Control variables included in equation 3.29

$$CSR_{it} = \beta_0 + \beta_1 MO_{it} + \beta_2 IO_{it} + \beta_3 FO_{it} + \beta_4 CO_{it} + \beta_5 FS_{it} + \beta_6 FS_{it} + v_{it} + \mu_{it} \qquad 3.30$$

Where CSR_{it} is Investment in corporate social responsibility; β_0 is the coefficient for the intercept; MO_{it} is managerial ownership; IO_{it} is institutional ownership; FO_{it} is foreign ownership; CO_{it} is ownership concentration; FS_{it} is the size of the firm; FA_{it} is age of the firm; v_{it} (individual specific effect) and μ_{it} are random stochastic error terms assumed to $\varepsilon_{it} \sim IID(0, \delta^2 I)$ with $E[v_{it}, \mu_{it} \mid X_{it}] = 0$ and $\beta_1, \beta_{2,} ... \beta_6$ are estimated parameters for the explanatory variables in the model. The subscript *it* a cross

section data for the firm at a predefined time (time series) for company t. υ_{it} is the unnoticeable individual variability that varies with individual units and time, and is the residual disturbance or the normal disturbance in the regression model.

According to Baron and Kenny (1986), testing for mediation effect is done in three steps: first, regressing the mediator variable on the independent variables. Second, regressing the dependent variable on the independent variables. Third, regressing the dependent variable on both the independent variables and mediator. They pointed out that the independent variable in the first two models is expected to show a statistical significance, while the third model is expected to show a statistical significance of the mediator variable and the insignificance of the independent variable.

The study by Zhao *et al.,* (2010) have recently shown that the crucial relation between the independent variable and the dependent variable is not sufficient and may be misleading. This may be attributable to the combined influence of the number of direct and indirect factors, including the mediator, is expressed, because mediation must be decided only in the presence of an indirect result. Put simply, to demonstrate mediation all that matters is that the indirect effect is significant (Zhao *et al.*, 2010). Thus, the following three models of analysis are employed to test for the mediation effect of financial performance, according to the main hypotheses in this study.

$$FP_{it} = \beta_0 + \beta_1 MO_{it} + \beta_2 IO_{it} + \beta_3 FO_{it} + \beta_4 CO_{it} + \varepsilon_{it} \qquad 3.31$$

Where: FP_{it} is firm performance, β_0 is the coefficient for the intercept MO_{it} managerial ownership: IO_{it} is institutional ownership; FO_{it} is foreign ownership; CO_{it} ownership concentration and ε_{it} is random stochastic error term assumed to

$\varepsilon_{it} \sim IID(0, \delta^2 I)$. The research used a simple mediation approach to assess the presence of the important mediating impact of firm performance on the relationship between the structure of ownership and corporate social responsibility, as there is only one mediating variable. In order to determine the existence of the significant mediating effect of the firm performance on the relationship between ownership structure dimensions and corporate social responsibility, since there is only one mediating variable, the study used simple mediation approach.

Simple mediation conceptually means that a change in the independent variable X leads to a change in M (path a), and a change in M leads to a change in Y(path b) as shown in the figure 3.1. Path ab, which is the product of two paths connecting the predictor, X to the mediator M and the output Y to the mediator M. Where M is the mediating variable, Y is the dependent variable, an is the effect of X on M, b is the effect of M on Y, c' is the direct effect of X on Y, ab is is the indirect effect of X on Y, c is the overall effect of X on Y ($ab + c'$). Applying the above mediation model, the following equations helped in testing the mediation effect of firm performance on the relationship between ownership structure dimensions and the corporate social responsibility.

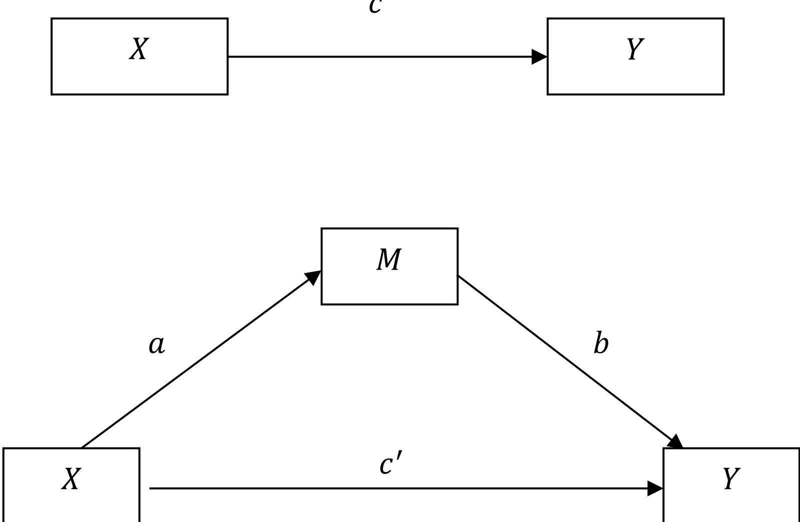


Figure 3. 1: Simple Mediation Model based on Preacher and Hayes, 2004

The first Equation (3.32) is used to estimate the direct effect:

$$Y = \alpha_0 + cX \quad \text{..........} \quad 3.32$$

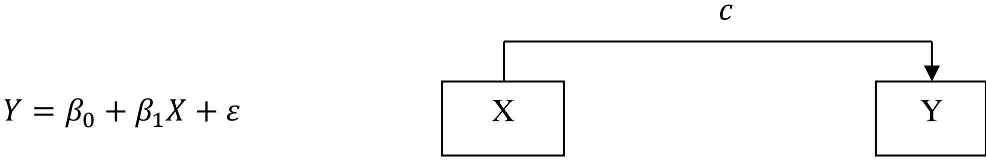
Secondly. Equation 3.33 and equation 3.34 are used to estimate the parameters a and b;

$$M = \beta_0 + aX \quad \text{..........} \quad 3.33$$

$$Y = \alpha_0 + bM \quad \text{..........} \quad 3.34$$

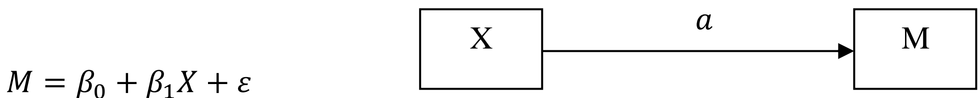
In order to measure the indirect effect of mediator *M*, the significance of the value a*b was estimated using Lavaan package in *R* statistical software. The significance of the value $c' + (a * b)$ tests the total mediation effect. If the indirect effect ab is greater or smaller than zero or in other words if it is statistically significant, one can claim that some form of mediation exists (Zhao *et al.,* 2010). The rule of the thumb is that if one wants to claim for a complete mediation the indirect effect (a*b) proportion on total effect should be at least 0.8 (Kenny, 2018).

Baron and Kenney (1986) suggested a four-step method in which several regression tests are carried out and the significance of the coefficients is evaluated at each step, as shown below.Step 1: A simple regression was conducted with *X* predicting *Y* to test path c alone



$Y = \beta_0 + \beta_1 X + \varepsilon$

Step 2: Conduct a simple regression analysis with *X* predicting *M* to test for path a

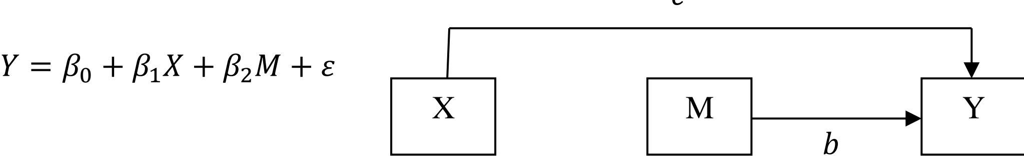


$M = \beta_0 + \beta_1 X + \varepsilon$

Step 3: conduct a simple regression analysis with *M* predicting *Y* to test the significance of path b alone

$Y = \beta_0 + \beta_1 M + \varepsilon$

Step 4: Finally, conduct a multiple regression analysis with *X* and *M* predicting *Y*



$Y = \beta_0 + \beta_1 X + \beta_2 M + \varepsilon$

The purpose of step 1-3 is to establish that zero-order relationship among the variables exists. Any type of mediation in the step 4 model is supported if the effect of *M* (path b) remains relevant after *X* is controlled. The finding supports complete mediation if X is no longer significant when M is controlled. If *X* is still significant, for example, both *X* and *M* significantly predict *Y*, partial mediation is confirmed by the finding full versus partial mediation.

3.15.3 Full versus Partial Mediation

Mediation models according to Barron and Kenney (1987) identifies and explains mechanism through which the underlying relationship between the independent variables and the dependent variable can be influenced by non observed third variable called the mediator. The mediation model suggests that the mediator is affected by an independent variable, which in turn affects the dependent variable. The mediating variable therefore clarifies the essence of the relation between the independent variable and the dependent variable. This study investigated how the ownership structure dimensions influences the corporate social responsibility disclosure via firm performance.

3.15.4 Full Mediation

Full or complete mediation happens when the relationship between the independent variable and the dependent variable is reduced to zero if the mediating variable is included.

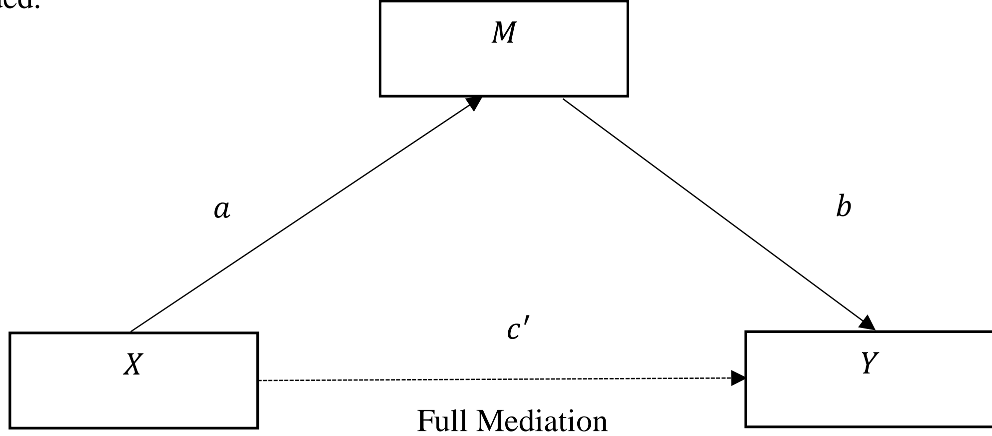


Figure 3. 2: Full Mediation

3.15.5 Partial Mediation

This kind of mediation occurs when mediation variable accounts for some, but not all of the relationship between the independent variable and the dependent variable. It implies there is not only a significant relationship between the mediator and the

dependent variable, but also some direct relationship between the independent and dependent variable. The direct effect is not reduced to zero.

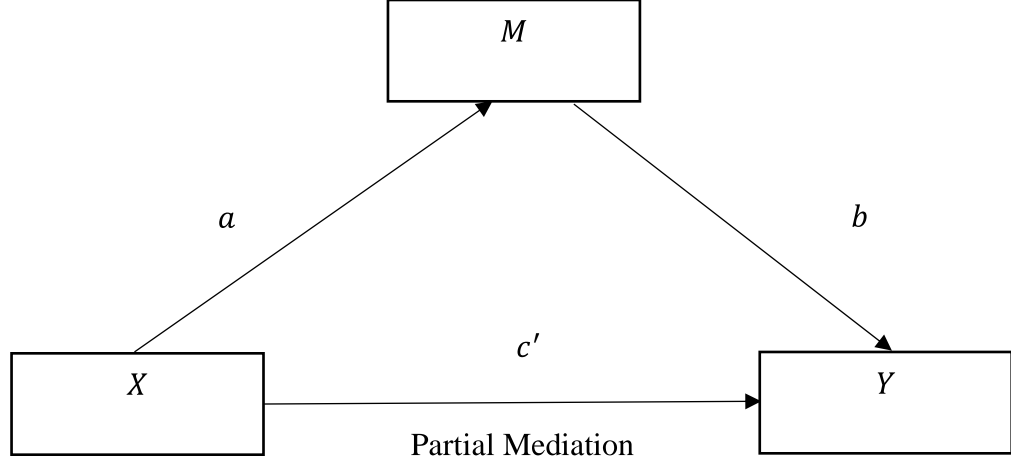


Figure 3. 3: Partial Mediation

In all other instances, partial mediation is important provided that both the direct c' 'effect and the indirect $a * b$ effect are important. There are various types of partial mediation. The direct effect $c'$and the indirect effect $a * b$ point in the same direction, additional partial mediation- the direct effect $c'$and the indirect effect a*b point in the same direction in this situation (positive or negative). It is often observed that $a * b$ and c' are significant and $a * b * c'$ is positive which indicates that a portion of the effect of X on Y is mediated through M, while X still explains a portion of Y that is independent of M.

Competitive partial mediation- The direct effect c' and indirect effect $a * b$ point in the different direction. A negative $a * b * c'$ value indicates the presence of competitive mediation in step 2. In the past, researchers focused only on complementary partial mediation (Zhao *et al.,* 2010). In the competitive partial mediation hypothesis, it is assumed that the intermediate variable will reduce the magnitude of the relationship between the independent and dependent variables. Indirect-only mediation- This happens when the indirect mediation effect ($a * b$) exist,

but no direct effect. Direct-only non-mediation-Direct effect (c) exists, but no indirect effect $(a * b)$ No-effect-non mediation- Neither direct effect nor indirect effect exist.

The study used Sobel z-test suggested by Baron and Kenny (1986) to test the significance of the $a * b$ path. The z tests whether the difference has been statistically important between the complete effect and the direct effect. The normal errors are s_a^2 and s_b^2.

$$z = \frac{a*b}{\sqrt{b^2 s_a^2 + a^2 s_b^2}} \qquad 3.35$$

3.15.6 Data Presentation

The findings of the study are presented in both graphical and tabular forms where interpretation and discussion of results are made based on specific research objectives. Conclusions and recommendations are derived appropriately from regression results.

3.16 Ethical Considerations

It was pertinent to consider the ethical implications of the research process (Mugenda & Mugenda, 1999). In this study, the major ethical issues that were considered are; informed consent, privacy and confidentially and researcher's responsibility. The thesis is presented to Moi University School of graduate studies and the National Council of Science, Technology and Innovation for ethical approval. Once these approvals were obtained, the researcher sought permission from the Chief Executive of Capital Market Authority and Nairobi Securities Exchange for data collection. At the end of the study, the findings were disseminated to the relevant stakeholders through conferences and publications in peer reviewed journals. The researcher took the responsibility to only collect and analyse data required to fulfil /achieve the objectives of the study. Finally, there was no conflict of interest in this study.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Overview

This chapter describes the findings of the study based on its objectives. It begins with descriptive frequency statistics (with corresponding proportions), mean statistics (with corresponding standard deviations) and median statistics (with corresponding interquartile ranges). It then presents the results from inferential statistical techniques which include: correlation analysis, univariate properties of each panel variable, panels unit roots tests (Levin-Lin-Chu, Im-Pesaran-Shin and Maddala-Wu-Fisher) Followed by Hausman tests for model selection, regression analysis and hypothesis testing. The results are presented in the form of charts and tables. Unbalanced panel due to missing data was estimated using STATA version 12.0.

4.2 Description of the Study Population

Table 4.1: The Study Population

Sector	Number of Listed Firms	Number of Firms Studied
Agricultural	7	4
Automobiles and accessories	3	1
Banking	11	11
Commercial and services	10	6
Construction and allied	5	4
Energy and petroleum	5	4
Insurance	6	5
Investment	6	1
Manufacturing and Allied	10	7
Telecommunication and Technology	1	1
Real Estate Investment Trust	1	0
Grand Total	**65**	**44**

Source: Researcher, 2019

There were 65 listed companies in NSE during the study period, however only 44 met the eligibility criteria. Majority (25%; n = 11) of the firms listed in NSE were in the banking sector followed by those in manufacturing (n = 7). Sectors with the least number of listed firms were automobile and accessories, investment, and telecommunication and technology with only one firm as shown in the table 4.1

4.3 Firm Ownership Dimensions and Firm Sector

During the study period, the Nairobi Security Exchange (NSE) had 65 listed companies, of which 44 (67.7 percent) met the eligibility requirements. Table 4.2 presents firms' ownership structure dimensions versus firm sector for firms listed in NSE. The study observed the highest proportion of managerial ownership at 22.218 percent of the total shares in the investment sector. This was followed by the Construction & Allied, and Insurance sector with approximately similar percentage in managerial ownership at 4.282 and 4.148 percent respectively.

Table 4. 2: Firm Ownership Characteristics per Sector

Sector	Managerial (Av %)	Institutional (Av %)	Foreign (Av %)	Concentrated (Av %)
Agricultural	0.018	21.765	39.494	71.868
Automobile and Accessories	0.125	64.572	15.250	75.519
Banking	0.737	31.155	30.736	58.121
Commercial and Services	0.665	35.431	36.409	70.965
Construction and Allied	4.282	46.041	28.463	73.623
Energy and Petroleum	0.016	12.511	54.341	74.428
Insurance	4.148	55.798	14.689	66.828
Investment	22.218	12.872	0.785	52.305
Manufacturing and Allied	2.514	35.748	25.670	57.225
Telecommunication and technology	0.002	36.655	42.208	77.215
Grand Total	**2.066**	**34.417**	**30.949**	**65.810**

Source: Researcher, 2019

However, managerial ownership was lower among firms listed in the Agricultural (Kakuzi, Sasini, Kapchorwa) and Energy & Petroleum sectors (Kenol Kobil, Kenya Power and KenGen) in comparison to firms listed in other sectors.

Firms listed in the automobiles and accessories sector such as Car and General had a higher proportion (64.57 percent) of institutional ownership. Foreign ownership was highest (54.34%) in the energy and petroleum sector followed by the firms in the telecommunication and technology sector at 42.21 percent. However, foreign ownership was least in the investment sector at 0.79 percent. Cumulatively, ownership concentration (top five shareholders) accounted for 65.81 percent of the selected listed companies selected in the NSE. Institutional, foreign and managerial ownership accounted for 34.42%, 30.95% and 2.07% respectively (as shown on Table 4.2).

4.4 Ownership Structure Dimensions and CSR Disclosure

One of the principal goals of this research was effect of the relationship between dimensions of ownership structure of the NSE-listed companies to corporate social responsibility disclosure. Before looking into causal relationship, it was prudent to have a graphical representation showing how ownership structure dimensions affects CSR disclosure.

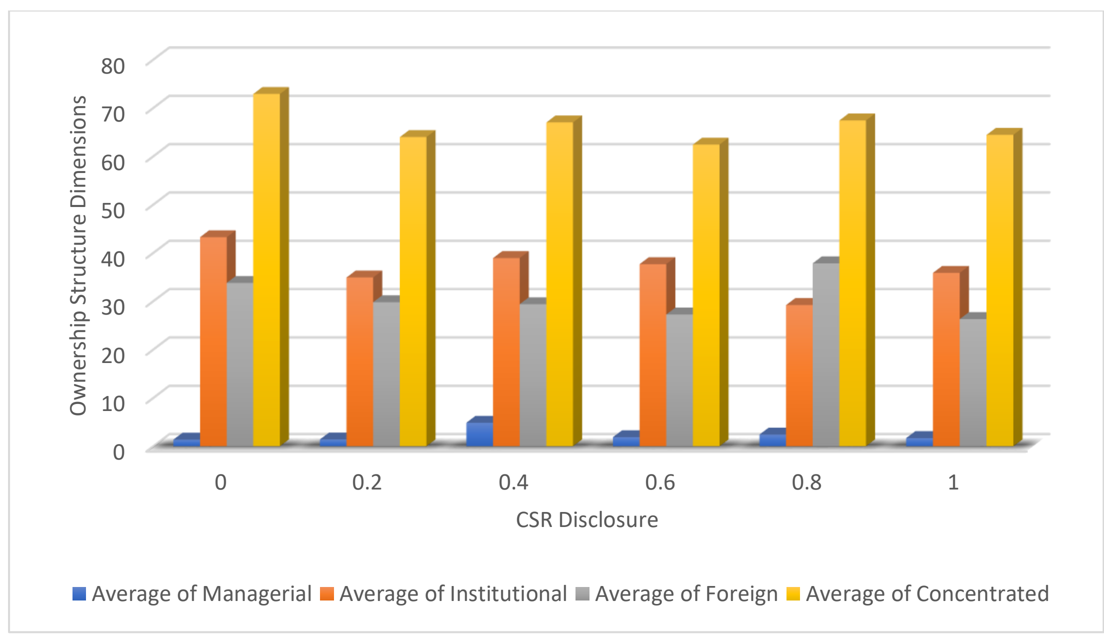


Figure 4.1: Ownership Structure Dimensions versus CSR Disclosure

Concentrated ownership structure (top five shareholders) was the leading ownership structure dimension among firms with the highest (1) CSR disclosure. This is followed by institutional ownership, foreign ownership and Managerial ownership structure respectively as shown on figure 4.1.

4.5 Firm Performance by Sector

The study measured financial performance by return on assets (ROA). Return on assets is a ratio of total earnings before interest and taxes to the size of the firm proxied by total assets. This study compared how firms listed in NSE performed financially per sector. The figure 4.2 shows that automobile and accessories performed much better than the rest. As explained earlier, this sector had institutional ownership structure dimension as constituting the block holders. This confirms that when the ownership of the company is by institutions, their financial performance tends to improve. Banking and telecommunication sectors also showed a better financial performance. Firms in telecommunication and technology had high ownership concentration than any other

firms (see table 4.2). However, firms in insurance, and energy and petroleum were least in financial performance.

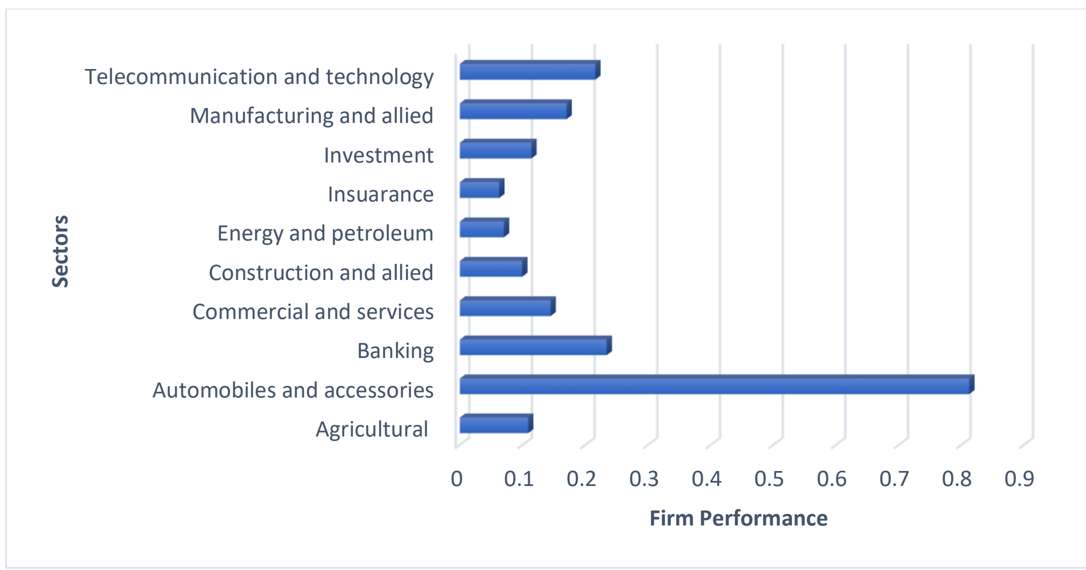


Figure 4.2: Firm Financial Performance versus Firm Sector

4.6 Summary Statistics

In order to provide some understanding about a collection of data observations, summary statistics are computed. Summary statistics define the calculation of dispersion and central trend of observations such as mean, variances, standard deviations and minimum and maximum variations. In Table 4.3, the average corporate social responsibilities among the firms listed in NSE was 0.8004. CSR is measured by unweighted ratio of disclosed engagements such as employee, environment, community support, government, and legal requirements. If a firm engaged and disclosed all the above-mentioned indices, the CSR would be 1 (maximum value). The findings from summary statistics shows that CSRD unweighted index is 0.8004 indicating that the companies disclosed at least 3 to 4 among the five indices which is a good indication.

On average, the number of shares held by managers, institutions and foreigners are found to be 2.1068%, 34.3192% and 31.7272%, respectively. This implies that, most of the companies listed are owned primarily by institutions. The concentrated ownership (in this study top five shareholders) owned at least 66.8249 percent of the total shares. Data following normal distribution has a skewness of approximately zero and a kurtosis of 3. Skewness differentiates the extreme values of one from the tail of the other and calculates the degree of distortion in a probability distribution from the symmetrical bell curve. The disclosure of corporate social responsibility (CSRD), business efficiency (FP) and firm age (FA) had a negative skewness of -1.3940, -22.2171 and -0.0655.

The results of the study demonstrated that the distribution of these variables are skewed to the left, implying that the mean and the median are both smaller than the data mode. There is also a positive skewness of on managerial ownership (MAN) with skew of 4.4142, institutional ownership (INS) with skew of 0.3893, foreign ownership (FOR) 0.3659 and firm size (FS) with skew of 0.9658. Kurtosis, like the measures of skewness that characterize the distribution of a given data, it measures extreme values in either tail. The distributions with large kurtosis for example firm performance (FP). Managerial and concentrated ownership structure with kurtosis of 506.1503, 28.0985 and 10.2119 respectively exhibit tail data exceeding the tails of the normal distribution. Distributions with low kurtosis exhibit tail data that are generally less extreme than the tails of the normal distribution for example institutional ownership, foreign ownership and firm age, which had respective kurtosis of 1.8934, 1.6885 and 2.0517. For investors, the high kurtosis of the return distribution indicates that the investor would expect extreme returns from time to time (either positive or negative).

Table 4.3: Summary Statistics

	CSRD	MAN	INS	FOR	CON	FP	FS	FA
Mean	0.8004	2.1068	34.3192	31.7272	66.8249	-0.2035	24.0871	32.7841
Median	0.8000	0.0046	28.9215	28.3000	70.6450	0.0625	23.9636	36.0000
Maximum	1.0000	64.2600	86.2300	94.0400	193.9300	24.5349	32.7359	68.0000
Minimum	0.0000	0.0000	0.2500	0.0000	24.2800	-219.0373	18.7403	0.0000
Std. dev	0.2277	6.4569	23.9906	28.8708	16.3003	9.6343	2.4364	17.2456
Skewness	-1.3940	4.4142	0.3893	0.3659	0.4034	-22.2171	0.9658	-0.0655
Kurtosis	4.9657	28.0985	1.8934	1.6885	10.2119	506.1503	4.7501	2.0517
Sum	422.600	1112.389	18120.52	16751.95	35283.53	-107.45	12718.01	17310.00
Sum Sq. Dev.	27.3199	21971.28	303314.5	439266.9	140023.7	48915.52	3128.36	156735.4
Observations	528	528	528	528	528	528	528	528

Note: CSR-Corporate Social Responsibility, MAN-Managerial Ownership, INS-Institutional, FOR-Foreign Ownership, CON-Concentrated Ownership, FP-Firm Performance, FS-Firm Size and FA-Firm Age
Source: Researcher, 2019

Standard deviation examines how the data is spread from the mean. Comparing the standard deviations and the corresponding means, looking at the findings presented, the firms size had a standard deviation of 2.4365 and a mean of 24.0871; the dimensions of the concentrated ownership structure had a mean and standard deviation of 66.8249 percent and 16.3003 percent respectively. This is an indication that for all the sectors, size of the company and top-level shareholding in NSE were around their means. There was evidence of a large dispersion of the distribution from their means for CSR, managerial ownership structure dimensions and firm performance (evident by skewness not being close to zero).

4.7 Correlation Analysis

Correlation analysis is done to determine how variables are related to one another, and the direction and strength of their associations. Correlation is estimated by calculating Pearson, Spearman and or Kendall correlation coefficient. Correlation coefficient

(ρ) ranges from -1 and +1. When the value for ρ is +1 then variables have perfect positive association, -1 implies perfect negative association. Values close to zero are said to be weak correlation otherwise strong correlation. The results presented below shows a diagonal correlation matrix of Pearson correlation coefficients. The results in table 4.4 shows the correlation between CSR disclosure and managerial ownership structure dimension as weak and negative. Since the probability is 0.0482 then their association is significant.

The association of CSR with the concentrated ownership was positive ($\rho = 0.0858$) and insignificant ($p = 0.0515$). This implies that the top shareholders (in this study top 5 shareholders) of the firm tends to disclose CSR activities. Firm size again had a significant correlation with CSR implying the more the bigger the firm in terms of assets the higher chance of disclosing CSR. In addition, it was found that the relationship between CSR and FP was positive ($\rho = 0.1234$) and significant (p-value=0.005<0.05). From this results therefore, the more the firm performs better the more they will engage on CSR and its disclosure.

Table 4.4: Correlation Matrix for Pearson Correlation Coefficients

	CSR	MAN	INS	FOR	CON	FP	FA	FS
CSR	1.0000							
MAN	-0.0870* (0.0482)	1.0000						
INS	-0.0900* (0.0409)	0.0054 (0.9033)	1.0000					
FOR	0.0820 (0.0626)	-0.3033* (0.0000)	-0.6860* (0.0000)	1.0000				
CON	0.0858 (0.0515)	-0.0996* (0.0236)	0.1463* (0.0009)	0.2978* (0.0000)	1.0000			
FP	0.1234* (0.0050)	-0.0379 (0.3905)	-0.0757 (0.0857)	0.0547 (0.2145)	-0.0183 (0.6777)	1.0000		
FA	-0.0190 (0.6667)	-0.0734 (0.0956)	0.1581* (0.0003)	-0.0301 (0.4951)	0.1271* (0.0038)	-0.0156 (0.7242)	1.0000	
FS	0.1994* (0.0000)	-0.1104* (0.0121)	-0.1763* (0.0001)	0.2227* (0.0000)	-0.0592 (0.1796)	0.0811 (0.0655)	-0.1476* (0.0008)	1.000

Note: * indicates significance at 5 percent significance level. The values in the () are the p-values

(Source: Researcher, 2019)

Foreign ownership and management ownership had a negative and significant association with correlation coefficient of value ρ =-0.3033 and p-value =0.000 respectively. This is an indication that when most of the firm shareholders are foreigners, the managers owning the share decreases. Moreover, the association between managerial ownership structure dimension to concentrated ownership structure and firm size is negative. This shows that managerial ownership decreases with respect to increase in concentrated ownership and firm size. Foreign ownership structure correlated with the concentrated ownership structure dimensions with Pearson coefficient of 0.2978 ($p - value = 0.000$). It implied that the more the shares are concentrated at the top, the more the foreign individual or firms own the percentage of shares.

Firm performance (FP) is negatively associated with managerial ownership structure dimension; with a correlation coefficient of -0.0379, which is insignificant. This

conforms to previous studies by Rasyid & Linda (2019) and Ruan *et al*., (2011). However, it contradicted the studies by Hamza & Suman (2018) and Cheung *et al*., (2009). The dimension of institutional ownership negatively correlated with company performance (FP), but this association was not statistically significant. This contradicted the findings of Duggal & Millar (1999), Faccio & Lasfer, (2000) who reported positive and insignificant association while Beth *et al*., (2019) reported a positive and significant relation between FP's and institutional ownership. However, Saad *et al*., (2016) argued that, as they have more expertise and incentives, institutional investors boost firm results.

A positive correlation between the dimensions of firm performance and foreign ownership structure with a coefficient of 0.0547 is observed. Similarly, Mang'unyi, (2011) and Esther *et al*., (2016) found the comparable results and concluded that greater foreign ownership in a firm leads to higher performance while lower foreign ownership leads to lower performance contrary to Aburime (2008) findings and conclusion.

Firm performance (FP) had a negative association though not statistically significant with concentrated ownership structure. These results support studies by (Claessens & Djankov, 1999); (Din & Javid, 2011) and Esther *et al*., (2016) who argued that the performance of the company decreases as the number of block holders increases within the company, while if the number decreases the performance increases. Studies by Gedajlovic & Shapiro (2002); (Dana, 2015); Raji (2012), and Hamza & Suman (2018) had opposite outcomes in their studies.

4.8 Visual Inspection of Univariate Properties of the Panels under Study

It is important in the analysis of panel data to inspect its nature by plotting each variable. Panel series or time varying variables exhibits stochastic properties such as trending,

random walk (drift) and both drift and trend. An inspection of visual plot of each panel showed that the CSR exhibits trends with drift as shown in APPENDIX 5. Managerial ownership structure dimension and Firm Performance showed a constant fraction indicating they exhibit stationarity though they need to undergo some unit root tests.

Whereas other study variables such as foreign, institutional and concentrated ownership dimensions show drifts and trend, exponential trend exhibits constant proportional growth (Hamilton, 1994). Thus, for these variables, a constant proportion of the current value of the specified variable was the current change in the variable. Some of the variables were specified to have unit root and the result was that the rate of growth of the series followed a stationary stochastic process. This implied that the overall trend and the deviations from trend had a proportional variance to the current movement level of the variables.

4.9 Panel Unit Roots Test

In panel data analysis, stationarity of the data is of great essence in the sense that estimating parameters model when the data used has non-stationarity property brings misleading interpretation. The stationary existence of the data is examined by the unit root test. If their mean, variance and covariance are constant over time periods, the data series is said to be stationary (Gujarati & Porter, 2010). The use of a unit root test for the panel data will substantially increase the strength of the test, according to Levin *et al*., (2002). The nonstationary data are differenced until they attain stationary. Studies by Judge *et al*., (1985) and Green (2012) recommends the use of different panel unit root tests to check for consistency and robustness. Therefore, the research utilized and estimated Im-Pesaran-Shin, Levin-Lin-Shin and Maddala-Wu-Fisher panel unit tests.

4.9.1 Levin-Lin-Chu Unit Root Test

Levin-Lin-Chu (LLC) was the first measure used to test stationarity of the data. The Levin and Lin (1992, 1993) test treats panel data as consisting of homogeneous cross-sections, thereby conducting a pooled data sequence test. The data is analysed on the STATA software with command *xtuniroot* with a *demean* option. To eliminate the impact of cross-sectional correlation, this option excludes cross-sectional means from the sequence. Akaike Information criterion is used to choose the maximum lags on the individual specific effects and a linear time trend. Levin-Lin-Chu requires that the number of panels become asymptotically zero in relation to time intervals.

LLC test is an improvement of Augmented Dickey Fuller test that is a conventional method for time series unit root test. It uses an Augmented Dickey Fuller inverse normal z-statistic with two lags and assumes the data follows asymptotic normality. The null hypothesis is that the panel has unit root. When the probabilities are less than 0.05 critical value, this hypothesis is rejected. From the results of Levin Lin Chu test presented in table 4.5, managerial, institutional, foreign, concentrated ownership structure dimensions and firm size were stationary at levels.

Table 4.5: Levin-Lin-Chu Unit Root Test

LEVIN-LIN-CHU UNIT ROOT TEST						
At Levels						
Individual Intercept Included				**Individual Intercept and Trend Included**		
Variables	**z-statistic**	**p-value**	**Remark**	**z-statistic**	**p-value**	**Remark**
CSR	3.7782	0.9999	*Unit root*	2.2193	0.9868	*Unit root*
Managerial	-88.8227	0.0000	*I (0)*	-135.9450	0.0000	*I (0)*
Institutional	-2.5433	0.0055	*I (0)*	-2.3447	0.0095	*I (0)*
Foreign	-5.3435	0.0000	*I (0)*	-1.0440	0.1482	*Unit root*
Concentrated	-36.9363	0.0000	*I (0)*	-38.4287	0.0000	*I (0)*
Firm Age	0.1990	0.5789	*Unit root*	3.2e+13	1.0000	*Unit root*
Firm Size	-1.9709	0.0244	*I (0)*	-3.0045	0.0013	*I (0)*
Firm Performance	0.9835	0.8373	*Unit root*	-1.9090	0.0281	*I (0)*
At First Difference						
Individual Intercept Included				**Individual Intercept and Trend Included**		
Variables	**z-statistic**	**p-value**	**Remark**	**z-statistic**	**p-value**	**Remark**
CSR	-3.6588	0.0001	*I (1)*	0.3251	0.6275	*Unit root*
Managerial	-62.8490	0.0000	*I (1)*	-27.7201	0.0000	*I (1)*
Institutional	-7.5586	0.0000	*I (1)*	-8.7114	0.0000	*I (1)*
Foreign	-8.8654	0.0000	*I (1)*	-18.7255	0.0000	*I (1)*
Concentrated	-33.4820	0.0000	*I (1)*	-25.2176	0.0000	*I (1)*
Firm Age	-4.9944	0.0000	*I (1)*	-7.3857	0.0000	*I (1)*
Firm Size	-5.8188	0.0000	*I (1)*	-9.5382	0.0000	*I (1)*
Firm Performance	-5.4018	0.0000	*I (1)*	-8.1557	0.0000	*I (1)*

Note: Levin-Lin-Chu Null Hypothesis: Unit root. The test refers to inverse normal Z-statistic from the Augmented Dickey Fuller (ADF) unit root test with two lags, individual specific means, a linear time trend, and demeaned series. It assumes asymptotic normality.

Source: Researcher, 2019.

This is because their z-statistic and p-values were significant at 5 percent critical value. In contrary to results of Im-Pesaran-Shin test, CSR had unit root at levels (p-value = 0.9999). Firm age and Firm Performance were nonstationary when intercept and both intercept trend was included in the estimated equation. It is clear all the panel attained

stationary after first difference. CSRD showed unit root when both trend and intercept are considered.

4.9.2 Im-Pesaran-Shin Unit Root Test

The second panel unit root test used was the Im-Pesaran-Shin test, also referred to as IPS advanced by Im-Pesaran-Shin (2003) IPS, which explores the null hypothesis that panels contain unit root against the alternative hypothesis that panels are stationary. However, the homogeneity hypothesis used in the previous LLC test may be too restrictive since panel data may consist of many cross-sections with different autoregressive coefficients (Barreira & Rodrigues, 2005). The main argument is that, under the alternative hypothesis the same convergence rate through entities can bias panel unit root tests. Therefore, imposing homogeneity when a cross-section data includes coefficient heterogeneity can lead to misleading conclusions. IPS test presents an alternative to overcome this restriction (Im, Pesaran & Shin., 2003).

The results indicated that CSR, managerial and concentrated ownership structure dimensions were stationary at levels (denoted by $I(0)$ meaning integrated of order zero) with probabilities 0.000 which are less than 0.05 significance levels when both intercept and individual intercept and trend were included in the panel unit root estimation. Some of the remaining variables institutional, foreign ownership structure dimensions, firm age, firm size and firm performance had unit roots at levels.

Table 4.6: Im-Pesaran-Shin Unit Root Test

IM-PESARAN-SHIN UNIT ROOT TEST						
At Levels						
Individual Intercept Included				**Individual Intercept and Trend Included**		
Variables	**t-bar**	**p-value**	**Remark**	**t-statistic**	**p-value**	**Remark**
CSR	-2.2e+13	0.0000	*I (0)*	-9.7e+12	0.0000	*I (0)*
Managerial	-12.669	0.0000	*I (0)*	-12.6152	0.0000	*I (0)*
Institutional	-0.7405	0.2295	*Unit root*	0.7455	0.7720	*Unit root*
Foreign	0.8353	0.7982	*Unit root*	1.9337	0.9734	*Unit root*
Concentrated	-8.7202	0.0000	*I (0)*	-6.4636	0.0000	*I (0)*
Firm Age	3.7674	0.9999	*Unit root*	3.7674	0.9999	*Unit root*
Firm Size	2.2575	0.9880	*Unit root*	0.9006	0.8161	*Unit root*
FP	0.7076	0.7604	*Unit root*	1.0643	0.8564	*Unit root*
At First Difference						
Individual Intercept Included				**Individual Intercept and Trend Included**		
Variables	**t-bar**	**p-value**	**Remark**	**t-statistic**	**p-value**	**Remark**
CSR	-2.8e+14	0.0000	*I (1)*	-8.7e+13	0.0000	*I (1)*
Managerial	-13.0389	0.0000	*I (1)*	-4.4747	0.0000	*I (1)*
Institutional	-5.5536	0.0000	*I (1)*	-2.0834	0.0186	*I (1)*
Foreign	-4.3154	0.0000	*I (1)*	-1.8223	0.0342	*I (1)*
Concentrated	-11.4951	0.0000	*I (1)*	-4.1981	0.0000	*I (1)*
Firm Age	-12.1415	0.0000	*I (1)*	-12.1220	0.0000	*I (1)*
Firm Size	-4.3277	0.0000	*I (1)*	-5.2492	0.0000	*I (1)*
Firm Performance	-5.8341	0.0000	*I (1)*	-2.5662	0.0051	*I (1)*

Note: Im-Pesaran-Shin Null Hypothesis: Unit root. It uses IPS-t-bar statistic calculated based on a maximum of one lag chosen by the Akaike Information Criterion (AIC) with individual specific effects, a linear time trend, and demeaned series.
Source: Researcher, 2019.

Their p-values were greater than the critical values at 5 percent significance level. Gujarati (2010) explained that variables exhibiting unit root are differenced to any order until they attained stationary. When these variables were differenced once (first difference), they all attained the required stationary property (all p-values were 0.0000 < 0.05 level of significance) and are denoted as *I (1)* in the remarks meaning the variables were integrated after first difference.

4.9.3 Maddala-Wu-Fisher Panel Unit Root Test

Maddala and Wu (1999) panel unit root test referred to as MW test, is inspired in a Fisher form test that integrates p-values from unit root tests for each cross-section. Contradicting the alternative hypothesis of LLC, which imposes a homogeneous cross-sectional approach this test allows for different autoregressive coefficients across the entities. The test presents an advantage over the IPS test since it does not require a balanced panel; however, according to Barreira and Rodrigues (2005), the test presents also a significant disadvantage related to the fact that the p-values must be derived from Monte Carlo simulation. MW proposes a bootstrap method that allows for a reduction of the size distortions of the test under cross sectional correlation.

Looking into the first two tests used earlier, you find that there were mixed results for example CSR was found to be stationary at levels by Im-Pesaran-Shin test, while Levin Lin Chu confirming that there was unit root. To overcome this, a third test was required to check for consistency and robustness as suggested by Judge, Griffins, Hill Lutkepohl and Lee (1985) and Greene (2012) who recommended the use of more different tests. Two approaches are used for the Maddala-Wu-Fisher test: the Augmented-Dickey-Fuller (ADF) and the Phillips Perron (PP) test. One needs to choose between ADF and PP tests during study. The researchers considered the ADF test in this analysis. The null hypothesis of the test is that the panels contain root units. Asymptomatic Chi-square is used to estimate the probabilities. The relevance of the Fisher test against other panel tests is that both balanced and unbalanced panels are used.

Table 4.7: Maddala-Wu-Fisher Panel Unit Root Test

MADDALA-WU-FISHER UNIT ROOT TEST						
At Levels						
	Individual Intercept Included			**Individual Intercept and Trend Included**		
Variables	**t-statistic**	**p-value**	**Remark**	**t-statistic**	**p-value**	**Remark**
CSR	160.570	0.0000	*I (0)*	142.387	0.0001	*I (0)*
Managerial	172.989	0.0000	*I (0)*	152.075	0.0000	*I (0)*
Institutional	191.360	0.0000	*I (0)*	168.582	0.0000	*I (0)*
Foreign	115.902	0.0035	*I (0)*	124.504	0.0006	*I (0)*
Concentrated	179.801	0.0000	*I (0)*	189.236	0.0000	*I (0)*
Firm Age	264.808	0.0000	*I (0)*	329.801	0.0000	*I (0)*
Firm Size	81.083	0.6862	Unit root	138.058	0.0005	*I (0)*
Firm Performance	234.703	0.0000	*I (0)*	264.716	0.0000	*I (0)*
At First Difference						
	Individual Intercept Included			**Individual Intercept and Trend Included**		
Variables	**t-statistic**	**p-value**	**Remark**	**t-statistic**	**p-value**	**Remark**
CSR	356.690	0.0000	*I (1)*	312.481	0.0000	*I (1)*
Managerial	372.690	0.0000	*I (1)*	338.775	0.0000	*I (1)*
Institutional	477.296	0.0000	*I (1)*	466.982	0.0000	*I (1)*
Foreign	450.389	0.0000	*I (1)*	375.008	0.0000	*I (1)*
Concentrated	343.235	0.0000	*I (1)*	335.184	0.0000	*I (1)*
Firm Age	326.567	0.0000	*I (1)*	354.564	0.0000	*I (1)*
Firm Size	357.926	0.0000	*I (1)*	341.289	0.0000	*I (1)*
Firm Performance	599.247	0.0000	*I (1)*	531.686	0.0000	*I (1)*

Note: Maddala-Wu-Fisher Null Hypothesis: Unit root. Uses Andrew automatic bandwidth selection and Bartlett Kernel. **probabilities for Fisher-tests are computed using an asymptotic Chi-Square distribution. All other test assumes asymptotic normality.

Source: Researcher, 2019

The results presented in table 4.7 indicates that according to Fisher test, all variables except firm size had significant probabilities (p-values = 0.0000 less than 5% per cent significance levels) implying the null hypotheses were rejected and concluded that the variables are stationary at levels. Differencing a stationary variable makes it stationary; it is done to enhance uniformity. it is appreciated that the variables were integrated of

order one (*I (1)*). Therefore, this study used the differenced data and thus the interpretation is based on the stationary dataset that provides a meaningful information.

4.10 Diagnostic Test

The study performed the following post regression diagnostic tests; normality test using Jarque-Bera test, serial correlation using Durbin-Watson d-statistic and heteroscedasticity test by Breusch-Pagan-Godfrey. These tests sometimes referred to as post estimations because residuals (standard errors) are used.

4.10.1 Normality Test

One of the important regression assumptions is normality. It is good in any research to tests whether the residuals followed a normal distribution. The distribution of the sample is measured by Skewness and kurtosis. As we know that the mean and variance of a sample are first and second moment respectively. The third moment is the skewness and the fourth moment is kurtosis. All these are from the sample estimates. Zero skewness and kurtosis of 3 implies data has symmetric distribution.

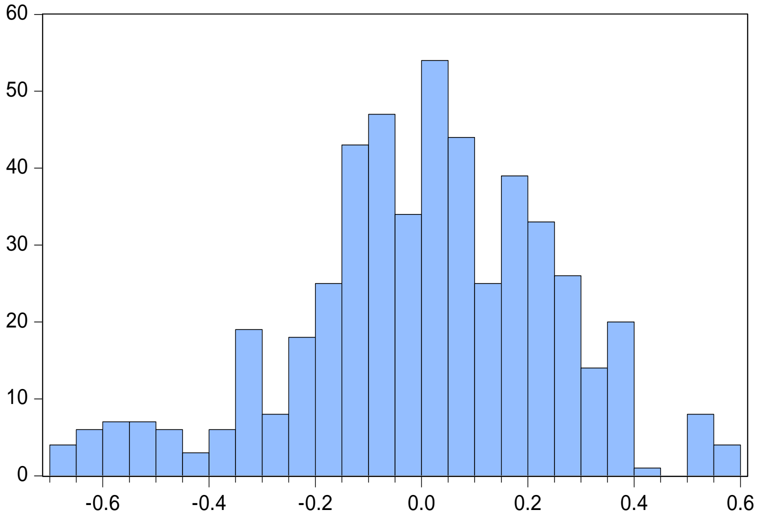


Figure 4.3: Normal Distribution Diagram

Source: Researcher, 2019

This kurtosis is referred to as mesokurtic. Kurtosis greater than 3 is known as leptokurtic and the one less than 3 is platykurtic. Under null hypothesis, the Jarque-Bera test statistic has a Chi-square distribution of 2 degrees of freedom. Figure 4.3 shows that distribution of the data had a Jarque-Bera statistic of 15.20, skewness of -0.396 indicating that the data is skewed to the left. The kurtosis is 3.319 implying the sample used has leptokurtic distribution

4.10.2 Serial Correlation

Serial correlation in statistics is the association between independent variable and a lagged version of itself over different time intervals. Repeating patterns also display serial correlation when the level of variable affects its future levels, Durbin and Watson (1951)

Table 4.8: Serial Correlation Test

F-statistic	10.14271	Prob. F (2,493)		0.0000
Obs * R-squared	19.79990	Prob. Chi-Square (2)		0.0001
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
Managerial	0.000771	0.001745	0.442119	0.6586
Institutional	-0.000333	0.000612	-0.543839	0.5868
Foreign	-0.000344	0.000519	-0.663996	0.5070
Concentrated	0.000679	0.000724	0.937431	0.3490
Firm age	-0.000300	0.000645	-0.465306	0.6419
Ln firm size	-0.000776	0.001874	-0.414138	0.6790
Resid (-1)	0.170381	0.046325	3.677946	0.0003
Resid (-2)	0.100032	0.048855	2.047533	0.0411
R-squared	0.039507	Mean dependent variance		0.000912
Adjusted R-squared	0.025869	S.D. dependent variance		0.243237
S.E. of regression	0.240070	Akaike info criterion		6.57E-05
Sum squared residual	28.41334	Schwarz criterion		0.067397
Log likelihood	7.983548	Hannan-Quinn criterion.		0.026484
Durbin-Watson stat	1.998048			

Source: Researcher, 2019

As discussed earlier in chapter three, the value DW statistic d ranged between 0 and 4. The value 0-1.5 implies there is positive serial correlation, 1.5-2.5 indicating no serial correlation 2.5-4.0 then there is negative serial correlation. From the results in table 4.8, it is shown that the value for Durbin-Watson was 1.998 confirming that the independent variables (ownership structure dimensions, firm age and firm size) had no serial correlation between themselves.

4.10.3 Heteroscedasticity across Panels

Heteroscedasticity is frequently discussed in parametric analysis as an assumption of linear regression. If the residual variance (error terms) is uneven around the set of variables that predict it from one variable to another, the variables are said to be heteroskedastic. To gather for heteroscedasticity, it is important to have a robust panel regression (the word robust is included in panel regression). Breusch-Pagan-Godfrey test is a Chi-Squared test statistic distributed with k degrees of freedom. The value of Chi-square of 6 degrees of freedom is 0.0000 according to the findings in table 4.9, which is less than 5 percent significance level, confirming that there was heterogeneity of variance across the panels.

Table 4.9: Breusch- Pagan-Godfrey Heteroskedasticity Test

F-statistic	24.22083	Prob. F(6,494)	0.0000
Obs*R-squared	113.8823	Prob. Chi-Square(6)	0.0000
Scaled explained SS	128.5728	Prob. Chi-Square(6)	0.0000

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Sample: 1/01/2007 10/29/2018
Included observations: 516

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.012796	0.043540	-0.293898	0.7690
Managerial	-0.001367	0.000580	-2.355990	0.0189
Institutional	-0.002295	0.000201	-11.39915	0.0000
Foreign	-0.000892	0.000170	-5.235485	0.0000
Concentrated	0.000989	0.000267	3.710681	0.0002
Firm age	0.000371	0.000214	1.732167	0.0839
Ln firm size	0.003402	0.001534	2.217385	0.0271

R-squared	0.227310	Mean dependent variance	0.059047
Adjusted R-squared	0.217925	S.D. dependent variance	0.089893
S.E. of regression	0.079497	Akaike info criterion	-2.212332
Sum squared residual	3.121936	Schwarz criterion	-2.153417
Log likelihood	561.1891	Hannan-Quinn criterion.	-2.189216
F-statistic	24.22083	Durbin-Watson stat	1.967699
Prob(F-statistic)	0.000000		

Source: Researcher, 2019

4.11 Regression Results

This study analysis estimates two panel models: fixed effect and random effect. In fixed effect model, the specific individual effects are assumed to be correlated with the explanatory variables, whereas random effect model is when these specific individual effects are assumed uncorrelated with explanatory variables. Both the fixed and random models are estimated. The Hausman test is used to select which of the regression results (between fixed and random) are suitable for testing the hypotheses. Hausman result showed that random effect panel regression was acceptable, and results are discussed in the next stage.

4.12 Model Selection Using Hausman Test

Fixed effects (F.E) and random effects (R.E) models are used in panel regression analysis. The Hausman test is used to choose either the regression model for fixed or random effects to test the hypothesis (Green, 2008). Hausman test proposed by Jerry Hausman (1978) compares two different estimates of the model parameters that is data that correspond to data generated process (DGP) and test for the model misspecification. It compares the coefficients under certain properties. First, both estimates are consistent with the true parameters of the model under the null hypothesis of the right model specification. The size of the test can be regulated asymptotically in this property.

Secondly, Hausman test for model misspecification, the model estimates should have different probabilities limit. This property gives the test its power. The results presented in table 4.10 are Hausman test. The coefficients in first column (fixed effects) are from fixed effects estimation and in the second column (random effects) are from random effect model.

Hausman tests measures the null hypothesis that non-systematic differences in coefficients (random effects are suitable) against the alternative that there are systematic differences in coefficients, (Fixed effects are appropriate). The results showed that value for chi-square statistic is 0.00 and its probability is 1.0000. The null hypothesis failed to be rejected and confirms that the estimates from the random effects regression model are sufficient to be used in testing the hypotheses of this research

Table 4. 10: Hausman Test Results

Variables	Coefficients (b) Fe	(B) Re	(b-B) Difference	Sqrt (diag (V_b-V_B) S. E
Managerial	0.0071092	0.0071118	-2.58e-06	0.0002623
Institutional	0.0069717	0.0069751	-3.40e-06	0.0000867
Foreign	0.0031542	0.0031561	-1.82e-06	0.0000665
Concentrated	-0.002241	-0.0022432	2.26e-06	0.0001059
Firm Age	-0.0019023	-0.0019019	-3.21e-07	0.0000958
Firm Size	0.0145744	0.0145684	6.00e-05	0.0008719

b = consistent under H_0 and H_a; obtained from panel regression
B = inconsistent under Ha, efficient under H_0; obtained from panel regression
Fe= Fixed Effects.
Re= Random Effects

Test: H0: difference in coefficients not systematic
Chi2(6) = (b-B)'[V_b-V_B)^(-1)](b-B)
=0.000
Prob>Chi2=1.000

Source: Researcher, 2019

4.12.1 Testing the Effect of the Control Variables

The study examined the impact of confounding variables (control variables) at a 5 percent significance level, which is firm size and firm age. To do this, two regression models were estimated (equation 3.29 and 3.30). One of the models had control variables while another did not. The effect of controls variables and its significance are observed by looking at the magnitude of the coefficients and their probabilities. Tracing the R- square change is also another way of observing the influence of control variables. Results is table 4.11 shows that without inclusion of control variable (Firm Age and Firm Size), The R- square within panels has increased from 0.01% in table 4.11 to 89.80% in table 4.12. Firm age and firm size were found to have a significant influence on CSR disclosure at probabilities 0.002 and 0.001, respectively. Therefore, these variables were included in the model 2 because they have had a significant effect of CSR disclosure.

Table 4. 11: Testing the Effect of Control Variables

Random effects GLS regression	Number of observations = 516			
Group variable: Year	Number of Groups: 12			
R-sq within = 0.0350		Observations per group:	Minimum	= 43
Between = 0.0001			Average	= 43.0
Overall = 0.0350			Maximum	= 43
		Wald chi2	= 18.59	
Corr (μ_i, Xb) = 0		Prob > chi2	= 0.0001	
CSR	**Coefficient**	**Std. Error**	**Z**	**P > |z|**
Firm Age	-0.00219	0.00072	-3.04	0.002
Firm Size	0.02205	0.00635	3.47	0.001
Constant	-0.00090	0.01556	-0.06	0.954
Sigma_u	0			
Sigma_e	0.3563			
Rho	0	(fraction of variance due to u_i)		

Note: sigma_u is the standard deviation of residuals within groups, sigma_e is the standard deviation of residuals (overall error terms), rho is the intraclass correlation.
Source: Researcher, 2019

A study by Basuony, M. A, Elseidi, R. I., and Mohamed, E. K. (2014) investigated the effect of corporate social responsibility on the organization performance among large firms in Egypt. It utilized cross sectional data from non-financial firms. Regression analysis showed that there is a positive and significant relationship between firm performance and corporate social responsibility and used firm age and firm size as control variable. It was further deduced that larger and older firms tend to have a positive effect on financial performance and hence such firms tend to enhance use of better CSR practices. However, it made conclusions based on large firms as it failed to incorporate small firms which may also engage in CSR practices.

4.12.2 Random Effects Regression Results with Control Variables

The model of interest after Hausman test is the random effect model. Normally, random effects are consistent but are more inefficient than fixed effects, which are inconsistent but more efficient. For all the time-invariant variations between the individuals, the model controls, so estimated coefficients cannot be biased. Wald-chi2 has a value of

171.02 and a probability of 0.000. (see table 4.12). This implies that the calculated model was significant and appropriate for estimating the parameters of the sample. The overall standard deviation between the study variables of residuals was 0.31511.

Table 4.12: Random Effect Model Estimation Results

Random effects GLS regression	Number of observations = 516			
Group variable: Year	Number of Groups: 12			
R-sq within = 0.2514		Observations per group:	Minimum	= 43
Between = 0.8980			Average	= 43.0
Overall = 0.2515			Maximum	= 43
		Wald chi2	= 171.02	
Corr (μ_i, Xb) = 0		Prob > chi2	= 0.0000	
CSR	**Coefficient**	**Std. Error**	**Z**	**P > |z|**
Managerial	0.00711	0.00178	3.99	0.000
Institutional	0.00698	0.00059	11.91	0.000
Foreign	0.00316	0.00045	7.02	0.000
Concentrated	-0.00224	0.00072	-3.13	0.002
Firm age	-0.00190	0.00065	-2.93	0.003
Ln firm size	0.01457	0.00592	2.46	0.014
Constant	-0.00234	0.01376	-0.17	0.865
Sigma_u	0			
Sigma_e	0.31507			
Rho	0	(fraction of variance due to u_i)		

Note: sigma_u is the standard deviation of residuals within groups, sigma_e is the standard deviation of residuals (overall error terms), rho is the intraclass correlation.
Source: Researcher, 2019

The results can be generally expressed in the form of a linear function as

$$CSR_{it} = -0.002 + 0.0071MO_{it} + 0.0070IO_{it} + 0.0032FO_{it} - 0.0022CON_{it} - 0.0019FA_{it} + 0.0146FS_{it}$$

4.12.3 Test of Hypotheses

The aim of this study is to investigate the intervening effect of firm performance on the valuable relationship between the dimensions of the ownership structure and the disclosure of corporate social responsibility among NSE companies in Kenya for the period 2007 to 2018 on an annual basis. The regression results for random effects in

table 4.12 shows that the probability (Prob > chi2 = 0.00 < 0.05 significance level) Indicating that the random model used was sufficient to explain that all the dimensions of the ownership structure included together explained the difference in the disclosure of corporate social responsibilities engagements in the Nairobi Security Exchange.

4.12.4 The Impact of Managerial Ownership on the Corporate Social Responsibility Disclosure

The first objective was to hypothesize that managerial ownership has no significant effect on Corporate Social Responsibility disclosure among firms listed at NSE in Kenya. Results in table 4.12 indicated that management ownership structure had a positive ($\beta = 0.0071$) and significant($p - value = 0.00 < 0.05$) relationship with CSR disclosure. This hypothesis is rejected and concluded that management ownership structure influences firm's engagement and disclosure in CSR by firms listed in Nairobi Security Exchange. This implied that, for every percentage change increase of shares by managers (managerial ownership) leads to 0.0071 increase in corporate social accountability disclosure by companies listed in the NSE. This means that if the percentage of shares owned by managers or directors' increases, corporate social responsiveness disclosure conducted by the companies will become more plentiful.

4.12.5 Influence of Institutional Ownership on Corporate Social Responsibility Disclosure

The study also explored the explicit connection between institutional ownership and the disclosure of CSR. The second hypothesis indicates that there is no significant influence of institutional ownership on the disclosure of CSR in NSE listed companies in Kenya. The results showed that the institutional ownership structure dimension (β=0.007) had a positive impact on CSR disclosure by NSE-listed companies. This effect was

substantial at (p – value 0.000 < 0.05) (see table 4.12). This hypothesis is rejected and this means institutional ownership structure determines firm's engagement and disclosure in CSR. A 1 percent change of shares by institutional ownership increases CSR disclosure by approximate 0.007 units.

4.12.6 Effect of Foreign Ownership on Corporate Social Responsibility Disclosure

In addition, the third hypothesis stated that, there is no significant effect of foreign ownership on the disclosure of CSR by companies listed in Kenya at the NSE. The findings show that foreign ownership has significant and positive impact on CSR disclosure in Kenya (p-value=0.000) and β=0.0032 respectively (presented in table 4.12 above). This is an indication that the firms listed in NSE and foreign owned influences CSRD. Jeon, Lee and Moffett, 2011; Yoshikawa, Rasheed and Del Brio, 2010 indicated that high level of investments from foreign investors indicates greater influence of foreign practices on CSR disclosure.

4.12.7 Effect of Concentrated Ownership on the Disclosure of Corporate Social Responsibility

Ownership concentration was most common form of ownership structure dimension reported in this study. Its proportion was highest in the telecommunication industry, while institutional and managerial were most common in automobile and investment sectors respectively. The highest performing firms were in the automobile sector followed by banking and telecommunication industries.

Lastly, unlike the managerial, institutional and foreign ownership structure dimensions, concentrated ownership structure found to have a negative and significant effect on CSR disclosure among the firms listed at NSE in Kenya. The coefficient was -0.0022 and its probability of 0.002 which is less than the 5 percent level of significance as

shown in table 4.12 above. This therefore implied that the fourth hypothesis is rejected and concluded that though negative, concentrated ownership structure dimension affects company's CSR disclosure.

High concentration of ownership means a low leverage ratio. Furthermore, a U-shaped relationship between ownership concentration and the leverage ratio is verified by Lo *et al.*(2016). More precisely, shareholders will strengthen their voting power by corporate liability if ownership concentration is minimal. With rises in ownership concentration, the corporate debt ratio increases. After ownership accumulation approaches its limit, the risk of bankruptcy exceeds the return on debt, and by reducing corporate obligations, shareholders avoid financial instability and bankruptcy risk. Conversely, with an increase in ownership concentration, the debt ratio reduces

4.13 Mediating Effect of Firm Performance on the Relationship Between Ownership Structure Dimensions and the Disclosure of Corporate Social Responsibility

Mediation processes are framed in terms of intermediate variables between an independent variable and a dependent variable, with a minimum of three variables required in total. For instance in this study, the intermediate variable is firm performance, independent variable is each of the ownership structure dimensions and CSR the dependent variable. Firm performance is hypothesized to transmit the causal effect of ownership structure dimension to CSR disclosure. That is, can the ownership structure dimensions of firms listed in NSE affect its performance, which in turn affect the CSR disclosure?

The total effect of ownership dimension on CSR is referred to as total effect, and that effect is then partitioned into a combination of a direct effect of ownership structure

dimension on CSR and an indirect effect of ownership structure dimension on CSR transmitted through the mediator (Firm Performance).

Mediation analysis has been often criticized regarding causal mediation effects despite its popularity. Mediation can prove a completed method as researchers can typically randomized only one of the three variables in the mediation theory. Randomization of X variable does not affirm the causality of the mediating variable and the dependent variable. MacKinnon and Pirlott (2015) addressed these limitations by drawing on new statistical developments in causal mediation analysis. Typically, within-subjects designs allow the same participant to participate in both the experimental and control conditions.

4.13.1 Mediating Effect of Firm Performance on the Relationship Between Managerial Ownership and the Disclosure of Corporate Social Responsibility.

According to Preacher and Kelley (2011), statistical analysis of mediation has been indispensable tool in understanding investigation processes thought to be causal. Before investigating the mediation analysis, the study adopted Baron and Kenny's steps suggested by Baron & Kenny (1986). Steps comprised of three sets of regression equations: Regression between the explanatory variable (X) and the result variable(Y) is the first step. Next is to analyse the influence of X on mediator M. Finally, finding the effect on the dependent variable Y of X and M.

The findings provided in table 4.13 show that management ownership aspect significantly influences disclosure of CSR activities with a coefficient of 5.88e-4 (p-value = 0.024) when the mediator (FP) is controlled. Firm performance had a positive (0.185, p-value = 0.000) relationship with managerial ownership structure. Therefore,

The hypothesis H05a: That there is no significant effect of management ownership dimension on firm's performance dismissed and concludes that, the dimension has a positive impact on firms' performance. In addition when managerial ownership reaches a considerably high level, the interest between managers and shareholders are fully aligned and in result, the management pursues best interest in firm performance because they are given a longer decision-making timeframes by the domestic shareholder.

Table 4.13: Mediating Effect of Firm Performance on the Relationship Between Managerial Ownership Structure and CSR Disclosure

Regressions		**Estimate**	**Std. Err**	**z-value**	**P(>|z|)**
CSR~MO		5.88e-4	2.5e-4	2.259	0.024
FP~MO	(a)	0.185	0.001	187.297	0.000
CSR					
FP	(b)	0.894	0.021	41.606	0.000
MO	(c')	-0.164	0.004	-41.114	0.000
Variances					
FP		1.374	0.085	16.248	0.000
CSR		0.335	0.021	16.248	0.000
Defined parameters					
Indirect effects		0.165	0.004	40.616	0.000
Direct effect		-0.164	0.004	-41.114	0.000
Total effect		0.001	0.001	0.726	0.468

Note: FP represent Firm Performance. MO-Managerial Ownership, CSR-Corporate Social Responsibility. Sobel z-test statistic was used in testing significance of indirect effect (a*b)

Source: Researcher, 2019

According to Barron & Kenny (1986), it should be shown that an essential relationship between the mediator and the independent variable exists for a variable to mediate the relationship between the explanatory and the explained variable. This condition is satisfied in this study.

In path analysis, indirect effect (a*b) was found to be positive and significant. It can be easily be demonstrated that 0.185*0.894 = 0.165. This examines the mediation impact

of the performance of the firm on the relationship between the framework of management ownership and CSR. Hypothesis H07a: clearly states that the company performance does not have a major mediating impact on the relationship between the structure of management ownership and CSRD, and concluded that firm performance mediated the relationship.

The total effect incorporates the direct and the indirect effect. That is $c = c' + ab$ for example $0.00059 = 0.165 - 0.164$ as you can see in the table 4.13 above. Since the value for c has not been reduced to zero then the type of mediation attained in this study is referred to as partial mediation. This implies that firm performance plays pertinent role for managerial ownership structure of the firms' engagement and disclosure of corporate social responsibilities.

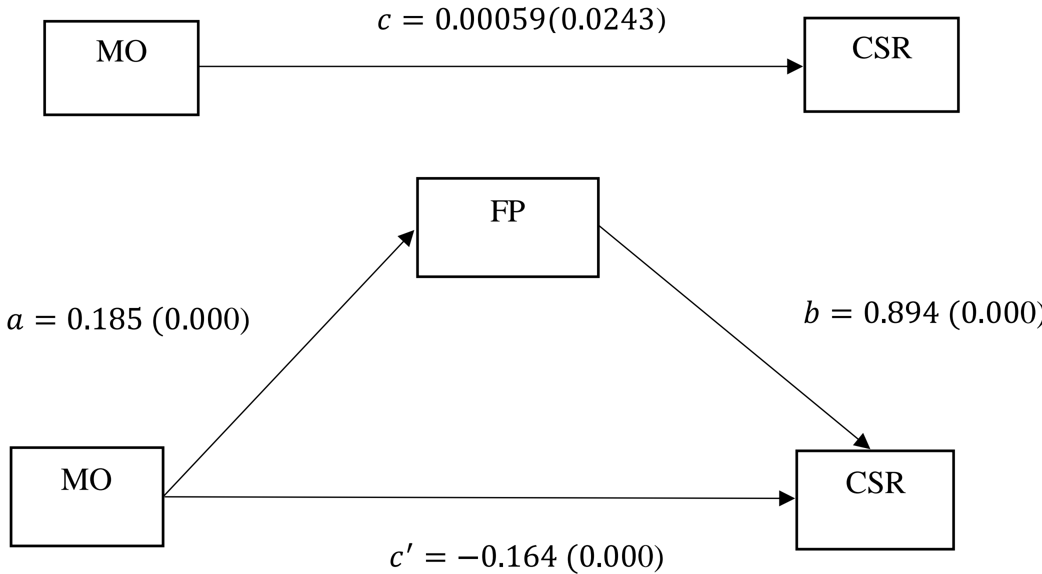


Figure 4.4: Path Mediation Analysis

Source: Researcher, 2019

If the value obtained was equal to zero, then we could say there was complete mediation. The relationship between firm performance (the mediator) and the CSR

disclosure was positive and significant$(\beta = 0.894\ (p - value = 0.000))$. It suggests that, due to the lack of oversight and stakeholder influence, companies concentrate on profitability when choosing to report CSR activities.

Due to the presence of the mediating effect of firm performance on managerial ownership structure dimension and CSR disclosure, it implies that managers should justify their social programs and activities in financial form by optimizing greatly on firms financial attractiveness in the eyes of the investors. That is, management should seek to establish financial incentives for their social orientation.

4.13.2 Mediating Effect of Firm Performance on the Relationship Between Institutional Ownership and Corporate Social Responsibility Disclosure

Furthermore, the analysis aimed to investigate the mediating effect of firm performance on the relationship between the dimension of institutional ownership structure and disclosure of CSR. The findings in Table 4.14 show that at a 5 percent significance level (p-value = 0.019), the relationship between CSR and institutional structure was positive and significant. It means that controlling for firm performance, there is a tendency for firms to engage and disclose CSR where shares are held by institutional investors.

Testing the H_{05b} hypothesis that institutional ownership does not have a significant effect on company performance is dismissed as there was a positive (0.016) and significant (0.000) effect of institutional ownership on FP as shown in Table 4.14. Indirect and direct effects point in various directions. This concludes that institutional ownership structure dimension allows Managers and Directors to concentrate more on company results. in terms of profit making when their corporations face high growth opportunities which consequently, the monitoring role of institutional shareholders

becomes more effective for firms with higher growth opportunities (Sakawa & Watanabel, 2020).

Table 4.14: Mediating Effect of Firm Performance on the Relationship between Institutional Ownership Structure and CSR Disclosure

Regressions		**Estimate**	**Std. Err**	**z-value**	**P(>|z|)**
CSR~IO		5.25e-5	2.24e-2	2.34	0.019
FP~IO	(a)	0.016	0.000	328.347	0.000
CSR					
FP	(b)	1.567	0.036	43.034	0.000
IO	(c')	-0.025	0.001	-42.667	0.000
Variances					
FP		0.452	0.028	16.248	0.000
CSR		0.316	0.019	16.248	0.000
Defined parameters					
Indirect effects		0.025	0.001	42.667	0.000
Direct effect		-0.025	0.001	-42.667	0.000
Total effect		0.0001	0.0001	1.767	0.077

Note: FP represent Firm Performance. IO-Institutional Ownership, CSR-Corporate Social Responsibility. Sobel z-test statistic was used in testing significance of indirect effect (a*b)

Source: Researcher, 2019

This kind of partial mediation as per Zhao *et al*., 2010 is referred to as competitive partial mediation. The Sobel test showed that the indirect effect is positive (0.025) and significant (p-value=0.000) suggesting that there was a form of mediation effect. Hypothesis H_{07b} was rejected and concluded that the relationship between institutional ownership and CSR disclosure for companies listed in NSE is significantly mediated by firm performance, as in the previous discussion, this is partial mediation (the value for c is not reduced to zero).

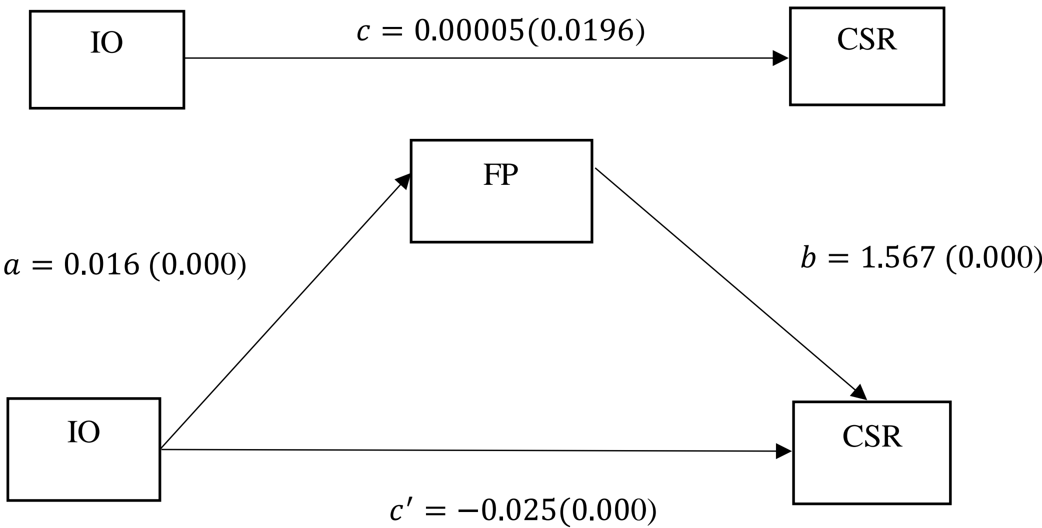


Figure 4.5: Path Mediation Analysis

Source: Researcher, 2019

It signifies that though firm performance mediates the relationship, firms in NSE that are owned majorly by institutions engages in CSR. In path analysis, the results can be graphically presented as shown in the figure 4.5 It can also be proved that the total effect $c = c' + a * b$, that is 0.0001=-0.025+0.016*1.567.

4.13.3 Mediating Effect of Firm Performance on the Relationship between Foreign Ownership and Disclosure of Corporate Social Responsibility

Foreign ownership is the number of shares owned by either foreign individuals or foreign institutions. Machmud and Djakman (2008) outlined that Europe countries are very much concerned with the social issues such as education and environment just to mention a few.

This research has established that the disclosure of CSR in Kenya is positively affected by foreign ownership investments with a coefficient of 0.031 (see table 4.15) when the company's performance is included as a mediator. Rustiarini (2011), Haniffa and Cooke have found that CSR disclosure is positively influenced by the structure of foreign

ownership. Foreign-owned companies mainly obtain legitimacy from their owners, typically based on the domestic market. The study had hypothesized that foreign ownership has no significant effect on FP ($H05c$) and according to the results (see figure 4.6 or table 4.15), foreign ownership positively and significantly influences firm performance with coefficient 0.069 and probability of 0.000. As per these findings, the hypothesis $H05c$ is rejected and the study concluded that foreign ownership structure dimensions of firms listed in NSE significantly affects their performance. This study conforms with the sentiment that executives focuses more on profitability in a firm with foreign ownership structure (Abdallah & Ismail, 2017).

Table 4.15: Mediating Effect of Firm Performance on the Relationship between Foreign Ownership Structure and CSR Disclosure

Regressions		**Estimate**	**Std. Err**	**z-value**	**P(>|z|)**
CSR~FO		4.074e-4	3.634e-3	1.12	0.263
FP~FO	(a)	0.069	0.011	6.311	0.000
CSR					
FP	(b)	-0.014	0.002	-6.543	0.000
FO	(c')	0.031	0.001	54.850	0.000
Variances					
FP		86.144	5.302	16.248	0.000
CSR		0.210	0.013	16.248	0.000
Defined parameters					
Indirect effects		-0.001	0.000	-4.543	0.000
Direct effect		0.031	0.001	54.850	0.000
Total effect		0.030	0.001	52.978	0.000

Note: FP represent Firm Performance. FO-Foreign Ownership, CSR-Corporate Social Responsibility. Sobel z-test statistic was used in testing significance of indirect effect (a*b)
Source: Researcher, 2019

Looking into the path analysis, the firm performance had a negative relationship with CSR contradicting previous other researches done by Dixon-Fowler *et al.*, (2013); Ambec & Lanoie, (2008); Orlitzky *et al.*, (2003) have focused on the existence of the relationship between CSR and firm performance. CSR disclosure should improve

companies' competitiveness, reputation and positively affect relationship between CSR activities of a company and its financial performance in the long-term perspective.

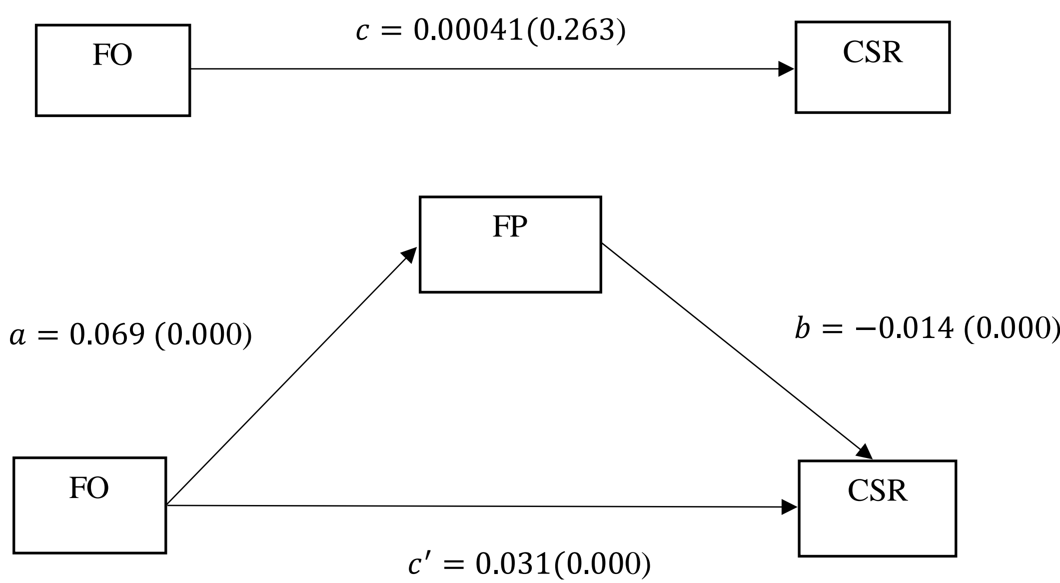


Figure 4.6: Path Mediation Analysis

Source: Researcher, 2019

4.13.4 Mediating Effect of Firm Performance on the Relationship between Concentrated Ownership and Disclosure of Corporate Social Responsibility of Listed Firms in Nairobi Securities Exchange

Kenya is composed of dispersed form of ownership structure, as it is an emerging economy. Concentrated ownership is one of the most common form of ownership structure dimension in the Nairobi Securities Exchange, George and Nyambonga (2014). It provides block shareholders with increased low-cost incentives to track management and thus influence the efficiency of firms. The study found that CSR and concentrated ownership are positive (4.689e-5) and significantly (0.019) correlated. It also found that the hypothesis H05d, which reported that there is no significant effect on company performance of the concentrated ownership, is rejected as the study found that the financial performance of the company is positively influenced by this concentrated ownership in NSE (0.014).

Table 4.16: Mediating Effect of Firm Performance on the Relationship between Concentrated Ownership Structure and Disclosure of CSR

Regressions		**Estimate**	**Std. Err**	**z-value**	**P(>|z|)**
CSR~CO		4.689e-5	2.00e-5	2.338	0.019
FP~CO	(a)	0.014	0.000	359.220	0.000
CSR					
FP	(b)	1.689	0.042	40.543	0.000
CO	(c')	-0.024	0.001	-40.213	0.000
Variances					
FP		0.378	0.023	16.248	0.000
CSR		0.346	0.021	16.248	0.000
Defined parameters					
Indirect effects		0.024	0.001	40.287	0.000
Direct effect		-0.024	0.001	-40.213	0.000
Total effect		0.00004	0.00002	1.907	0.056

Note: FP represent Firm Performance. CO-Concentrated Ownership, CSR-Corporate Social Responsibility. Sobel z-test statistic was used in testing significance of indirect effect (a*b)

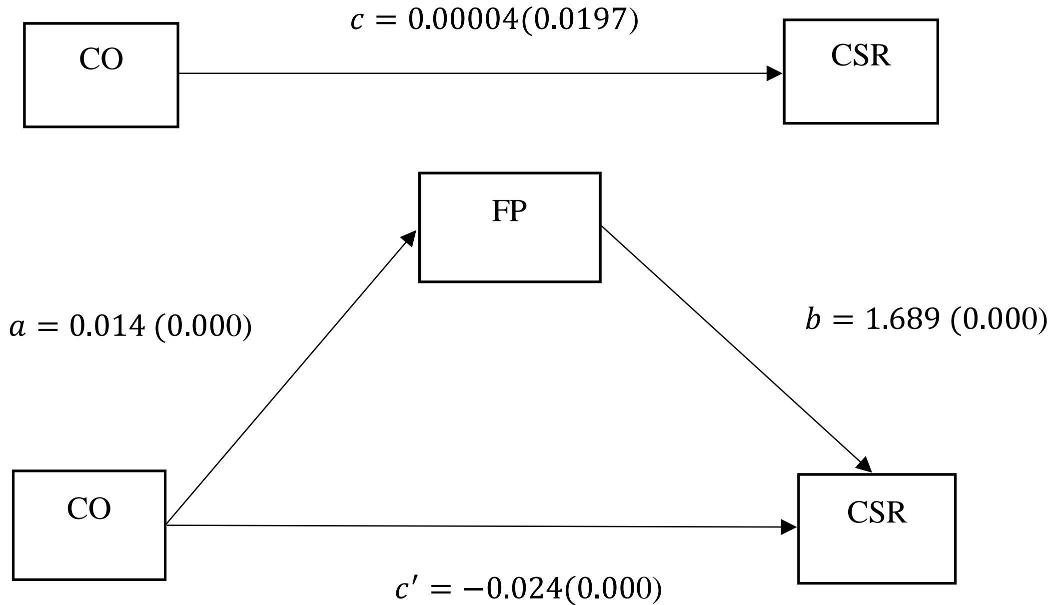


Figure 4.7: Path Mediation Analysis

Source: Researcher, 2019

4.14 Discussions

This study conforms with that in Nigeria, which reported that the relationship between managerial ownership and disclosure of CSR activities positively related among the Country's listed firms (Uwuigbe & Egbide, 2012). They further explained that firms tend to be more friendly to the environment they operate when the proportion of director's equity interest in a company are higher. Additionally, where there is significant managerial ownership, managers are less likely to divert resources away from value maximization value.

The results of this study conforms to the findings of Prasetio & Rudyanto (2020) that managerial ownership positively affects corporate social responsibility disclosure. Consequently, this study contradicts the same study findings that foreign and institutional ownership have no effect on corporate social responsibility disclosure. The findings further indicated that reducing agency problem with increased managerial ownership is effective on increasing corporate social responsibility disclosure in Indonesia.

A study on corporate governance, corporate social responsibility and corporate financial performance revealed that a company should boost its corporate image, corporate managers need to disclose the company's social information even though resources must be sacrificed for the activity (Murwaningsari, 2009). A study by Osterwalder *et al*., (2010) revealed that managers have motivation to disclose private information voluntarily because the company expects the information to be interpreted as a positive signal about the corporate performance and reduce asymmetric information. According to W. Khan *et al*., (2013), managerial ownership allows

managers to dominate the company and decide which strategies and policies the company will take because in this case the manager also acts as a shareholder.

The finding supports other empirical studies that managerial ownership structure affects company's CSR disclosure. Managers are encouraged to increase the wealth of entities, which in effect increases their own wealth, since managers have the same desires as the owners. Thus, the information disclosure will increase because managers with greater shareholding can derive greater share-market benefits from better CSR disclosure. Previous studies found a positive relationship between managerial ownership and disclosure in the US (Nagar *et al*, 2003) in Malaysia (Mohd-Nasir and Abdulah, 2004) and in Hong Kong (Leung & Horwitz, 2004).

According to Eisenhardt, (1989); and Jensen & Meckling (1976) in their study of Agency theory, they concluded that the power to allocate resources a mong abroad range of stakeholders to secure their loyalty rests with top management. However, to mitigate agency problems, the theory suggests an effective way by providing stock to company managers. Thus, aligning the interest of the managers/directors with those of the stockholders. A study by Denis *et al.*,(1997) suggested that when managers own significant equity, they are more likely to make favourable decisions and in doing so results in maximizing the shareholders' value. If socially responsiveness actions increases the firm's value, as good management philosophy implies, block holders might increase the managers' incentives to engage in valuable CSR.

Research by Oh *et a*l., (2011) further suggest that, financial markets in developing countries may not value social investments as highly as in developed economies. If this is true, then it would mean that stock-owning managers may not reap the benefits of social investments. As a result, the company's CSR rating may suffer. Generally, we

predict that the effect of managerial holdings on CSR ratings will be negative. An empirical study of ownership structure dimensions and corporate social responsibility by Soliman *et al.,* 2012 of the listed companies in Egypt confirmed significant effects on the firms CSR engagement.

Institutional investors can catalyse greater engagement in CSR on the part of corporations through two different routes, either through more close involvement in their resolutions making processes or by investing only in those companies that take social engagement and accounting into consideration in their operations (Tang & Li, 2009); Aguilera., *et al.*, (2006); Denis and McConnell (2003). While some institutional owners, such as mutual funds, are looking for short-term returns, most of them are looking for steady returns on their investments in order to fulfil their long-term commitments. Institutional investors are interested in long-standing profitability of the companies in their portfolios and hence have the incentive to get engaged in corporate strategic management rather than switching. Given the increasingly documented positive correlations between long run health of companies and their social behaviour, institutional investors have an incentive because they look for long- term cash flows- to take the social responsibility of companies into account.

Institutional ownership often enhances corporate social responsibility actions for different reasons as per study by Aguilera *et al.,* (2006). First, some instrumental motives exist because good social corporate reputation is an indicator of competent managerial behaviour. Second, relational, and moral motives exist because of the social laws in several European industries and in the acts of many European investors. Furthermore, Barnea and Rubin (2006) did not find significant empirical evidence to relate the power of institutional investors with CSR.

On the other hand, previous studies also support the positive relationship between institutional holdings and CSR. For example, Sethi (2005) argued that public pension funds tend to consider the firm's long-term effects on the environment, sustainability, and good corporate citizenship when they make an investment decision. Teoh and Shiu (1990) empirically showed that institutional investors look favourably at firms actively engaging in CSR. Graves and Waddock (1994) also noted that institutions invest more heavily in firms with better corporate social performance, finding evidence of a positive relationship between the number of institutions holding the shares of a firm and its CSR rating. Given this description, it is predicted that institutional ownership is positively associated with the firm's CSR disclosure.

The current trends of CSR implementation in many developing economies have been largely affected by Western-style management practices, which we assume to have higher levels of social engagement. Empirical findings also support this argument. For instance, Chapple and Moon (2005) noted that globalization enhances firms' CSR engagement in Asian countries. Brancato (1997) also argued that U.S. shareholders have pressured firms to address social responsibility issues for more than 60 years.

A potential caveat of these arguments, however, is found in the oversimplified attributes of foreign investors and overlooking the variability of their profiles. For example, one may argue that all foreign investors are not always in favour of social investments. Many U.S. and European investment companies have often been involved in antisocial behaviours (for example Yoshikawa *et al.,* 2010). Hence, in order to assert the positive influence of foreign ownership on CSR, it is necessary to identify the foreign owners' profiles that may indicate their investment orientations and preferences. Another line of argument relies on the idea of uncertainty reduction that CSR investments may bring.

Investing in a foreign country is risky and uncertain due to increased information asymmetries (Gehrig, 1993). In this case, investing in socially responsible companies is a way to reduce risk for the institutional investor as well to show its clients that the institutional investor itself is highly reputable.

Given this line of reasoning, it is rational for foreign investors, especially institutional investors, to invest in socially responsible companies. This line of reasoning does not preclude active participation of foreign investors in decision-making. Once the significant investment has been made, the foreign investor will be likely to pressure managers to make socially responsible decisions so as not to lose its investment due to bankruptcy or regulatory/legal sanction. Given the discussions above, we expect that foreign ownership will be associated with higher levels of firms' CSR ratings.

Feng, Chen and Tang (2018) study found that concentrated ownership affects CSR disclosure negatively and argued that firms should optimize ownership concentration to avoid weakening the positive effects of corporate social responsibility disclosure since excessive concentrated ownership would lead to decisions that may not satisfy the key stakeholders and thus reduces the positive of CSR disclosure.

In a study examining the relationship between the dimensions of the ownership structure and the capital structure, it was explained that corporate managers and external block owners are two major classes of shareholders who have a powerful influence on decisions of business resource allocations (Brailsford *et al*., 2002). Managerial ownership influences company performance resulting from the way shareholding motivates management to make investment decisions for their own benefit or for the benefit of shareholders, and therefore affects company results (Cho, 1998). As per

Daraghma and Alsinawii (2010), the managerial ownership dimension positively affects company performance.

The result supports the findings that the relationship between managerial shareholding and company performance in the mature markets is illustrated by the role of country-specific institutional environments in agency-related management contractual issues (Ruan *et al*., 2011; Bunkanwanicha *et al*. 2008). Further, study by Jelinek and Stuerke (2009) explained a positive relation of Managerial ownership structure dimension with firm performance (proxied by return on assets).

The findings by Sial *et.al.,* (2018) indicated that firms that perform better demonstrated extra anticipation of reporting CSR activities than those with worse performing. The main objective of disclosing CSR is to provide the necessary information that will affect the perception of the society and the stakeholders about the firm and its management. There is a likelihood of surplus financial resources when a firm performs better and this therefore, more likely to advance in CSR activities. While a lower economic performance will result to decrease in CSR related activities and its disclosure.

Firms legitimize their existence through disclosure of relevant and attractive information signalling good performance (Haniffa & Cooke, 2005), they further explained that firms with good performance lead to more information relating to CSR to legitimize their existence. This is because there are leadership opportunities and versatility to distribute more CSR programs to stockholders. Gamerschlag and Möller (2011) found a positive correlation between firm financial results and environmental-related CSR disclosures. Tagesson and Blank (2009) stated that a firm with upright financial results positively engaged and disclosed CSR activities. Li and Luo (2013) explored the nexus between firm performance and the data of CSR information of listed

firms in China in the year 2008. The results confirmed that firms with a better firm financial performance led to better quality CSR reporting. This positive relationship suggest that CSR commitment generates the condition of preparing reports which meet the needs of stakeholders even if there is no substantial improvement in CSR commitment and performance. Jiraporn and Jumreornvong (2016) argued that the mature companies with stable performance is the more aggressive to participate in the CSR activities.

From an agency perspective, there is a contribution to an effective monitoring with an rise in institutional ownership under a stakeholder-oriented system because it helps mitigate information asymmetry among investors (Sakawa & Watanabel, 2020). This implies that institutional ownership dimension helps to mitigate agency issues such as underneath-venture problems.

Institutional shareholders are more effective in monitoring firms with higher growth opportunities. Thus, institutional shareholders contribute more in improving firm performance. This research supports revelations that institutional ownership structure plays a strong monitoring role on firms with higher performance. This implies that the structure of institutional ownership efficiently monitors businesses with higher growth ventures, contributing to greater future profitability (Sakawa & Watanabel, 2020).

A larger presence of foreign shareholders can prompt corporations to take more risks because they are driven to realize higher growth (Nguyen, 2012). Regression analysis was used by Akimova and Schwodiauer (2004) to assess the relationship between foreign ownership and company performance, but there was no substantial influence of foreign ownership on performance. Foreign shareholders are expected to positively strengthen firm value in the face of growth opportunities because monitoring and

intervention of foreign ownership motivates managers to seek higher risk/higher return opportunities that is characterized differently to those of stable domestic investors. Foreign ownership with large percentage in Japan tends to support higher long-term incentive structures for executive compensation (Sakawa *et al*., 2012). This implies that foreign shareholders in Japan are empowered to function as effective monitors. Therefore, greater foreign shareholding contributes to increased firm value as result of good performance.

Further, since the indirect effect is significant at probability value of 0.000, the hypothesis $H07c$ failed to be accepted. Implying that partial mediating effect was significant. Multinational companies changed their behaviour to maintain legitimate operation and reputation of the company. In Japan, according to study by Suzuki Tanimoto (2005) foreign ownership in public companies has become a driving factor in adoption of CSR disclosure.

Dimensions of ownership structure and firm performance in emerging economies like Kenya is viewed to differ from one firm to another or from one country to another because of the differences in legal, corporate culture and ownership structure. Data from companies listed on the Karachi stock exchange showed that concentrated ownership correlates negatively with market performance and positively with both financial performance measures (Ahmed *et al*., 2012). Kapopoulos and Lazaretou (2007) attempted to examine the relationship between ownership structure and financial performance in a sample of 175 Greek firms.

The effect of the ownership structure on the company's performance calculated by profitability was empirically proven. They indicated that when a firm has highly concentrated ownership, that company's profitability is also strong. Uadiale (2010)

found no significant relationship between ownership structure and company performance using distinct methods such as the meta-analysis method to find out the relationship between ownership structure and company performance.

The findings on the effect of the concentrated ownership structure dimension on company performance confirms that a more dispersed ownership increases the misalignment of interest between managers and shareholders, thus reducing company performance. Theoretical research indicates the characteristics of positive concentration ownership to high company efficiency in relation to decreased organization costs by monitoring management effectiveness (Tran & Le, 2020). It is true that the risk-taking and business success in relation to concentration of ownership is discreetly investigated. In contradiction to the results of the study and in the same context, not many contemporarily analyses both links, such as John *et al*. (2008) examined the relationship between concentration of ownership, risk-taking, and firm growth. Their firm measures of growth, however, do not reflect firm profitability.

This is consistent with the analysis by Wanjiku (2013) that the association between the structure of concentrated ownership and the financial performance of the company was positive. Javid and Iqbal (2008), who explored the relation between the structure of concentrated ownership and the performance of the company, noted a positive effect of concentrated ownership on the profitability of companies and concluded that with increasing profitability opportunities, controlling block holders prefer to high concentration ownership and the firm worth becomes high. It was observed in the table 4.16 that the relationship between concentrated ownership and the engaging and revealing CSR of the company was mediated by firm performance (0.024, p-value =

0.000). The form of mediation experienced was competitive mediation as the direction points in different direction (direct effect is negative, indirect effect is positive).

For example, in Vietnam, the relationship between dimensions of the concentration ownership structure and company performance confirmed a non-linear relationship between them. This robust estimation support the evident linkage between ownership structure and firm performance in under-developed markets (Boubakri, Cosset, & Guedhami, 2005; Nguyen *et al*., 2015). On the other side, Chen *et al*. (2005) results did not show a significant relation between ownership concentration and Company profitability (market-based performance measure), advocating the argument of an endogenous ownership dimension structure.

4.15 Summary of the Models

The study summarized regression results based on the models estimated. The first model shows the results of the Hausman test between random and fixed effects model, while the second model represents the direct effect panel for both random effect model for testing the effect of control variables. Model 3 is the random effect with inclusion of control variables. Model 4 is for testing indirect effect of the firm financial performance on the relationship between ownership structure dimensions and CSR disclosure. It is seen that all the ownership dimensions except ownership concentration positively affects CSR disclosure.

The overall R-square between has greatly improved from 0.0001 in the random effects estimation test of control variables to 0.8980 when other predictor variables were considered as shown in table 4.17. The probability for Wald Chi-square in random effects is 0.000 signifying the random effect model estimation was fit. The sigma-μ is 0 in the random effects because the standard deviation of the residuals within groups in

panels are allowed to be uncorrelated in simple terms not systematic or random from one panel to the other. The rho which is intraclass correlation was also 0 due the fact that sigma_u is 0. Rho is calculated as $rho = \frac{(sigma-u)^2}{(sigma-u)^2+(sigma-e)^2}$.

Table 4.17: Summary of the Estimated Models

	Model 1		Model 2	Model 3		Model 4	
Variable	**Random Effects**	**Fixed Effects**	**Testing the Effects of Controls Variables**	**Random Effects with Control Variables**	**Direct Effect** (c')	**Indirect Effects** ab	**Total Effects** $c = c' + ab$
Constant	-0.0023(0.0138)	-0.0023(0.0139)	-0.0009 (0.0156)	-0.0023(0.0138)			
Managerial	0.0071(0.0018) ***	0.0071(0.0018) ***		0.0071(0.0018) ***	-0.164(0.04) ***	0.165(0.004) ***	0.001(0.001)
Institutional	0.0070(0.0006) ***	0.0070(0.0006) ***		0.0070(0.0006) ***	0.025(0.001) ***	-0.025(0.001) ***	0.0001(1.767)
Foreign	0.0032(0.0004) ***	0.0031(0.0005) ***		0.0032(0.0004) ***	0.031(0.001) ***	-0.001(0.0002) ***	0.030(0.001) ***
Concentrated	-0.0022(0.0007) ***	-0.0022(0.0007) ***		-0.0022(0.0007) ***	-0.024(0.001) ***	0.024(0.001) ***	0.00004(0.00002)
Firm Age	-0.0019(0.0007) ***	-0.0019(0.0007) ***	-0.0022 (0.0007) ***	-0.0019(0.0007) ***			
Firm Size	0.0146(0.0059) ***	0.0146(0.0060) ***	0.0221 (0.0064) ***	0.0146(0.0059) ***			
R-sq. Within	0.2514	0.2514	0.0350	0.2514			
Between	0.8980	0.8980	0.0001	0.8980			
Overall	0.2515	0.2515	0.0350	0.2515			
Wald Chi2	171.02		18.59	171.02			
Prob > Chi2	0.000		0.0001	0.000			
F-statistic		27.87					
Prob > F		0.0000					
Sigma_u	0	0.0064	0	0			
Sigma_e	0.3151	0.3151	0.3563	0.3151			
Rho	0	0.0004	0	0			
Hausman Test							
Chi2		0					
Prob >Chi2		1. 0000					

Note: sigma_u is the standard deviation of residuals within groups, sigma_e is the standard deviation of residuals (overall error terms), rho is the intraclass correlation. The values in brackets () are the standard errors. * denotes significance at 10%, ** at 5% and ***at 1%

Source: Researcher, 2019

4.16 Summary of Hypotheses Tested

The table 4.18 below presents the all the tests, the parameters and the results.

Table 4. 18: Summary of Hypothesis Tested

Hypothesis	Model used	Parameters	Results	Remarks
H_{01}: There is no significant effect of Managerial Ownership on Corporate Social Responsibility disclosure	Panel regression method	β, p	$\beta = 0.007$ $p = 0.000$	Null hypothesis Rejected and alternative accepted
H_{02}: There is no significant effect of Institutional Ownership on Corporate Social Responsibility engagement and disclosure	Panel regression method	β, p	$\beta = 0.007$ $p = 0.00$	Null hypothesis Rejected and alternative accepted
H_{03}: There is no significant effect of Foreign Ownership on Corporate Social Responsibility engagement and disclosure	Panel regression method	β, p	$\beta = 0.003$ $p = 0.000$	Null hypothesis Rejected and alternative accepted
H_{04}: There is no significant effect of Concentrated Ownership on Corporate Social Responsibility engagement and disclosure	Panel regression method	β, p	$\beta = -0.002$ $p = 0.002$	Null hypothesis Rejected and alternative accepted
H_{05a}: There is no significant effect of Managerial Ownership on Firm Performance	Panel regression method	a, p	$a = 0.185$ $p = 0.000$	Null hypothesis Rejected and alternative accepted
H_{05b}: There is no significant effect of Institutional Ownership on Firm Performance	Panel regression method	a, p	$a = 0.016$ $p = 0.000$	Null hypothesis Rejected and alternative accepted
H_{05c}: There is no significant effect of Foreign Ownership on Firm Performance.	Panel regression method	a, p	$a = 0.069$ $p = 0.000$	Null hypothesis Rejected and alternative accepted
H_{05d}: There is no significant effect of Concentrated Ownership on Firm Performance	Panel regression method	a, p	$a = 0.014$ $p = 0.000$	Null hypothesis Rejected and alternative accepted
H_{06}: There is no significant effect of Firm Performance on Corporate Social Responsibility disclosure.	Panel regression method	b, p	$b = 0.894$ $p = 0.00$	Null hypothesis Rejected and alternative accepted

H_{07a}: Firm performance does not mediate the relationship between Managerial Ownership and Corporate Social responsibility.	Mediation analysis and path diagram	$a * b, p$	$a * b = 0.165$ $p = 0.000$	Null hypothesis Rejected and alternative accepted
H_{07b}: Firm performance does not mediate the relationship between Institutional Ownership and Corporate Social Responsibility disclosure.	Mediation analysis and path diagram	$a * b, p$	$a * b$ =0.025 $p = 0.000$	Null hypothesis Rejected and alternative accepted
H_{07c}: Firm performance does not mediate the relationship between Foreign Ownership and Corporate Social Responsibility disclosure.	Mediation analysis and path diagram	$a * b, p$	$a * b = -0.001$ $p = 0.000$	Null hypothesis Rejected and alternative accepted
H_{07d}: Firm performance does not mediate the relationship between concentrated ownership and corporate social responsibility disclosure of listed firms in Nairobi Securities Exchange.	Mediation analysis and path diagram	$a * b, p$	$a * b = 0.024$ $p = 0.000$	Null hypothesis Rejected and alternative accepted
Levin-Lin-Chu(LLC)	Panel unit root	p	$p < 0.05$	No unit root after first difference
Im-Pesaran-Shin	Panel unit root	p	$p < 0.05$	No unit root after first difference
Maddala-Wu-Fisher	Panel unit root	p	$p < 0.05$	No unit root after first difference
Hausman Test	Chi square	p	$p = 1.00$	Random effect model selected
Normality Test	Jaque-Bera	p	$p = 0.00$	Nonnormal data
Serial correlation	Durbin Watson	DW	DW=1.998	No serial correlation
Heteroscedasticity	Breusch-Pagan	p	P=0.000	No heteroskedasticity

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Overview

This chapter provides a review of this study's main empirical findings. It recommends different policy recommendations based on the results that can be adopted in the Kenyan context by government, CSR participants and industry regulators. These policy guidelines may also help policy makers responsible for updating and modernizing the Nairobi Security Exchange corporate governance code of listed companies. Finally, the chapter underlines the potential opportunities in this field of study for future prospective research.

5.2 Visual inspection of the descriptive study findings

There were 65 listed companies on the Nairobi Securities Exchange (NSE) of those, 44 (67.7 percent) met the eligibility requirements during the study period. The majority (25%; n = 11) of the NSE-listed firms have been in the banking sector, followed by the manufacturing sector (n = 7). Sectors with the least number of listed firms were automobile and accessories, investment, and telecommunication and technology with only one firm.

The highest proportion of managerial ownership was in the investment sector (22.2%) followed by the construction & allied (4.3%) and insurance sectors (4.2%). The proportion of managerial ownership was least in the Agricultural and Energy & Petroleum sectors. Institutional ownership was highest among firms listed in the automobiles and accessories sector (Car and General at 64.6%) Foreign ownership was highest (54.3%) in the energy and petroleum sector followed by in the firms in the telecommunication and technology sector at 42.21 percent. The investment sector had

the least (0.8%) proportion of foreign ownership was least in the investment sector at percent. Cumulatively, ownership concentration (top five shareholders) was the highest (65.8%) ownership structure dimension among all listed firms irrespective of their economic sector. This was followed by institutional (34.4%), foreign (30.95%) and managerial (2.1%) ownership. Similarly, the firms with the highest proportion CSR disclosure had more concentrated ownership compared to institutional, foreign and managerial ownership.

The highest return on assets (ROA) is witnessed among listed firms in the automobile and accessories sector. Banking and telecommunication sectors also showed good firm performance. However, firms in insurance, energy and petroleum sectors had the least in financial performance. Finally, the average CSR disclosure index among the firms listed in NSE was 0.8004. This implied that most listed firms disclosed at least 3 to 4 of the five indices.

From these findings, a combination of a drift and trend behaviour of the CSR disclosure data is observed. Managerial ownership and firm performance exhibited stationarity (with a constant fraction). Foreign, institutional, and concentrated ownership also exhibited a drift and trend behaviour just like CSR disclosure. This exponential trend is equivalent to a constant proportional growth.

5.3 Conclusions

This study sheds more light on the empirical mediation of firm performance on the dimensions of the ownership structure and the disclosure of corporate social responsibility. The positive and critical linkage between managerial ownership and both financial performance and CSRD shows that every manager has an interest in the company in order to achieve full earnings, job security and performance credibility of

the individual professional career. Therefore, generally they are motivated by greater achievement of the organization objective of profit maximization hence interest in CSR engagement and disclosure.

Therefore, this study shows that engagement and disclosure of corporate social responsibility among listed companies in Kenya has increased significantly. This research therefore, premised on the reality that there are indeed divergent findings on the effects of ownership structure dimensions on disclosure of CSR disclosure. This was due to the role of potential mediators that have a confounding effect on the clear relationship between dimensions of the ownership structure and the disclosure of corporate social responsibility.

This study therefore, confirmed the positive and valuable implication of dimensions of ownership structure on the disclosure of corporate social responsibilities for companies listed in the NSE between 2007 and 2018. Furthermore, the mediating value of firm performance on the relationship between these dimensions and the disclosure of the CSR is examined and confirmed by the study.

Majority of the selected firms that disclosed their CSR activities had a greater percentage of concentrated proprietorship, followed by institutional and managerial possession. A statistically significant positive relationship between managerial ownership and disclosure of CSR is established. The greater the percentage of managerial ownership, the higher the likelihood of disclosure of CSR. This is because managers have the enthusiasm to disclose private company information voluntarily to the public.

The results also indicated an increase in institutional ownership structure that led to the rise in CSR disclosure. This is attributed to the likelihood of institutional owners investment in socially responsible businesses and thus catalyses greater CSR participation and disclosure. Institutional and foreign ownership structure dimensions positively affected CSR disclosure; however, concentrated ownership negatively affected CSR disclosure. Foreign ownership also positively affected CSR disclosure due to greater outside monitoring of the foreign owned firms and entrenchment of foreign CSR practices.

However, concentrated ownership structure significantly affected CSR disclosure negatively. The presence of a few shareholders with majority stake directly influences the decisions the management make, including disclosing CSR activities. This study further confirmed the relationship between ownership structure dimensions and CSR disclosure as being partially mediated by firm performance. Firm performance was significant and positively related to the dimension of managerial ownership. The concentrated ownership is an important aspect affecting companies to take social responsibilities disclosure. CSR's mission is to optimize the benefit of partners committed to promoting sustainable business growth. A rising number of firms have been taking the initiative to invest in CSR in recent years.

5.4 Recommendations of the Study

The study made some commendations grounded on the findings of the research in the following criteria: management, policy, stakeholder and theoretical implications.

5.4.1 Management Implications

Managers of the listed firms can enhance better communication strategies with block holders and prospective investors about their CSR engagement and disclosure activities

and its influence on firm performance. These findings form the foundation of augmenting the capacities of different managers of listed firms to understand and address pressing issues in different cultural contexts. The research also recommends that managers pay more attention to the strategic implications of participation and disclosure of CSR.

Companies should go beyond compliance and takes measures beyond the company's interests and legal requirements to further social benefits. These actions are executed by Managers/Directors of the company within a conducive governance orientation guaranteed by shareholders of the company. The use of strategic CSR attracts socially responsible consumers and prospective investors. This is in line with the idea of the theory of resource-based view, which emphasizes that the organization's resources determine its competitive advantage; companies with supplementary resources are likely to take part and disclose their CSR activities. This understanding would make it possible for managers across their companies and sectors to produce a range of forecasts about investment trends.

There is need for managers and shareholders to appreciate and recognize an existence of an implied social contract between the enterprises and the communities anywhere the firm undertakes its business. Stakeholder philosophy theorizes that, the fundamental nature of business principally rests with developing relationships and producing value for all its stakeholders. The rapidly changing volatile business environment demands satisfaction of both the primary and secondary classes of stakeholders of the firm. Failure to take cognizant of social responsibility of all stakeholder’s results in stakeholder reactions including employees withdrawing their loyalty, clienteles declining to buy the firm’s merchandises, communities not tolerating the firm, and the

government taking legal action which may not augur well to the basic objective achievement.

The primary owners of the firm should therefore account and report for the external assets and social capital derived from investment in CSR activities and their respective disclosure. The positive and significance of managerial ownership in the study has contributed to paradigm shift that managers have self-anchored interests but rather they are true stewards of the firm with self-motivation for better performance of the firm.

Managerial ownership would be able to minimize agency conflicts between management and shareholders if both the agent and the primary interest are associated (Paek et al., 2013). According to organization philosophy, executives have their own interests and do not raise the wealth of shareholders (Jensen & Meckling, 1976). Corporate social responsibility enhances the credibility of firms and increases corporate reputation (Orlitzky et al., 2003). Companies should report their corporate social responsibility operations as soon as possible in order to get credibility. Previous studies have found that, management ownership favourably linked to the disclosure of corporate social responsibility (Rasli et al., 2013; Said et al., 2009; Susanto, 2019).

5.4.2 Policy Implications

The findings of this study on CSR disclosure will prompt the Kenyan government to come up with appropriate laws and regulations that will regulate and guide the implementation and disclosure of CSR activities by corporates and other well-wishers with interests in improving the well-being of the society. There is need also for the capital markets authority of Kenya to develop CSR laws and regulations that will enable companies to legitimise their strategic object of CSR by coming up with policies that will guide development and implementation of CSR programs and its disclosure. These

policies should take into considerations the ownership and financial performance dynamics of the said firms. It’s imperative that CSR laws and policies makes reporting and accounting of CSR mandatory, thus creating the sense of reliability, consistency and transparency in its standardized annual reports. The Kenyan government through its research funding agencies (such as the National Research Fund) should allocate more resources to advance research that informs its policies.

Further, the findings in this research have important policy implications for the shareholders, decision makers, suppliers, and creditors. For instance, the government should establish an effective mechanism for balancing the ownership structure to protect the benefits of small investors and weaken the tunnelling behaviours of large shareholders. Ownership concentration should be considered a dimension when assessing the environmental effect of foreign direct investment in the future. Firms are encouraged to undertake their environmental responsibilities and then improve their system of environmental oversight. Further, shareholders should strengthen their environmental awareness and make sustainable decisions through full use of their controlling powers, driving coordination between economic interests, and CSR engagement and sustainable development.

In addition, the Kenyan government has put in place laws and regulations on corporate governance for public companies covering such areas as; management bodies, shareholders and other stakeholders, transparency and reporting, and corporate social responsibility. Therefore, having a formal law on CSR will enhance the corporate governance regulation, 2020 and the mandatory presentation of financial statements (IFRS 1) under the statement of stewardship.

5.4.3 Stakeholders Implications

Corporate societal engagement embodies human principles intended for the organisations shareholders benefits and harmony in public interest. For a firm to achieve the objectives there is need for a harmonious relationship among the stakeholders, this is to enhance greater social benefits and to ensure sustainable economic and social development. However, most listed firms pay more attention to shareholders as opposed to stakeholders in general.

There is need for firms to be cognizant to the fact that all stakeholders lives matter and that their interest taken into consideration for the business to achieve its stated objectives. From this study's findings, it is important for the firm's management to promote the interest and confidence of shareholders and other stakeholders through transparency and openness on CSR engagement and its disclosures without forgetting the emerging subject of participatory CSR engagement decisions as is enshrined in the Kenyan Constitution, 2010. Articles 1(2), 10(2), 35, 69(1)(d), 118, 174(c) and (d), 184(1)(c), 196,201(a) and 232(1)(d) gives effect to the constitutional principles of democracy and participation of the people.

These stakeholders -including block holders- must be regularly updated on the company's CSR policies, commitment, and disclosures as a measure of the firm's performance. Stakeholder participation on matters of CSR engagement decisions is a grey area that parties to the social contract must appreciate so as to enhance ownership of the firm by stakeholders, this in the long run provides security, improve customer base, reduce external risk and stimulate good performance results.

5.4.4 Theoretical Implications

CSR will create a positive reputation among stakeholders, according to stakeholder theory. CSR engagement not only raises the profitability of the business, but also market's competitive edge. Sustainable development at the same time stops enterprises from collapsing into chaos due to corporate justice concerns and eliminates them Potential costs associated with environmental sanctions.

However, Increased consolidation of ownership will boost the supervisory position of major shareholders in company administration, according to agency theory, which essentially restricts the decisions of managers and mitigates inefficient conduct. Large shareholders have greater control over the company, and their predatory motivations are enhanced. Large shareholders will make use of the control right to realize their own interests at the expense of the interests of minority shareholders. To maximize their own wealth, largest shareholders might think that CSR is not conducive to corporate development because it increases firm costs and reduces firm profitability. Majority of shareholders may conclude that CSR is not beneficial to corporate growth to optimize their own capital, since it raises business costs and decreases company profitability. If businesses expend a significant amount of capital on assuming further care for the environment, their commitment in key services could be decreased.

5.5 Suggestions for Future Research

Follow-up research for this study should move beyond document reviews by using primary data from emerging markets on the role of multiple mediators on the relationship between ownership structure dimensions and CSR disclosure. There is belief that multiple mediators may confirm the presence of full mediation away from

the limitation of simple mediation adopted in this study where the results presented partial mediation.

This study used fixed and random effects estimations model, it therefore suggests for panel structural equation modelling (panel SEM) in analysing the mediation of firm performance on the relationship between ownership structure dimensions and the CSR disclosure.

The study suggests more analysis of CSR in terms of the competitive advantage, the susceptibility of companies to participate in CSR, the analysis of the significance of the perspective of economic, philosophical, and corporate citizenship on CSR disclosures.

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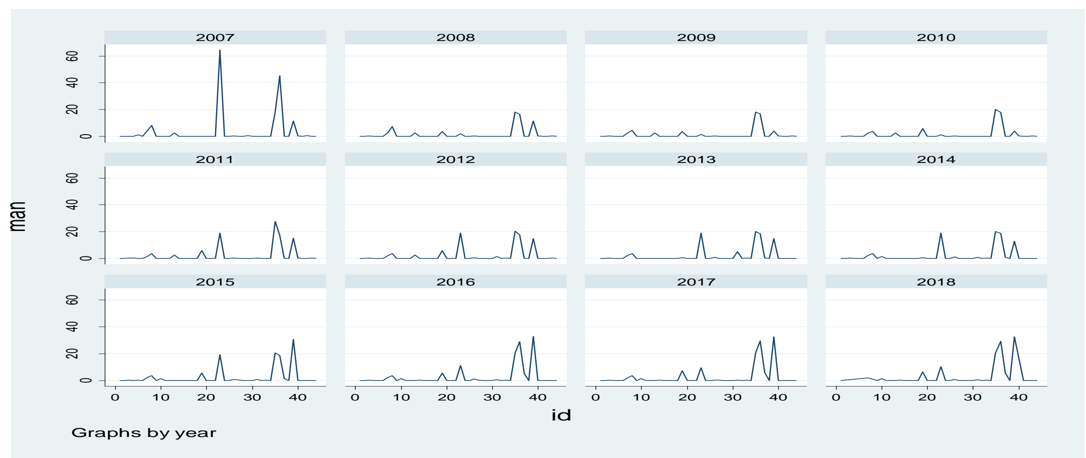
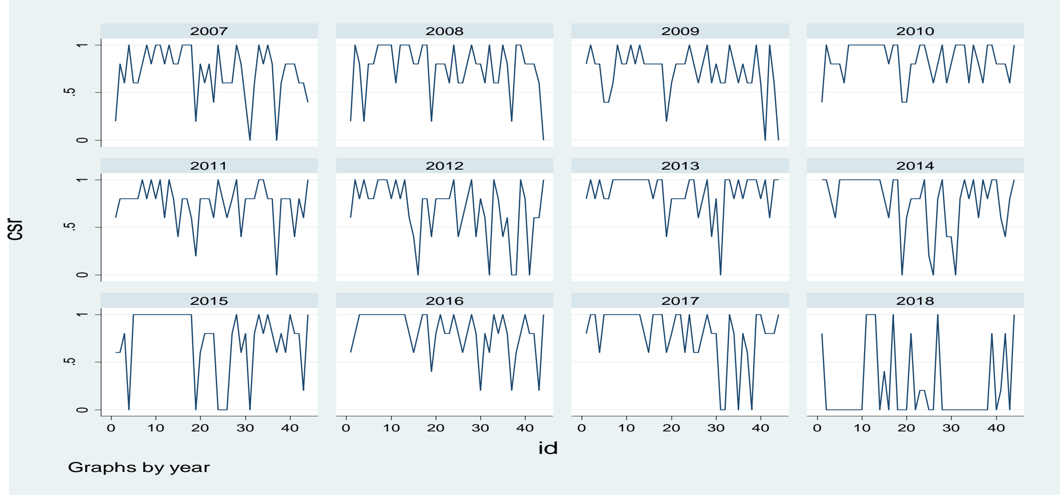
APPENDICES

Appendix I: Univariate Properties

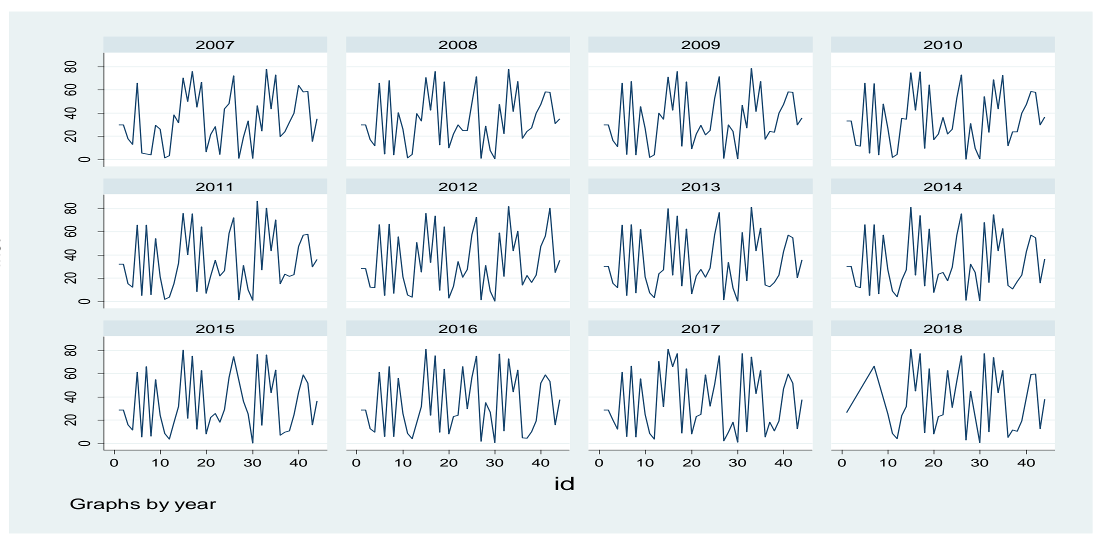
Corporate Social Responsibility



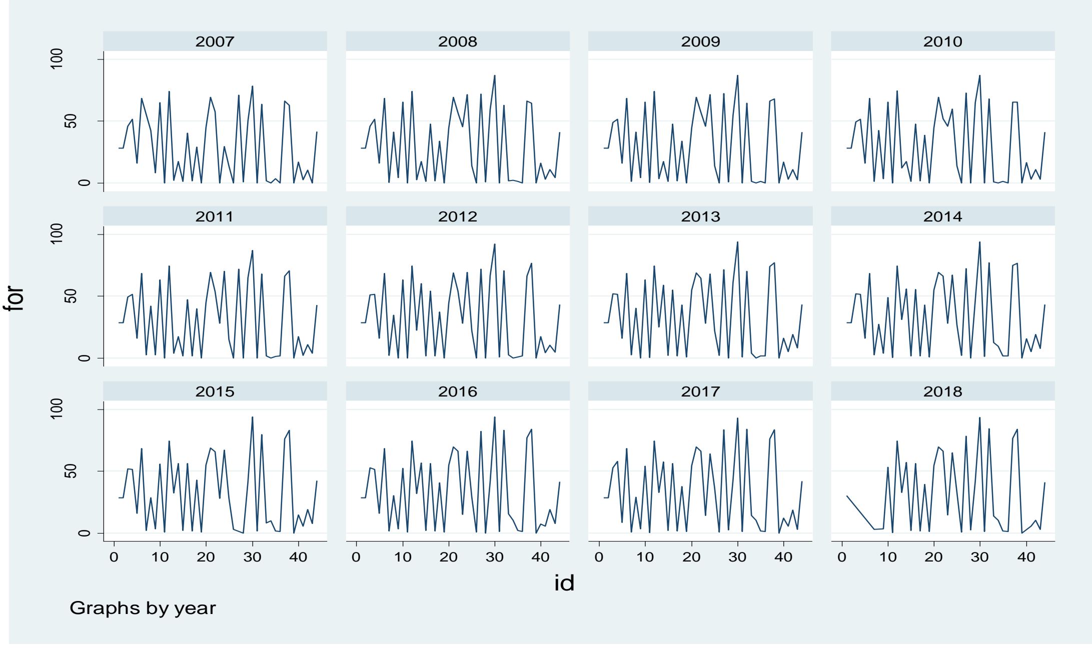
Managerial Ownership Structure Dimensions



Institutional Ownership Structure Dimensioms

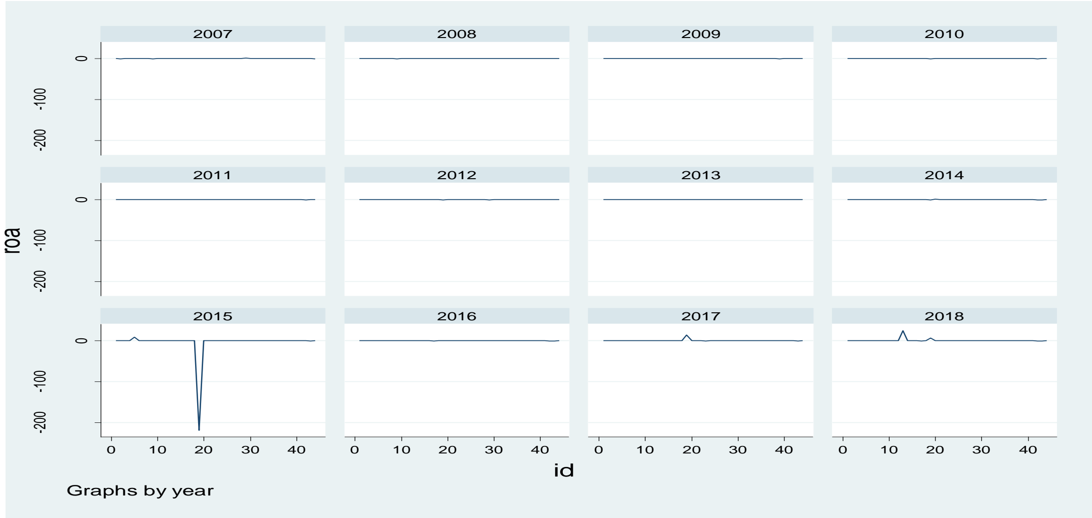


Foreign Ownership Structure Dimensions



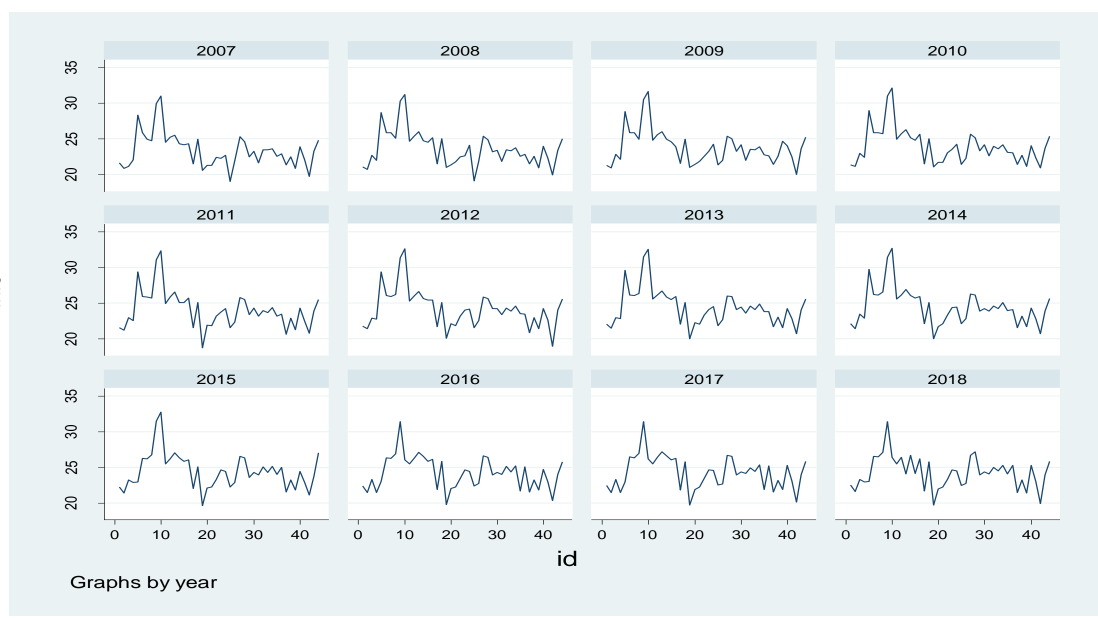
Concentrated Ownership Dimensions

Firm Performance



Firm age

Firm size



Appendix II: Regression Results

Random Effect and Fixed Effect Regression Results without Control Variables

```
. xtreg  Dcsr Dman Dfor Dins Dcon,re
Random-effects GLS regression                   Number of obs      =       516
Group variable: year                            Number of groups   =        12

R-sq:  within  = 0.2331                         Obs per group: min =        43
       between = 0.8766                                        avg =      43.0
       overall = 0.2333                                        max =        43

                                                Wald chi2(4)       =    155.47
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000

------------------------------------------------------------------------------
        Dcsr |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        Dman |   .0075562   .0017908     4.22   0.000     .0040464    .0110661
        Dfor |   .0035718   .0004339     8.23   0.000     .0027214    .0044221
        Dins |   .0072401   .0005845    12.39   0.000     .0060944    .0083857
        Dcon |  -.0028496   .0007009    -4.07   0.000    -.0042232   -.0014759
       _cons |   .0012549    .013863     0.09   0.928     -.025916    .0284258
-------------+----------------------------------------------------------------
     sigma_u |          0
     sigma_e |  .31824864
         rho |          0   (fraction of variance due to u_i)
```

```
Fixed-effects (within) regression               Number of obs      =       516
Group variable: year                            Number of groups   =        12

R-sq:  within  = 0.2331                         Obs per group: min =        43
       between = 0.8766                                        avg =      43.0
       overall = 0.2333                                        max =        43

                                                F(4,500)           =     38.00
corr(u_i, Xb)  = 0.0125                         Prob > F           =    0.0000

------------------------------------------------------------------------------
        Dcsr |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
        Dman |   .0075538     .00181     4.17   0.000     .0039976      .01111
        Dfor |   .0035702   .0004386     8.14   0.000     .0027085    .0044318
        Dins |   .0072368   .0005909    12.25   0.000     .0060759    .0083978
        Dcon |  -.0028476   .0007084    -4.02   0.000    -.0042395   -.0014557
       _cons |    .001256    .014012     0.09   0.929    -.0262737    .0287858
-------------+----------------------------------------------------------------
     sigma_u |   .0062655
     sigma_e |  .31824864
         rho |  .00038745   (fraction of variance due to u_i)
------------------------------------------------------------------------------
F test that all u_i=0:     F(11, 500) =     0.02             Prob > F = 1.0000
```

Random Effect Regression Results with inclusion Control Variables

Random Effects Results with inclusion of Control Variables

```
. xtreg  Dcsr Dman Dfor Dins Dcon Dfa Dfs,re
Random-effects GLS regression                    Number of obs      =       516
Group variable: year                             Number of groups   =        12
R-sq:  within  = 0.2514                          Obs per group: min =        43
       between = 0.8980                                         avg =      43.0
       overall = 0.2515                                         max =        43
                                                 Wald chi2(6)       =    171.02
corr(u_i, X)   = 0 (assumed)                     Prob > chi2        =    0.0000
----------------------------------------------------------------------------
        Dcsr |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+--------------------------------------------------------------
        Dman |   .0071118   .0017806     3.99   0.000     .0036219    .0106017
        Dfor |   .0031561   .0004498     7.02   0.000     .0022744    .0040377
        Dins |   .0069751   .0005856    11.91   0.000     .0058273    .0081229
        Dcon |  -.0022432   .0007158    -3.13   0.002    -.0036463   -.0008402
         Dfa |  -.0019019   .0006502    -2.93   0.003    -.0031763   -.0006276
         Dfs |   .0145684   .0059156     2.46   0.014     .0029741    .0261627
       _cons |  -.0023424   .0137628    -0.17   0.865    -.0293169    .0246322
-------------+--------------------------------------------------------------
     sigma_u |          0
     sigma_e |  .31507235
         rho |          0   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

Appendix III: Summary of Empirical Studies

Title, Authors and Year	Objectives	Methods	Findings/ Conclusions	Gaps in Knowledge / Limitations / Recommendations
Ownership Structure and Corporate Social Responsibility Disclosure in Bangladesh. (*Mohammad Abu Sufian and Muslima Zahan, 2013*)	To assess the relationship between the variables of corporate ownership structure and disclosure of corporate social responsibility (CSRD).		1: Mean score of CSRD = 6.41. 2: 75% companies disclosed 8 (20%) items voluntarily which is of total disclose-able items. 3: Multivariate analysis showed that ownership concentration (OC) has a positive association with CSRD. 4: There is no association between number of outside shareholders, foreign ownership and board size on CSRD.	1: The major limitation of this study is that it is one-year study of 70 non-financial companies listed with DSE. 2: It only examines annual reports of firms to make disclosure index. There is need for longitudinal study to examine more corporate characteristics of large number of sample firms in future studies.
The mediating effect of financial performance on the relationship between social responsibility and ownership structure. (*Hayam Wahba, Khaled Elsayed 2015*)	To look at an alternative perspectives (such as financial performance) on the relationship between Social Responsibility and Ownership Structure.	Baron and Kenny's (1986) regression approach, while taking into account the critiques and modifications by Zhao, Lynch, and Chen (2010).	1: Institutional investors may engage in social programs and initiatives to protect their investment. 2: It considers financial performance as a tool to legitimize their existence and operations, conform with the industry's norms or lessen managerial discretion.	Future studies should investigate the mediating effect of financial performance on the relationship between social responsibility and institutional investors in other contexts or countries.

The Effect of Institutional Ownership on Firm Performance: Evidence from Jordanian Listed Firms Dana AL-Najjar, 2015	To investigate whether institutional ownership affects the firm's performance for one of the emerging markets; Jordan	Panel data regression analysis by building three OLS models: Pooled, Fixed Effects Model and Random Effects Model. Lagrangian multiplier (LM) and Hausamn test.	1: Fixed effect regression was the most convenient model. 2: There is no strong evidence that there is a relationship between both institutional ownership and firm performance for Jordanian listed firms.	1: Need for further studies including ownership structure factors, cross country analysis of emerging markets would in return increase knowledge in the relationship between various components of ownership structure and the firm's performance.
The Effect of Ownership Structure on Corporate Social Responsibility: Empirical Evidence from Korea *(Won Yong Oh • Young Kyun Chang • Aleksey Martynov., 2011)*	To hypothesize that different types of shareholders will have distinct motivations toward the firm's CSR engagement.		1: A significant, positive relationship between CSR ratings and ownership by institutions and foreign investors. 2: Shareholding by top managers is negatively associated with firm's CSR rating while outside director ownership is not significant. 3: Different owners have differential impacts on the firm's CSR engagement.	1: Future research needs to extend the study's context by investigating the ownership–CSR association in other Non-Western countries. 2: The study could not claim causation as data was collected cross sectionally. 3:The lack of longitudinal data limited the ability of the study to tell how stable the relationships between ownership structure and CSR ratings are across time. Therefore, Future research needs to conduct longitudinal examinations to validate the findings of this study. 4:The study does not explore the dynamic interactions among owners in terms of CSR.

Appendix IV: Firms Listed In Nairobi Securities Exchanges

S/NO	**Agricultural**
1	EaagadsLtd Ord 1.25
2	Kapchorua Tea Co.Ltd Ord 5.00
3	Kakuzi Ord. 5.00
4	Limuru Tea Co.Ltd Ord 20.00
5	Rea Vipingo Plantations Ltd. Ord 5.00
6	Sasini Ltd Ord 1.00
7	Williamson Tea Kenya Ltd Ord. 5.00
	Automobiles and Accessories
8	Car and General (K) Ltd Ord 5.00
9	Sameer Africa Ltd Ord 5.00
10	Marshalls (E.A) Ltd Ord 5.00
	Banking
11	Barclays Bank Ltd Ord 0.50
12	CFC Stanbic Holdings Ltd Ord. 5.00
13	I & M Holdings Ltd Ord 1.00
14	Diamond Trust Bank Kenya Ltd Ord 4.00
15	Housing Finance Co Ltd Ord 5.00
16	Kenya Commercial Bank Ltd Ord 5.00
17	National Bank of Kenya Ltd Ord 5.00
18	NIC Bank Ltd Ord 5.00
19	Standard Chartered Bank Ltd Ord 5.00
20	Equity Bank Ltd Ord 0.50
21	The Co-operative Bank of Kenya Ltd Ord 1.00
	Commercial and Services
22	Express Ltd Ord 5.00
23	Kenya Airways Ltd Ord 5.00
24	Nation Media Group Ord.2.50
25	Standard Group Ltd Ord 5.00
26	TPS Eastern Africa
27	WPP Scan Group Ltd Ord.5.00
28	Uchumi Supermarket Ltd Ord 5.00
29	Hutchings Biemer Ltd Ord 5.00
30	Longhorn Kenya Ltd
31	Atlas Development and Support Services
	Construction and Allied
32	Athi River Mining Ord 5.00
33	Bamburi Cement Ltd 5.00
34	E.A Cables Ltd Ord 0.50
35	E.A . Portland Cement Ltd 0rd 5.00
36	Crown Berger Ltd Ord 5.00
	Energy and Petroleum
37	KenolKobil Ltd Ord 0.05
38	Total Kenya Ltd Ord 5.00
39	KenGen Ltd Ord 2.50
40	Kenya Power and Lightning Co Ltd
41	Umeme Ltd Ord 0.50

	Insurance
42	Jubilee Holdings Ltd Ord 5.00
43	Pan African Insurance Holdings Corporation Ltd Ord 5.00
44	Kenya Re Insurance Corporation Ltd Ord 2.50
45	Liberty Kenya Holdings Ltd
46	British - American Investments Company (Kenya) Ltd Ord 0.10
47	CIC Insurance Group Ltd Ord 1.00
	Investment
48	Olympia Capital Holdings Ltd Ord 5.00
49	Centum Investment Co. Ltd Ord 0.50
50	Trans - Century Ltd
51	Home Africa Ltd Ord 1.00
52	Kurwitu Ventures
	Investment Services
53	Nairobi Security Exchange Ltd Ord 4.00
	Manufacturing and Allied
54	B.O.C Kenya Ltd Ord 5.00
55	British American Tobacco Kenya Ltd Ord 10.00
56	Carbacid Investments Ltd Ord 5.00
57	East African Breweries Ltd Ord 2.00
58	Mumias Sugar Co.Ltd Ord 2.00
59	Unga Group Ltd Ord 5.00
60	Eveready East Africa Ltd Ord 1.00
61	Kenya Orchards Ltd Ord 5.00
62	A.Baumann Co Ltd Ord 5.00
63	Flames Tree Group Holdings Ltd Ord 0.825
	Telecommunication and Technology
64	Safaricom Lrd Ord 0.05
	Real Estate Investment Trust
65	StanlibFahari I- REIT

Appendix V: Data Collections Tool

(Document Analysis Guide)

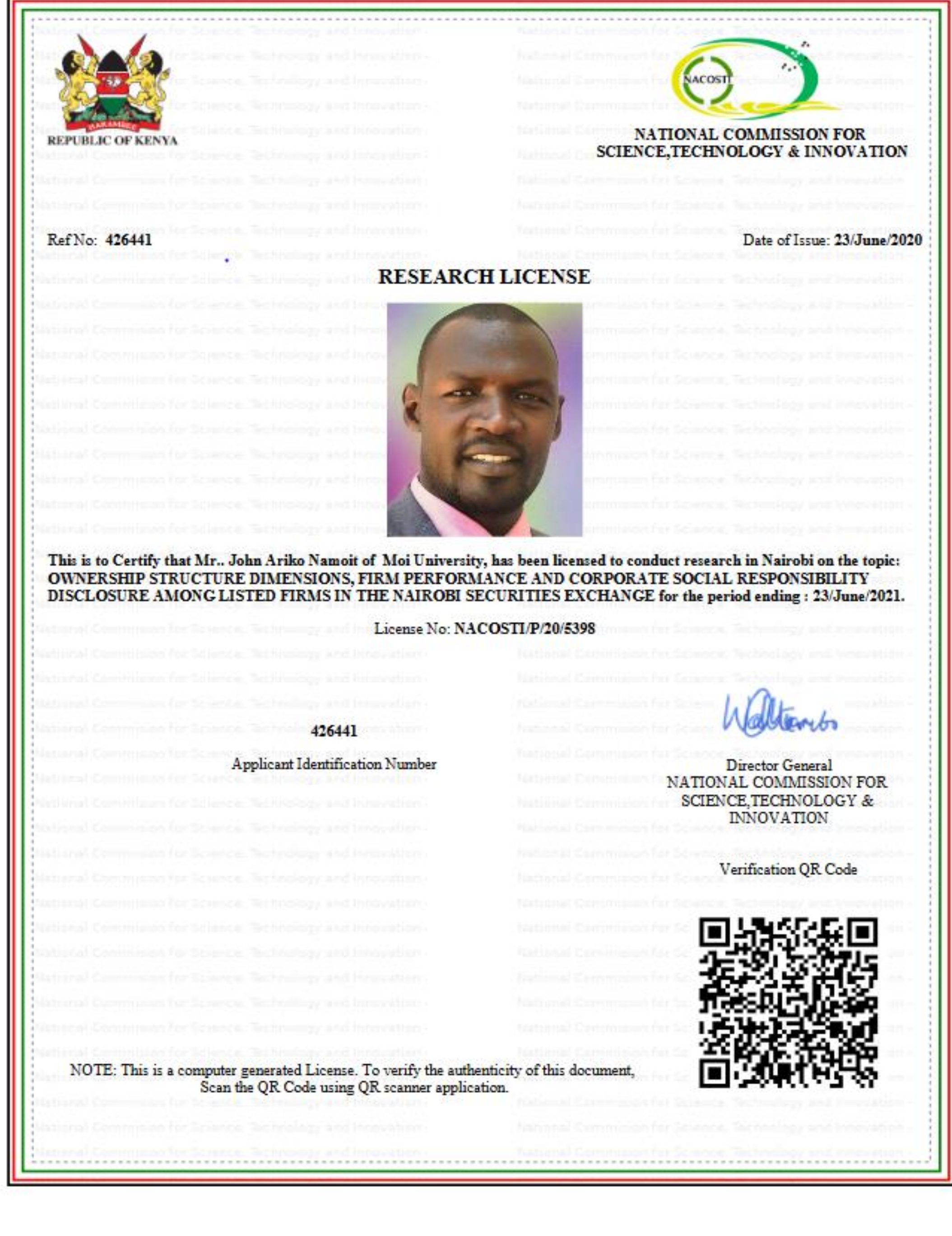
Industry Name……………………………………………….

Firm Name…………………………………………………...

YR (2007– 2018)	07	08	09	10	11	12	13	14	15	16	17	18
Ownership Structure Dimensions (OSD) – *% of ownership = Dimension on shares owned/total number of company shares*												
Managerial												
Institutional												
Foreign												
Concentration												
Corporate Social Responsibility Disclosure (CSRD) *Where: Yes =1; No=0.*												
Environment												
Community Projects												
Education												
Legal Requirements												
Employees												
Firm Performance (FP) *in KSh.*												
EBIT												
Total Assets												
Return on Assets= *EBIT/Total Assets *100%*												
Control Variables (CV)												
AGE=*In. (AGE)*												
Size= *In*. TA (Total Assets)												

Key: OSD=Ownership Structure Dimensions CSRD=Corporate Social Responsibility Disclosures; FP=Firm Perfomance; CV= Control Variables

Appendix IIII: Research Licence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Date of Issue: **23/June/2020**

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