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# **The Effect of Corporate Social Responsibility on Business Operations and Performance**

**Case Study: Vision Group and Uganda Clays Limited**

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**2009-M102-20049**

**Uganda Martyrs University, Nkozi**

**September, 2011.**

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# **The Effect of Corporate Social Responsibility on Business Operations and Performance**

**Case Study: Vision Group and Uganda Clays Limited**

**A postgraduate dissertation**

**presented to**

**Faculty of Business Administration and Management**

**In partial fulfillment of the requirements for**

**the award of the degree**

**Master of Business Administration**

**Uganda Martyrs University, Nkozi**

**Jimmy Mugisa**

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**September, 2011.**

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**UGANDA MARTYRS UNIVERSITY**  
**SCHOOL OF POSTGRADUATE STUDIES**

**Master's Dissertation**

**Declaration**

I have read the rules of Uganda Martyrs University on plagiarism and hereby state that this work is my own.

It has not been submitted to any other institution for another degree or qualification, either in full or in part.

Throughout the work I have acknowledged all sources in its compilation.

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Submitted to: \_\_\_\_\_

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## **DEDICATION**

I dedicate this report to my fiancée, Patience, my son Jotham and my parents who both have provided me with inspiration and encouragement over this long journey. Special appreciation is given to Patience for the many weekends that she spent alone as most of the time I was at school or on the computer finishing coursework and working on this dissertation.

Many thanks to Mum and Dad who have brought me a long way and always asked how school was going, stating their pride in my efforts. Without their support, this course may not have been completed. Mum and Dad, may you draw inspiration from this report to do great.

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Research, an absolutely difficult and time consuming undertaking, is one adventure that can only be done with maximum support.

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## ACRONYMS AND ABBREVIATIONS

ACCA	– Association of Chartered Certified Accountants
AGM	– Annual General Meeting
AIDS	– Acquired Immunodeficiency Syndrome
CC	– Corporate Citizenship
CEO	– Chief Executive Officer
CG	– Corporate Governance
CMA	– Capital Markets Authority
CSR	– Corporate Social Responsibility
EBITDA	– Earnings Before Interest, Tax, Depreciation and Amortization
EC	– European Commission
EMS	– Environmental Management System
EPS	– Earnings Per Share
ERA	– Environmental Reporting Award
EVA	– Economic Value Added
FY	– Financial Year
GRI	– Global Reporting Initiative
HIV	– Human Immunodeficiency Virus
IAS	– International Accounting Standards
IFRS	– International Financial Reporting Standards
ISO	– International Standards Organization
KPMG	– Klynveld Peat Marwick Goerdeler
MDG	– Millennium Development Goal
NEMA	– National Environmental Management Authority
NP	– Net Profit

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PPE	– Property, Plant and Equipment
ROA	– Return on Assets
ROCE	– Return on Capital Employed
ROSF	– Return on Shareholders’ Fund
SCOUL	– Sugar Corporation of Uganda Limited
SD	– Standard Deviation
SHS	– Shillings
SPSS	– Statistical Package for the Social Sciences
TV	– Television
UCCSRI	– Uganda Chapter for Corporate Social Responsibility Initiatives Ltd.
UCL	– Uganda Clays Limited
UGX	– Uganda Shillings
UK	– United Kingdom
UNBS	– Uganda National Bureau of Standards
UNEP	– United Nations Environment Program
USC	– United States Congress
USE	– Uganda Securities Exchange
VG	– Vision Group

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## **ABSTRACT**

In recent years, Corporate Social Responsibility has been attracting heightened attention throughout the world. Stakeholder expectations of the business have increasingly ranged from maximum profits to strong levels of Corporate Social Responsibility (CSR). Previous research into effects of CSR on Business Operations and Performance has yielded mixed results. Research on CSR in the Ugandan context has however been minimal. Business managers in Ugandan Corporations have actively embraced CSR in recent years, but there are still questions on how CSR affects the business operations and performance.

This descriptive research study sought to answer the question and provide information to various stakeholders on the effect of CSR, on business operations and performance with a focus on Uganda firms. A survey questionnaire was used to collect primary data on factors that influence CSR practice, and approaches embraced by Ugandan corporations in their practice of CSR. Archival documents and analysis of financial results from 2007 – 2010 of two publicly listed corporations was collected and analyzed against CSR expenditure for the four year period.

Trend analysis indicated CSR has a positive effect on internal business processes and the non – financial measures of performance notably corporate image, goodwill and market share. A positive effect of CSR was further observed on sales revenue. CSR practices were however found to have a negative effect on financial performance measures. Results of the study indicated that CSR is just one of the myriad factors that affect business operations and performance as there are many other factors that business managers need to take into consideration regarding operations and performance. The insights obtained in the study are of relevance to stakeholders and managers of an organization small or big in nature.

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## CHAPTER ONE

### 1.0 INTRODUCTION

In this chapter, special attention is given to the background in section 1.1 and the statement of the problem in section 1.2. It also comprises the objectives of the study, research questions, significance and expected contribution to knowledge of the study. The chapter also highlights the research methods used and the conceptual framework. It concludes with the summary of the other chapters.

### 1.1 BACKGROUND

Corporate Social Responsibility (CSR) is a 'hot' area in the developed world (i.e. Europe, America, Canada and recently Asia and South America). The next place to pick a lot of interest in this will be Africa. Many entities engage in CSR and spend huge amounts of money in their commitments to the community, workplace and the marketplace. Some companies operating in Uganda are practicing CSR a lot more than their competitors, even when they operate in the same industry. The Government is also picking up interest in CSR by recognizing investors on the basis of their CSR initiatives.

Scholars like Nkiko and Katamba (2010) and Gisch-Boie (2008) have carried out research on CSR in Uganda especially on what it entails. However, the volume of published research in the area of CSR in Uganda is still extremely low, with most research focusing on business ethics. There is great scope for expanding the amount of research on CSR in Uganda and Africa, as well as improving on the diversity of its content and its geographic reach (Visser, 2006).

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The researcher picked interest in the topic after having been a direct beneficiary of some CSR initiatives by leading companies in Uganda and also having been part of an entity's management that was keen on implementing CSR activities. The formation of the CSR consultative group, a network of major Corporate Social Responsibility stakeholders and players in Uganda, also made the researcher have a keen interest in the issue of CSR.

Institutions like Uganda Chapter for Corporate Social Responsibility Initiatives Ltd (UCCSRI) have undertaken research on CSR in Ugandan entities focusing on the perceptions, approaches and needs of companies. Nkiko and Katamba (2010), and Gisch-Boie (2008) have in the same line also highlighted the various CSR activities that companies are engaged in including environmental responsibility, practices concerned with labour, worker health and safety as well as quality of life of the community. Other scholars like Wanyama *et al* (2006) have linked CSR to Corporate Governance (CG).

The area defined by advocates of CSR increasingly covers a wide range of issues such as plant closures, employee relations, human rights, corporate ethics, community relations and the environment. Areas looked at more importantly are; workplace (employees), market place (customers, suppliers), environment, ethics and human rights. Important to note is that whilst the primary role of business is to produce goods and services that society needs, there is also necessity for interdependence between business and society for a stable environment. The forms of social responsibility that a firm undertakes depend on its economic perspective. In Uganda, several companies have realized the need for CSR and are linked by a CSR consultative group.

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Much as there have been researches carried out on CSR in the Country, scholars have tended to focus on what CSR is, the trend of CSR in Uganda, public perceptions and the relevancy of established CSR models on Uganda. To the researcher's knowledge, no study has focused on CSR effect on business operations and performance in Uganda. This is the gap the researcher focused on using Vision Group and Uganda Clays Limited as case studies.

## **1.2 STATEMENT OF THE PROBLEM**

A socially responsible company should supersede its main objective of maximizing its shareholders' wealth. It extends its mandate by undertaking social and environmental activities in society within which it carries out its operations through initiatives such as environment conservation, improving the quality of life of its employees and society in general and also being transparent in its business operations. More and more stakeholders are being drawn towards socially responsible companies because of these initiatives. This in turn has led to improved business performance for some and not for others. Companies practicing CSR, such as Uganda's Vision Group continue to post impressive financial results and noticeably enjoy huge and increasing market share while others like Uganda Clays Limited are loss making and losing market share. In FY 2009/10 for example, Vision Group's overall business value grew by 8.3% from 55.1billion to 59.7billion whereas UCL's value declined by 30.3% from 57.5billion to 40.1billion, all with noticeable increases in CSR expenditure (Annual Report, 2009/10). Whereas this performance can be attributed to a host of factors, including CSR activities that have been reported overtime, the effect of CSR on this performance is not clear. Moreover, there is no Ugandan study linking CSR's effect on a business' operations and performance leaving this area plausible for research.

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The question is, has CSR an effect on business operations and performance? This study sought to answer the above question.

### **1.3 GENERAL OBJECTIVE OF THE STUDY**

The main aim of the study was to determine the effect of Corporate Social Responsibility on Business Operations and Performance.

### **1.4 OBJECTIVES OF THE STUDY**

- To find out the factors which influence the practice of CSR in Ugandan Corporations.
- To identify the different approaches used by Corporations in their practice of CSR
- To establish the trend of Business Operations and Performance of the Corporations under study over the last four years
- To determine the effect of Corporate Social Responsibility on Business Operations and Performance.

### **1.5 RESEARCH QUESTIONS**

To achieve the objectives stated above, the following study questions were posed:

- What factors influence the practice of CSR in Ugandan Corporations?
- What are the different approaches used by Corporations in their practice of CSR?
- What has been the trend of Business Operations and Performance of Corporations under study over the last four years?
- What is the effect of Corporate Social Responsibility on Business Operations and Performance?

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## **1.6 SIGNIFICANCE OF THE STUDY**

Given the infancy of Corporate Social Responsibility in Uganda, the study will avail the following benefits to the various stakeholders:

### **1.6.1 Shareholders**

The investors will know how senior management takes into consideration the interests of consumers, regulators, employees and other important groups that are affected by the company's activities.

### **1.6.2 Company's management**

The study will help management learn how to forge stronger relationships with key suppliers, customers and the community.

### **1.6.3 General public**

The general public will be informed of the various approaches in which an entity can undertake social and environmental activities aimed at improving on the quality of life in the community, workplace, market place and generally giving back to society. This will lead to increased human benefit and satisfaction through quality services and goods.

## **1.7 EXPECTED CONTRIBUTION TO KNOWLEDGE**

The study will add knowledge to the existing body of research literature relating to Corporate Social Responsibility and Business Performance in Uganda and other similar developing economies in Africa. It's also anticipated that a number of stakeholders will use results from this study to further their knowledge and understanding of Corporate Social Responsibility and how it affects the business performance of a socially responsible entity.

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## **1.8 RESEARCH METHODS USED**

Both primary and secondary data sources were used. The research used semi-structured questionnaires, interview guides and desk research as research methods for this study. Structured questionnaires and interview guides were used on primary sources while desk research was used on secondary sources. Data sought was both quantitative and qualitative.

The semi-structured questionnaires and interview guides targeted management and staff as stakeholders. The questionnaires were simple worded and relatively short but comprehensive. Control questions were included to cross check and ensure correctness and consistency of the respondents. Open ended and “state reasons for your response” queries were used in the interview guide to generate additional information, helpful comments and suggestions that were deemed helpful in the analysis of data.

The desk research method was used on secondary data. This encompassed reading at length existing literature on Corporate Social Responsibility and business performance evaluation. Journals, magazines, newspapers, textbooks, entity annual reports are some of the documents that were reviewed.

## **1.9 THE CONCEPTUAL FRAMEWORK**

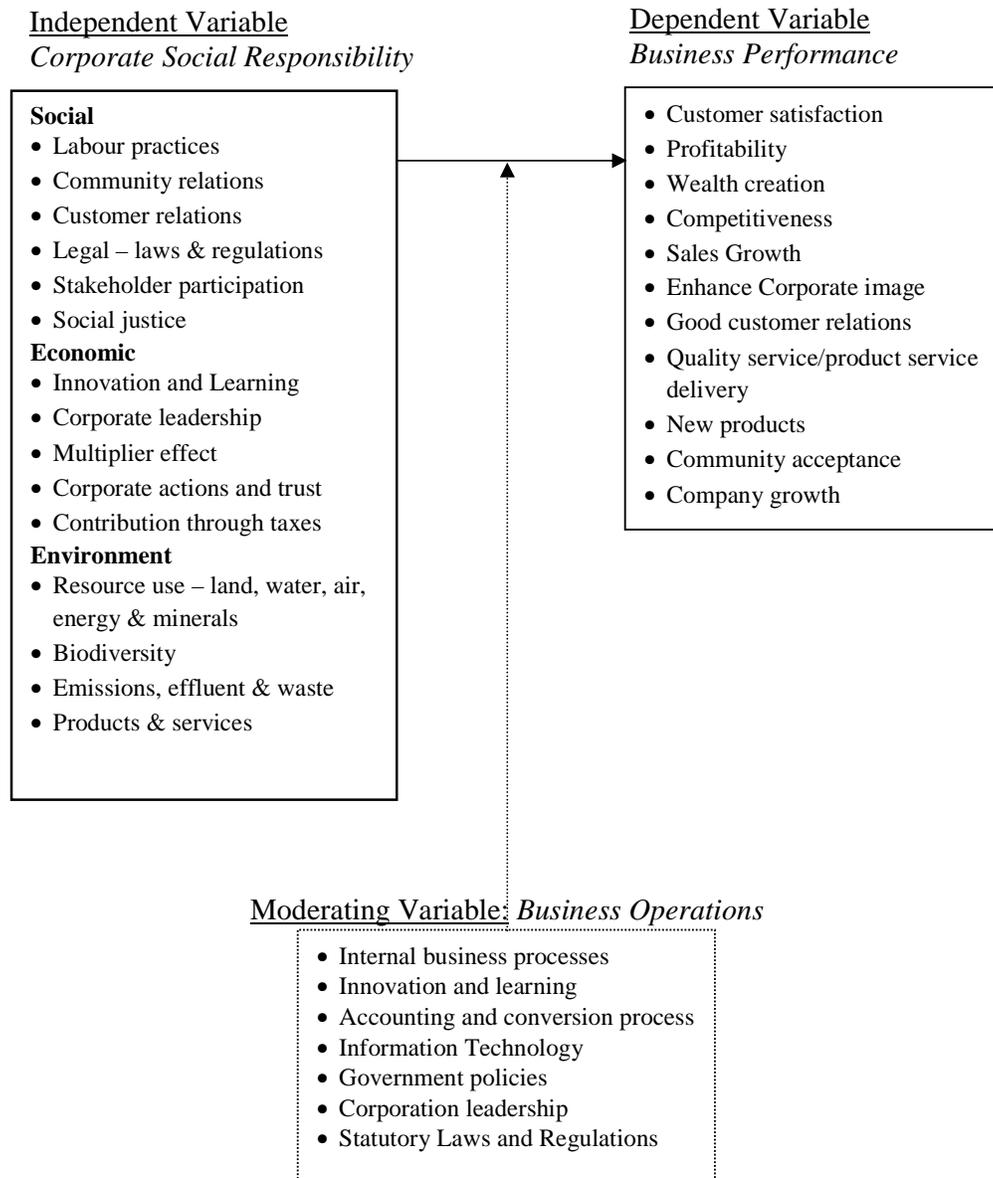
The theory of CSR encourages corporations to take notice not only of the economic and financial dealings in a company, but also the social and environmental consequences at business places on its shareholders and society. The Model of CSR advises companies to seek the maximum profits while obeying a moral minimum.

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This concept of the corporation is viewed to have “placed the community in a position to demand that the modern corporation serve not only the owners or the control but all society” (Berle and Means, 1932). This idea is effectively today’s stakeholder theory and thus in responding to stakeholder expectations of CSR, the chief executive sets the tone and priorities for the firm’s actions (Sirsly, 2009). According to this theory, the satisfaction of various stakeholder groups is instrumental for organizational performance (Donaldson and Preston 1995; Jones 1995). Stakeholder – agency theory argues that the implicit and explicit negotiation and contracting processes entailed by reciprocal, bilateral stakeholder – management relationships serve as monitoring and enforcement mechanisms that prevent managers from diverting attention from broad organizational financial goals (Hill and Thomas 1992; Jones 1995). Furthermore, by addressing and balancing the claims of multiple stakeholders (Freeman and Evan, 1990), managers can increase the efficiency of their organization’s adaptation to external demands.

CSR may be an organizational resource that provides internal benefits. That is, investments in CSR may help firms develop new competencies, resources, and capabilities, which are manifested in a firm’s culture, technology, structure, and human resources (Barney 1991; Russo and Fouts 1997). CSR can help management develop better scanning skills, processes, and information systems, which increase the organization’s preparedness for external changes, turbulence, and crises (Russo and Fouts 1997). These competencies which are acquired internally through the CSR process, would then lead to more efficient utilization of resources and organizational efficiency (Majumdar and Marcus, 2001). The conceptual framework is presented in Figure 1 below;

**Figure 1: Conceptual Framework**



*Adopted from: Elkington 1998, p.73, Labuschang et al 2006, p.3, Elliot 2006, p.13, modified*

*by the researcher on review of Literature*

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## **1.10 SUMMARY OF THE CHAPTERS**

This research consists of five chapters providing all the relevant information regarding this study.

Chapter one is the introduction highlighting previous research carried out on CSR in Uganda. It throws more light on the gaps not researched about and tackles the statement of the problem, objectives of the study, research questions, significance of the study and expected contribution to knowledge as well as a snapshot of the research methods used. The conceptual framework is the last section for this chapter. This chapter as such, represents the basis of the rest of this study.

Chapter two is a review of related literature concerning Corporate Social Responsibility, Business Operations and Performance. Main focus is the concept of CSR, theories that explain CSR and the various CSR commitments. Other sections in this chapter centre on establishing and managing CSR programs, management accounting and ways of evaluating business performance. The last section is the contextual analysis of the quoted relevant authorities and the relationship of the research variables.

Chapter three is a narration of the research methodology and methods adopted for this study. It highlights the research paradigms, methodology, methods, study population, sample size selection, data analysis, and validity/reliability of the study instrument and wraps up with the ethical considerations.

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Chapter four presents and analyzes the study findings. It attempts to summarize the views from the questionnaires and interview guides, interpret them and then present them as findings of the research.

Chapter five is a summary and discussion of results. It further puts the conclusions and recommendations straight. The last section for chapter five highlights the implications of the study. The researcher at the end has attached references and appendices used in undertaking this study.

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## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 INTRODUCTION

The purpose of this literature review is to examine the issues, viewpoints and research associated with the effect of Corporate Social Responsibility on Business Operations and Performance. Chapter one describes the context for this study and the research gaps the study wishes to address. This literature delves substantially into the state of research related to the variables of this study and provides sufficient context of the significance of this research.

Business has long been guided by and pursued the profit motive. From the days of European and Colonial America shopkeepers to the modern world of global multi-national corporations, the interests of the owners and shareholders had traditionally guided business decision making and strategy. Appeals for business to assume responsibility for the diseases and suffering of the world has always fueled the debate into the proper role of business and the purpose of the firm (Margolis & Walsh, 2003). Shareholders, investors and stakeholders at large make most of their investment decisions basing greatly on the business performance of an entity (Boron, 2000). For decades since the early 70's, there is a protracted debate about the legitimacy and value of corporate responses to CSR concerns. For example, Murphy (2005) described CSR as being 'little more than a cosmetic treatment,' and Santiago (2004) reports advantages of practicing CSR. On the other hand, Waddock and Graves (1997), Hillman and Keim (2001), Verschoor and Murphy (2002), find that increased CSR leads to enhanced business performance.

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## **2.1 CORPORATE SOCIAL RESPONSIBILITY**

### **2.1.1 The case for CSR**

CSR is the continuing commitment by a business to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large (Moir, 2001). Businesses need to integrate the economic, social and environmental effect in their operations. The concept of CSR means that organizations have moral, ethical, and philanthropic responsibilities in addition to their responsibilities to earn a fair return for investors and comply with the law. However, corporate executives have struggled with the issue of the firm's responsibility to its society. It has been argued by Friedman (1970) that the Corporation's sole responsibility is to provide maximum financial return to share holders while others are of the belief that business owes responsibility to a wide range of groups in the society. This has led to a number of theories attempting to explain CSR namely; shareholders' theory, stakeholders' theory and social contracts theory.

### **2.1.2 Theories to explain Corporate Social Responsibility**

#### **Shareholders' Theory**

The shareholders' theory stipulates that management has a fiduciary duty to the owners or stockholders of a corporation and thus this duty takes priority over any other responsibilities and obligates it to focus on profit maximization alone. The belief of researchers in this group stems from the traditional neoclassical paradigm of the firm (Moir, 2001), a theory which reflects Adam Smith's notion of economic man, whose goal is to maximize the wealth of the firm, based on his contractual duties to the owners (Brenner and Cochran, 1991). This model of the firm was further

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popularized by Friedman (1970), who argued that in a free economy, there is only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to engage in open and free competition, without deception or fraud. Milton Friedman contends that diverting corporations from the pursuit of profit makes the economic system less efficient. Business’s only social responsibility is to make money within the rules of the game. Private enterprises, therefore, should not be forced to undertake public responsibilities that properly belong to government (Friedman, 1970).

The rules of the game that Friedman refers to are the elementary morality rules against deception, force, and fraud which are intended to promote open and free competition. Friedman believes that by allowing the market to operate with only the minimal restrictions necessary to prevent fraud and force, society maximizes its overall economic wellbeing. Pursuit of profits is what makes the free economy vibrant. Anything that dampens this kind of incentive or inhibits its operations weakens the ability of Adam Smith’s *invisible hand* to deliver the economic goods (Shaw, 2008). The CSR theory that upholds this view has also been regarded as the ‘‘stockholders model’’ (Bruno and Nichols, 1990). This model identified that, based on the contractual agreement signed with the owners, management’s responsibility is a legal one, and it equates with ethical and social responsibility.

However, this only-profit-oriented-business approach has been heavily criticized by many researchers and has given way to the Stakeholder view. Shareholder’s critics claim that businesses have other obligations besides making a profit.

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## **Stakeholders Theory**

Johnson (1971) in his definition of CSR, conceives a socially responsible firm as being one that balances a multiplicity of interests, such that while striving for larger profits for its stockholders, it also takes into account, employees, suppliers, dealers, local communities and the nation. This definition draws from stakeholder theory as developed by Freeman (1984). According to Freeman (1984), the firm can be described as a series of connections of stakeholders that the managers of the firm attempt to manage. Stakeholder, according to Bruno & Nichols (1990: 171) is a term which denotes any identifiable group or individual who can affect or be affected by organizational performance in terms of its products, policies, and work processes. Davis (1975) argues that modern business is intimately integrated with the rest of society. It is not some self-enclosed world, like a small study group. Rather, business activities have profound ramifications throughout society, and their influence on peoples' lives is hard to escape. Therefore, corporations have responsibilities that go beyond making money because of their great social and economic power.

Stakeholders are typically analyzed into primary and secondary stakeholders. Clarkson (1995) defines a primary stakeholder group as "one without whose continuing participation the corporation cannot survive as a going concern" - with the primary group including "shareholders and investors, employees, customers and suppliers, together with what is defined as the public stakeholder group; the governments and communities that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and obligations may be due". The secondary groups are defined as "those who influence or affect, or are influenced or affected by the corporation, but they are not engaged in transactions with the

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corporation and are not essential for its survival". Mitchell et al. (1997) developed a model of stakeholder identification and salience based on stakeholders possessing one or more of the attributes of power, legitimacy and urgency. Thus, it is anticipated that firms would pay most attention to those legitimate stakeholder groups who have power and urgency. In practice this might mean that firms with problems over employee retention would attend to employee issues and those in consumer markets would have regard to matters that affect reputation. Stakeholder groups may also become more or less urgent; so environmental groups and issues became more urgent to oil firms following the Exxon Valdez oil spill (Patten, 1992). The stakeholder theory surfaced the question central to this research, which is whether organizations can be socially responsible and have good performance (profitable) while still satisfying investors and shareholders by providing acceptable levels of return on those investments.

### **Social contracts theory**

Gray et al. (1996) describe society as "a series of social contracts between members of society and society itself". In the context of CSR, an alternative possibility is not that business might act in a responsible manner because it is in its commercial interest, but because it is part of how society implicitly expects business to operate.

Donaldson and Dunfee (1999) developed integrated social contracts theory as a way for managers to take decisions in an ethical context. They differentiate between macro social contracts and micro social contracts. Thus a macro social contract in the context of communities, for example, would be an expectation that business provides some support to its local community and the specific form of involvement would be the micro social contract. Hence companies who adopt a view of social contracts would

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describe their involvement as part of "societal expectation" - however, whilst this could explain the initial motivation, it might not explain the totality of their involvement.

### **Corporate Citizenship**

Companies' role or responsibilities towards society has come to be known as Corporate Citizenship (CC). Carroll (1991:42) sums up CC as 'being actively engaged in acts or programs to promote human welfare or goodwill'. CC looks at expectations of society that business will engage in social activities that are not mandated by law nor generally expected of business in an ethical sense. It's actually a different way of understanding the role of business in society. CC has frequently been used as equivalent to CSR (Wood and Logsdon, 2002). Logsdon and Wood believe CSR is more concerned with social responsibilities as an external affair while CC suggests that business is a part of the society. This linguistic change (from corporate social responsibility to corporate citizenship) contains a profound change in normative understanding of how business organizations should act in respect to stakeholders (Wood and Logsdon, 2002). Corporate Citizenship is a metaphor for business participation in society (Moon *et al*, 2005).

Theories on and approaches to 'corporate citizenship' are focused on rights, but even more on duties, responsibilities, and possible partnerships of business with societal groups and institutions. Much as corporate citizenship is sometimes related to social expectations, it is mostly adopted from an ethical perspective. Solomon states:

The first principle of business ethics is that the corporation itself is a citizen, a member of the larger community and inconceivable without it  
... Corporations like individuals are part and parcel of the communities

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that created them, and the responsibilities they bear are not the products of argument or implicit contracts, but intrinsic to their very existence as social entities (1992:184).

Concern for communities where companies operate has extended progressively to a global concern due to intense protests against globalization, mainly since the end of the 1990s. Facing this challenge, 34 CEOs of the world's largest multinational corporations signed a document during the World Economic Forum in New York in 2002: *Global Corporate Citizenship: The leadership Challenge for CEOs and Boards*. For the World Economic Forum, 'Corporate Citizenship' is about the contribution a company makes to society through its core business activities, its social investment and philanthropy programs, and its engagement in public policy<sup>1</sup>.

### **2.1.3 Corporate Social Responsibility commitments**

Carroll (1991) came up with the pyramid of CSR in his book *Business Horizons* (1991) and suggested that there are four kinds of social responsibilities that constitute a total range of CSR business activities. These are: economic, legal, ethical and philanthropic responsibilities. Carroll further emphasized that, for CSR to be accepted by a conscientious business person, it should be framed in such a way that the entire range of business responsibilities is embraced. Carroll (1991) explains thus;

#### ***Economic Responsibilities***

Historically, business organizations were created as economic entities designed to provide goods and services to societal members. The profit motive was established as the primary incentive for entrepreneurship. Before it was anything else, business

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<sup>1</sup> See <http://www.weforum.org/en/initiatives/corporatecitizenship/index/htm>. Accessed on 01/08/2011.

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organization was the basic economic unit in our society. As such, its principal role was to produce goods and services that consumers needed and wanted and to make an acceptable profit in the process. At some point the idea of the profit motive got transformed into a notion of maximum profits, and this has been an enduring value ever since. All other business responsibilities are predicated upon the economic responsibility of the firm, because without it the others become moot considerations. A summary of some important statements characterizing economic responsibilities may be as follows.

- It is important to perform in a manner consistent with maximizing earnings per share.
- It is important to be committed to being as profitable as possible.
- It is important to maintain a strong competitive position.
- It is important to maintain a high level of operating efficiency.
- It is important that a successful firm be defined as one that is consistently profitable.

### ***Legal Responsibilities***

Society has not only sanctioned business to operate according to the profit motive; at the same time business is expected to comply with the laws and regulations promulgated by Government as the ground rules under which business must operate. As a partial fulfillment of the "social contract" between business and society, firms are expected to pursue their economic missions within the framework of the law. Legal responsibilities reflect a view of "codified ethics" in the sense that they embody basic notions of fair operations as established by the lawmakers. Legal responsibilities are appropriately seen as co-existing with economic responsibilities as fundamental

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precepts of the free enterprise system. A summary of some important statements characterizing legal responsibilities may be as follows.

- It is important to perform in a manner consistent with expectations of Government and the law.
- It is important to comply with various regulations.
- It is important to be a law-abiding corporate citizen.
- It is important that a successful firm be defined as one that fulfills its legal obligations.
- It is important to provide goods and services that at least meet minimal legal requirements.

### ***Ethical Responsibilities***

Although economic and legal responsibilities embody ethical norms about fairness and justice, ethical responsibilities embrace those activities and practices that are expected or prohibited by societal members even though they are not codified into law. Ethical responsibilities embody those standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, just, or in keeping with the respect or protection of stakeholders' moral rights.

In one sense, changing ethics or values precede the establishment of law because they become the driving force behind the very creation of laws or regulations. For example, the environmental, civil rights, and consumer movements reflect basic alterations in societal values and thus may be seen as ethical bellwethers foreshadowing and resulting in legislation. In another sense, ethical responsibilities

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may be seen as embracing newly emerging values and norms society expects business to meet, even though such values and norms may reflect a higher standard of performance than that currently required by law. Ethical responsibilities in this sense are often ill-defined or continually under public debate as to their legitimacy, and thus are frequently difficult for business to deal with.

The business ethics movement of the past decade has firmly established an ethical responsibility as a legitimate CSR component. A summary of some important statements characterizing ethical responsibilities may be as follows.

- It is important to perform in a manner consistent with expectations of societal mores and ethical norms.
- It is important to recognize and respect new or evolving ethical moral norms adopted by society.
- It is important to prevent ethical norms from being compromised in order to achieve corporate goals.
- It is important that good corporate citizenship be defined as doing what is expected morally or ethically.
- It is important to recognize that corporate integrity and ethical behavior go beyond mere compliance with laws and regulations.

***Philanthropic responsibilities***

Philanthropy encompasses those corporate actions that are in response to society's expectation that businesses be good corporate citizens. This includes actively engaging in acts or programs to promote human welfare or goodwill. Examples of

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philanthropy include business contributions to financial resources or executive time, such as contributions to the arts, education, or the community.

The distinguishing feature between philanthropy and ethical responsibilities is that the former are not expected in an ethical or moral sense. Communities desire firms to contribute their money, facilities, and employee time to humanitarian programs or purposes, but they do not regard the firms as unethical if they do not provide the desired level. Therefore, philanthropy is more discretionary or voluntary on the part of businesses even though there is always the societal expectation that businesses provide it. One notable reason for making the distinction between philanthropic and ethical responsibilities is that some firms feel they are being socially responsible if they are just good citizens in the community. This distinction brings home the vital point that CSR includes philanthropic contributions but is not limited to them. In fact, it would be argued here that philanthropy is highly desired and prized but actually less important than the other three categories of social responsibility, in a sense, philanthropy is icing on the cake. A summary of some important statements characterizing philanthropic responsibilities may be as follows.

- It is important to perform in a manner consistent with the philanthropic and charitable expectations of society.
- It is important to assist the fine and performing arts.
- It is important that managers and employees participate in voluntary and charitable activities within their local communities.
- It is important to provide assistance to private and public educational institutions.
- It is important to assist voluntarily those projects that enhance a community's "quality of life."

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Economic, legal, ethical and philanthropic responsibilities can be transformed into responsibility towards customers, employees, investors, suppliers, community and the environment.

***Responsibility towards customers***

A company has a duty to act responsibly towards its customers or else it might ultimately lose business. This could be through providing goods and services hallmarked by integrity, quality and care. Customer rights like rights to safe products, rights to all relevant information about the product should be left to prevail. Ethical advertising should also be put into consideration (Carly, 2002). Businesses in Uganda have to follow guidelines set by the Uganda National Bureau of Standards (UNBS) in as far as products are concerned. The set standards are meant to protect consumers from counterfeits, hazardous and substandard products (Standards Act 1983).

***Responsibility towards employees***

Equal opportunities for rewards and advancement should be provided to all employees for a company to be socially responsible. Responsible employment practices with well-trained, well-managed and motivated employees, who are fairly rewarded – sharing in the Company’s successes should be instituted. A company that ignores this responsibility may likely face a risk of losing productive, highly motivated employees as well as lawsuits, a case in point being Del Monte (Litan, 2004). A company should ensure that the workplace is safe, both physically and socially and should aim to be the employer of choice in all areas of operation (Carly, 2002). In Uganda, a number of laws are in place to help guide companies in aspects of

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employees and the workplace; examples include the Employment Act (2006), and the Occupational Health and Safety Act (2006).

***Responsibility towards investors***

Managers have a responsibility to ensure that they do not act irresponsibly towards shareholders by denying them their due earnings or misrepresenting company resources. Financial management should be proper and finances should be correctly reported. Conformation to IFRS's and IAS's is a unilateral requirement (International Federation of Accountants, 1998). Wanyama (2006) cites previous studies on the importance accounting information plays in enabling relevant parties to monitor the performance of an organization as well as holding management accountable for the stewardship of resources. Sound accounting principles should enable investors to make a fair assessment of the performance of companies and guide the decisions of those investors in making investment decisions, holding management accountable and in CSR considerations (Wanyama, 2006).

***Responsibility towards suppliers***

Socially responsible companies should regard suppliers as partners and work with them in order to achieve their policy aspirations in the delivery of products and services.

***Responsibility towards community***

Companies should strive to be good corporate citizens by contributing to community well being, and be able to recognize their responsibility to work in partnership with the communities in which they operate. In their research on CSR in Uganda, Katamba

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and Gisch-Boie (2008) identified the 5 top CSR activities in the community in Uganda as education, sponsorship of events related to the company's marketing strategy, health, HIV/AIDS related issues, and employee volunteerism. They concluded that community initiatives contribute to sustainable business development and shape the economic future especially if people are healthy and educated.

### ***Responsibility to environment***

Socially responsible companies should have a committed program of management, continuous improvement and reporting of their direct and indirect effects on the environment which marks their contribution to improving the world in which they live (Caspin, 2002). In Uganda, it is a requirement for organizations of a manufacturing nature to follow guidelines set out in the National Environmental Statute (1995) in their pursuit of environmental management. Organizational managers and employees are expected to support implementation of an environmental management system in accordance with their roles and responsibilities. Among other things, the Environmental Management System (EMS) as guided by the National Environmental Statute (1995) concerns:

- Product stewardship by designing products and services that are safe to use, minimize use of hazardous materials, energy and other resources, and enable recycling or reuse.
- Pollution prevention through conducting operations in a manner that prevents pollution, conserves resources, and proactively addresses past environmental contamination.

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- Continual improvement by integrating environmental management into business and decision making processes, regularly measuring performance, and practicing continual improvement.
  - Legal compliance through ensuring that products and operations comply with applicable environmental regulations and requirements.
  - Stakeholder involvement which concerns the provision of clear and candid environmental information about products, services, and operations to all stakeholders, informing suppliers about the organization's environmental requirements, fostering environmental responsibility among employees and contributing constructively to environmental public policy.

#### **2.1.4 Establishing and managing social responsibility programs**

Socially responsible companies require a carefully organized and managed program to that effect. Top management has to take a strong stand on social responsibility and develop a policy statement outlining that commitment. A designated executive should have the responsibility of monitoring the CSR program and he/she should ensure that implementation is consistent with the firm's policy statement and strategic plan. He/she should issue compliance statements to confirm whether the business is operating in accordance with the principles of the CSR policies.

#### **2.1.5 Corporate Social Responsibility Reporting and Disclosure**

Proper accounting and financial reporting is one of the critical and important responsibilities of management, especially in public-quoted companies. The need for a sound financial reporting system is essential so that the performance of an organization is accurately reported in a timely manner for the information of all

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stakeholders of the company. Needless to say, inaccurate information affects all those who refer to the financial statements of an organization for business or personal reasons. In this regard, producing unreliable financial statements has a significant economic and social effect on the business environment (Davis, 2002).

Social disclosure within the medium of corporate reports is far from being a recent phenomenon, and can indeed be traced back to the beginning of the twentieth century (Owen et al., 1997). However, the issue first achieved prominence in the 1970s, largely as a consequence of the debate then raging concerning the role of the corporation in society at a time of rising social expectations and emerging environmental awareness. More perceptive managements speedily grasped the public relations benefits of producing, at least rudimentary social reports which attempted to convey a picture of corporate responsiveness to key social concerns (Owen et al., 1997).

In the 1970's alone, the US Congress (USC), for example, enacted legislation to benefit the environment (Federal Water Pollution Control Act, The Clean Air Act Amendments), employees and the workplace (The Occupational Safety and Health Act, The Equal Employment Opportunity Act) and the protection for consumers (The Consumer Product Safety Act, the Federal Hazardous Substance Act) in typical command and control fashion, indicating business could not be trusted to be socially responsible without oversight of law (Hess, 2007). However, shortcomings noted include a lack of consumer access to such information and results, highlighting the need for greater disclosure by firms to stakeholders. Such disclosure efforts did not occur in earnest until the 1990's.

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Recent years have witnessed a remarkable growth in the number of companies in industrialized nations across the globe reporting publicly on various aspects of their social and environmental performance (Davis, 2004). Whilst this, for many, has entailed providing rudimentary, generally qualitative information on policies and performance within the annual financial report, an increasing number of ‘leading edge’ reporters have gone much further. For this latter group, predominantly, but not exclusively, large companies operating in ‘sensitive’ industrial sectors, the preferred means of dissemination has become the production on an annual basis of substantial ‘stand alone’ report, either paper and/or (increasingly) web-based, featuring copious quantitative, as well as qualitative, data. Additionally, the reliability of the data presented is increasingly likely to be attested to by an independent assurance provider (O’Dwyer and Owen, 2005).

KPMG’s 2005 triennial international survey of corporate responsibility reporting practice on the part of the world’s largest corporations, namely the top 250 of the Fortune 500 together with the top 100 companies in 16 leading industrialized countries, bears witness to this rising reporting trend. For the former group, 52% issued separate reports in 2005, compared with 45% in the previous survey in 2002, whereas for the latter the respective figures are 33% and 23%. Whilst Japan (80%) and the United Kingdom (71%) are, by some margin, the leading reporting nations, most countries have experienced significant increases with Italy, Spain, Canada, France and South Africa leading the way. KPMG’s survey also draws attention to clear sectoral differences in reporting volume. Perhaps not surprisingly, industries with a prominent environmental profile, notably utilities, mining, chemicals, oil and

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gas, and forestry, pulp and paper exhibit the highest reporting rates, although the most marked increase in reporting activity is in the financial sector, which has traditionally lagged behind the others.

Baskin (2006) noted little difference in the importance firms place on social reporting regardless of the level of development of the country in which the firm operated. Porter and Kramer (2006) concluded that businesses are more willing now to social disclosure, but lack guidance on how to prioritize social issues and what to report. This issue remains germane as American companies tend to value reporting at the bottom line level while European companies tend to report at the relationship level (Hartman, Rubin & Dhanda, 2007), suggesting the need for a more common approach. Research and empirical examination has offered the following types of reporting suggestions for business: Results and risks associated with operational, social and environmental issues; CSR and outcomes and stakeholder relationships; Company performance in pollution, health and safety, child labor and the environment.

Additionally, guidance is provided by the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, adhered to by 1,000 companies in 35 countries, the Global Compact, Social Accountability 8000 standards, AA 1000 (Institute of Social and Ethical Accountability). Relatedly, underpinning corporate reporting initiatives and published guidelines have originated from supranational bodies, such as United Nations Environment Program (UNEP), National Governments, business and industry associations. International accounting firms have been heavily involved in verification and consultancy work, whilst national professional bodies have

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actively promoted research in the area for example, the UK's Association of Chartered Certified Accountants (ACCA), which, amongst many initiatives, launched an Environmental Reporting Awards (ERA) scheme in 1991 and more recently has grown to encompass the social and sustainability reporting dimensions. In reality, firms need only look to the industries in which they operate for social reporting guidance (Waddock et al., 2002).

Issues of measurement have always related to measuring an intangible (social good) while organizations were comfortable only measuring financial performance. The issue of assessing profitability is fairly clear-cut while assessing social responsibility is not, and studies have cited questionable indexes of social responsibility (Aupperle et al., 1985). Despite these difficulties, acceptable methods of assessing CSR performance in firms have been proposed. The use of an ethical scorecard as an extension of the balanced scorecard is supported by Spiller (2000) as a method of accounting of interested stakeholders beyond shareholders and customers.

### **2.1.6 Benefits of Corporate Social Responsibility**

Wood (1991) described the ideal objectives of CSR in a firm as: institutional (uphold the legitimacy in society of the business), organizational (improve the fit of the organizations with the environment), and moral/ethical (create a culture of ethical choice). Wood's model, when merged with Carroll's four areas of corporate responsibility, help to identify specific business outcomes associated with each objective, providing clearer guidance to leaders regarding CSR objectives and benefits. Typical examples of CSR practices include charitable contributions,

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community education, healthcare and environmental programs. Some of these are activities mandated by law, but most are simply expectations society has of business.

Managed social responsibility has a number of benefits and these are both economic and non-economic. Intangible benefits (non-economic) primarily relate to consumer expectations and firm reputation and are numerous for example; creation of reputational capital, attractiveness as a potential employer, and more favorable impressions of the firm products. These benefits can be logically explained by comparing CSR expenditures to Research & Development and advertising expenditures, all serving to build brand equity and reputation, integrate companies into the fabric of their local communities as well as allow the firm to charge a premium price and ultimately lower the firm's cost of capital (Gardeberg & Fombrun, 2006). In detail, managed CSR brings about the following benefits;

### **Enhancing Organizational Reputation**

From theoretical and practical perspectives, organizational reputation ranks as one of the most important mediating variables linking CSR to business performance (Fombrun and Shanley, 1990). Because of their own moral convictions and value systems, customers and suppliers may be, or become, more willing to deal with companies with a good CSR track record. 'Ethical investors' may be willing to pay a premium for stocks of companies with high CSR disclosures (Anderson and Frankle, 1980). Thus, when studying external reputation effects, it may be important to consider information intensity and consumer decision processes (Schuler and Cording 2006).

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Employees may show more goodwill toward their high – CSR employer, an indication that reputation effects are not only external but internal as well and, because of increased organizational commitment and task motivation, produce better results and demonstrate more organizational citizenship behaviors (Davis, 1973; McGuire *et al.*, 1988). The external and internal effects, in aggregate, could explain an increase in financial performance as a consequence of increasing CSR, mediated by organizational reputation.

### **Boosting Sales revenue**

Probably the most direct explanation of a positive effect of CSR and business performance is the view of CSR as a revenue generator – especially in the long run. Firms that enjoy favorable reputations for their CSR may be able to charge premiums for their products and services (Auger *et al.*, 2003). Consumers may value social responsibility so highly that they are willing to pay more for products and services from socially responsible companies. In addition, by conveying important information about how products have been manufactured in a socially or environmentally responsible manner, companies may increase market share relative to competitors that are poor corporate citizens (Miller, 1997). Whether the effect is through increased prices or a larger customer base, CSR may help the business generate more sales revenues. Certain customer segments (e.g. members of Amnesty International, older women, or Generation Y) have been found to be willing to pay premium prices for products from high – CSR firms, but these purchasing decisions may not be generalizable to the whole population of consumers (Auger *et al.*, 2003; Read, 2004).

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### **Reducing Business Risk**

Firms may also financially benefit from CSR because it tends to reduce business risk (Orlitzky and Benjamin, 2001). CSR can decrease business risk by allowing firms to anticipate environmental upheavals more effectively (King, 1995). Good CSR is typically characterized by effective environmental assessment (Wood, 1991), which helps companies address stakeholder concerns proactively or interactively (Waddock, 2002). By balancing a multitude of stakeholder concerns, firms can potentially lower their legal costs because it is precisely the unaddressed stakeholder concerns that usually turn into lawsuits against neglectful companies.

There is strong evidence that the higher a firm's reputation for its CSR, the lower the business risk (Orlitzky and Benjamin, 2001). That is, CSR and business risk have been found to be inversely correlated.

### **Attracting a More Productive Workforce**

Firms with high CSR may also attract better employees. There is some empirical support for this explanation (Backhaus *et al.*, 2002, Greening *et al.*, 2000). CSR may serve as a signal to potential applicants that the organization is a socially responsible employer and upholds ethical values. This association between CSR and company attractiveness as an employer has been found at the organizational level (Turban and Greening, 1997) as well as the individual level of analysis (Backhaus *et al.*, 2002, Greening *et al.*, 2000). When competitive advantage increasingly depends on a quality workforce (Huselid, 1995), a large labor pool from which to select employees is usually beneficial to companies. Companies with low CSR inadvertently restrict the labor pool from which they can recruit by appearing unattractive to potential job

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applicants and, thus, are at a human resource and economic disadvantage relative to companies with high CSR (Orlitzky, 2007).

### **Increasing Rivals' Costs**

A company may become relatively more efficient not only by decreasing its own costs but also by raising competitors' costs. Thus a related resource-based argument focuses on the effects of CSR as a political strategy to increase rivals' costs (McWilliams *et al.*, 2002). High-CSR firms can try to make their new technology an industry standard through which they effectively restrict access to substitute resources. It can be shown that companies, especially large ones, can use occupational safety and health as well as environmental regulations strategically to raise rivals' costs. Some organizations may concentrate on those social or environmental criteria that they already find relatively easy to meet or exceed, and then push their various stakeholder coalitions for broader adoption of those policies in their organizational fields. Strategic actors will adopt those CSR practices that make the firm – specific resources valuable, rare, and costly to imitate in order to render the company's competitive advantage more sustainable.

### **Improving Internal Resources and Skills (Efficiency)**

Advocates of the internal – resources view of CSR predict that CSR enhances managerial competencies with respect to the efficient use and allocation of resources (e.g. accounting return measures such as return on assets or return on equity). Increased internal efficiencies may directly translate into savings from higher CSR (Holliday *et al.*, 2002: 83 – 102). Also, CSR may help top management develop better scanning skills, processes, and information systems which increase the organization's

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anticipation of, and preparedness for, external changes or turbulences. Know – how with respect to corporate environmental performance has been argued to be especially important in growing industries (Russo *et al.*, 1997). According to this view, whether CSR measures are disclosed or not is largely irrelevant because organizational learning and the development of internal capabilities do not depend on the communication of the corporation’s commitment to CSR to various stakeholders.

### **Contribution to Public Policy Objectives**

The European Commission (EC) recognizes that CSR can play a key role in contributing to sustainable development while enhancing innovations and competitiveness, thereby also contributing to employability and job creation. From its contribution to the March 2005 Spring Council, the Commission believes CSR can contribute to a number of public policy objectives to create a public climate in which entrepreneurs are appreciated not just for making a good profit but also for making a fair contribution to addressing certain societal challenges. The Commission believes CSR can contribute to policy objectives such as;

- More integrated labour markets and higher levels of social inclusion, as enterprises actively seek to recruit more people from disadvantaged groups;
- Investment in skills development, life-long learning and employability, which are needed to remain competitive in the global knowledge economy and to cope with the ageing of the working population in Europe;
- Improvements in public health, as a result of voluntary initiatives by enterprises in areas such as the marketing and labeling of food and non-toxic chemicals;
- Better innovation performance, especially with regard to innovations that address societal problems, as a result of more intensive interaction with external

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stakeholders and the creation of working environments more conducive to innovation;

- A more rational use of natural resources and reduced levels of pollution, notably thanks to investments in eco-innovation and to the voluntary adoption of environmental management systems and labeling;
- A more positive image of business and entrepreneurs in society, potentially helping to cultivate more favorable attitudes towards entrepreneurship;
- Greater respect for human rights, environmental protection and core labour standards, especially in developing countries;
- Poverty reduction and progress towards the Millennium Development Goals (MDGs)

## **2.2 BUSINESS OPERATIONS**

### **2.2.1 Business Operations defined**

Business Operations are primarily concerned with “making the most efficient use of whatever resources an organization has so as to improve the goods and services their customers need, in a timely and cost effective manner” (Adam and Ebert, 1997). Business Operations are ideally guided by competitive and market forces in the industry together with the economy and efficiency of the conversion process. Indeed, these provide the basis for business sustainability.

For smooth flowing business operations, all the functions of the business must play a role to this effect. Ultimately, an analysis of performance could be got by indicators such as turnover, number of employees and the level of management control exercised over the conversion process, (Ricky Griffin and Ronald Ebert, 1999). It is important for staff to continuously seek operational improvements and refinements

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through recycling waste and operating effective housekeeping and maintenance services around the workplace.

### **2.2.2 Management Accounting and Business Operations**

Business Operations, complex as some may be, have impacts that can, to an extent, be reflected in measurable terms. Accounting, the identification, measurement, valuation, processing and reporting of costs and benefits is indispensable if decision making is to occur. The management accounting system, at a minimum, provides information concerning activities undertaken, and on the costs and benefits of business operations.

### **2.2.3 Inherent limitation in the traditional accounting function**

Although other reports are used in conjunction with the management accounts, additional cost information especially as regards CSR effect is usually unavailable. Typical accounting systems provide limited data on product costs to make strategic decisions on price (driven by the market), product mix and volumes. Their structure provides no data on CSR costs leaving middle management with no information on the CSR aspects and effects on business activities, (Burritt and Schattegger, 2002). This has obvious implications for the subsequent control of CSR costs.

## **2.3 BUSINESS PERFORMANCE**

Business Performance incorporates financial and non-financial success of an entity. Every business has to put in place a system of measuring performance where set goals are compared to feedback from agreed upon indicators. A typical performance measurement helps businesses in periodically setting business goals and then providing feedback to managers on progress towards those goals. The time horizon

for these goals can typically be about a year or less for short-term goals or span several years for long-term goals (Simmons, 2000).

Financial performance measures are derived from or directly related to the chart of accounts and found in a company’s financial statements. Non-financial performance measures such as customer satisfaction scores or product quality measures are outside the chart of accounts. The balanced scorecard and financial ratios are some of the widely used approaches in business performance measurement.

### 2.3.1 Balanced Scorecard

The balanced scorecard emphasizes the need to provide management with a set of information which covers all areas of performance in an objective and unbiased fashion. This approach to performance focuses on both financial and non financial information and covers areas such as profitability, customer satisfaction, internal efficiency and innovation (Kaplan & Norton, 1992). The balanced scorecard focuses on the four different perspectives to give managers and other stakeholders a more “balanced” view of organizational performance as shown in table 1 below;

**Table 1: Balanced scorecard matrix**

Perspective	Question	Explanation	Measures
Customer	What do existing and new customers value from us?	Gives rise to targets that matter to customers: cost, quality, delivery, inspection, handling and so on	<ul style="list-style-type: none"> <li>• Product/service attributes</li> <li>• Customer relationships</li> <li>• Image and reputation</li> </ul>
Internal Business	What processes must we excel at to achieve our financial and customer objectives?	Aims to improve internal processes and decision making	<ul style="list-style-type: none"> <li>• Develop products &amp; services</li> <li>• Deliver products &amp; services</li> <li>• Post-sales services</li> </ul>

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Innovation and Learning	Can we continue to improve and create future value?	Considers the business capacity to maintain its competitive position through the acquisition of new skills and the development of new products	<ul style="list-style-type: none"> <li>• Employee capabilities</li> <li>• Information system capabilities</li> <li>• Motivation</li> <li>• Empowerment &amp; alignment</li> </ul>
Financial	How do we create value for our shareholders?	Covers traditional measures such as growth, profitability and shareholder value but set through talking to the shareholder (s) direct.	<ul style="list-style-type: none"> <li>• Return on capital</li> <li>• Improved shareholder value</li> <li>• Asset utilization</li> </ul>

*Source: Kaplan and Norton, 1992.*

Performance targets are set once the key areas for improvement have been identified, and the balanced scorecard is the main monthly report. The scorecard is ‘balanced’ as managers are required to think in terms of all four perspectives, to prevent improvements being made in one area at the expense of another.

### **2.3.2 Ratio Analysis**

Ratio Analysis helps to analyze the success, failure, and progress of a business. Calculation of ratios enables the business stakeholders to spot trends in a business and to compare its performance and condition with the average performance of similar businesses in the same industry. Comparisons should be made with ratios of other businesses similar to the entity and also with the entity’s own ratios for several successive years. Ratio analysis may provide the all-important early warning indications that allow management to solve business problems before the business is destroyed by them (Kaplan Publishing, 2010).

Pandey (1999) points out that a firm must have a goal, and that it is generally agreed in theory that the financial goal of the firm should be maximization of owner's

economic welfare. In its endeavor to do so, a firm should earn sufficient return from its business operations. However much companies may differ in the products and services they offer and their corporate structure and culture, they all seek to maximize profit and have a relatively good financial performance. Ratios indicate the firm's overall effectiveness of operations (Pandey, 1995). Ratios can be classified into three main groups, summarized in table 2 below.

**Table 2: Ratio types classification**

Type	Reflects	Examples
Profitability	Performance of the entity and its managers, including the efficiency of asset usage.	<ul style="list-style-type: none"> <li>• Return on capital employed</li> <li>• Gross profit %</li> <li>• Inventory turnover</li> <li>• Receivables and payables days</li> </ul>
Liquidity/Gearing	Financial structure and stability of the entity.	<ul style="list-style-type: none"> <li>• Gearing</li> <li>• Current and liquidity ratios</li> </ul>
Investment	Relationship of the number of ordinary shares and their price to the profits, dividends and assets of the entity.	<ul style="list-style-type: none"> <li>• Earnings per share</li> <li>• Price/earnings ratio</li> <li>• Dividend yield</li> <li>• Dividend cover</li> <li>• Net assets per share</li> </ul>

*Source: Kaplan Publishing, 2010.*

Financial information (including measures of performance) is relevant if it meets the decision making needs of users. Most users of the financial statements are concerned with return on capital employed, profit margins, gearing and liquidity. It is normally a good idea to calculate a variety of ratios that cover all the main areas of profitability, liquidity, working capital management and gearing given the various multitudes of stakeholders and their needs for example; Investors and potential investors are primarily concerned with receiving an adequate return on their investment, but it must at least provide security and liquidity; Creditors are concerned with the security of

their debt or loan and therefore evaluate the company's liquidity to determine the amount and period of credit they consider prudent; Management are concerned with the trend and level of profits, since this is the main measure of their success; Bank managers and financial institutions, employees, professional advisors to investors, financial journalists and commentators are interested in liquidity, profit potential, or ownership of a company (Kaplan publishing, 2010, Pandey, 1999). Table 3 and 4 presents profitability and liquidity ratios

**Table 3: Profitability ratios**

<b>Ratio</b>	<b>Calculation</b>	<b>Meaning</b>
Gross Profit margin	$\frac{\text{Gross Profit}}{\text{Sales Revenue}}$	Gross Profit generated per \$ of sales
Operating Profit margin	$\frac{\text{Profit from Operations}}{\text{Sales Revenue}}$	Operating Profit generated per \$ of sales
Net Profit margin	$\frac{\text{Net Profit}}{\text{Sales Revenue}}$	Net Profit generated per \$ of sales
Asset turnover/utilization	$\frac{\text{Sales Revenue}}{\text{Capital employed}}$	Revenue generated per \$ of assets i.e. efficiency of assets
Return on Capital Employed	$\frac{\text{Profit before interest}}{\text{Capital employed}}$	Efficiency in generating profits from resources. Return on capital employed reflects the earning power of the business operations. It is seen as a key measure of financial performance.
Return on shareholders' funds	$\frac{\text{Profit attributable to shareholders}}{\text{Shareholders' funds}}$	Profit generated for shareholders per \$ invested by shareholders

*Source: Kaplan Publishing, 2010.*

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**Table 4: Liquidity ratios**

<b>Ratio</b>	<b>Calculation</b>	<b>Meaning</b>
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	Are there enough current assets to pay current liabilities? A generally acceptable current ratio is 2 to 1
Quick ratio	$\frac{(\text{Current assets} - \text{Inventory})}{\text{Current liabilities}}$	Are there enough 'quick' assets to pay current liabilities? The Quick Ratio is a much more exacting measure than the Current Ratio. An acid-test of 1:1 is considered satisfactory
Inventory turnover days	$\frac{(\text{Inventory} \times 365)}{\text{Cost of sales}}$	How long will inventory is held before being sold
Receivables days	$\frac{(\text{Receivables} \times 365)}{\text{Credit sales}}$	How long customers take to pay
Payables days	$\frac{(\text{Payables} \times 365)}{\text{Credit purchases}}$	How long entity takes to pay suppliers

*Source: Kaplan Publishing, 2010.*

An entity's management of its working capital (inventories, receivables and payables) affects its current and quick ratios. A general observation about the liquidity ratios is that the higher they are the better, especially if the business is relying to any significant extent on creditor money to finance assets.

### ***Gearing ratios***

Gearing is the relationship between a company's equity capital and reserves and its debt. The more debt finance an entity has, the higher its gearing ratio. Entities need to balance their capital structure between debt and equity finance. Gearing affects the creditworthiness of the company and the potential return to ordinary shareholders (Kaplan publishing, 2010).

High gearing is considered risky for entities as they may face difficulty in meeting interest and debt repayments. They are also likely to encounter problems in raising further finance. However, higher gearing can also benefit shareholders if the entity becomes more profitable, as earnings of a highly geared company are more sensitive to profit changes. Below are some of the gearing ratios.

**Table 5: Gearing ratios**

<b>Ratio</b>	<b>Calculation</b>	<b>Meaning</b>
Gearing	$\frac{\text{Long-term debt}}{\text{Shareholders' funds}}$ Or $\frac{\text{Long-term debt}}{\text{Shareholders' funds} + \text{Long-term debt}}$	Is company reliant on debt or equity?
Interest cover	$\frac{\text{Profit before interest and tax}}{\text{Interest expense}}$	How many times can interest be paid?

*Source: Kaplan Publishing, 2010.*

### ***Investor Ratios***

Most investors are likely to be interested in earnings per share, which is seen as the key measure of an entity's financial performance. The price/earnings ratio is also important to most investors and is the most widely used stock market ratio. It is an indicator of confidence in an entity's future prospects and so is likely to be a factor in investment decisions. Below are the different investor ratios.

**Table 6: Investor ratios**

<b>Ratio</b>	<b>Calculation</b>	<b>Meaning</b>
Price earnings ratio	$\frac{\text{Price per share}}{\text{Earnings per share}}$	Are shares relatively cheap or expensive? The higher this ratio, the faster the growth the market is expecting in the entity's future EPS.
Earnings per share	$\frac{\text{Profit attributable to shareholders}}{\text{No. of shares}}$	Profits earned per share
Dividend cover	$\frac{\text{Profit before dividends}}{\text{Dividends}}$	Are dividends vulnerable to fall in profits?

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Dividend yield	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Dividends in relation to price
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*Source: Kaplan Publishing, 2010.*

### ***Other measures of performance***

In recent years, investment analysts have developed a number of new financial performance measures. These attempt to overcome the limitations of traditional ratios, such as earnings per share and return on capital employed. These include: Earnings before interest, tax, depreciation and amortization (EBITDA) and Economic Value Added (EVA).

The calculation of the ratios makes it easy for management and other stakeholders to identify trends in a business and to compare its progress with the performance of others through data published by various sources. It's thus possible through ratio calculation to determine the business's relative strengths and weaknesses.

### **2.3.3 Ratio interpretation**

As already mentioned in section 2.3.2, ratios are used to assess the financial performance of a company by comparing the calculated figures to various other sources including non-financial information. Comparisons may be made to previous years' ratios of the same company, to the ratios of similar rival company, to accepted norms or to industry averages (Kaplan Publishing, 2010).

### ***Past financial performance of the company***

Comparing analytical data for a current period with similar computations for prior years affords some basis for judging whether the position of the business is improving

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or worsening. This comparison of data overtime is sometimes called horizontal or trend analysis, to express the idea of reviewing data for a number of consecutive periods. It is distinguished from vertical or static analysis, which refers to the review of financial information for only one accounting period.

### ***Industry standards***

The limitations of horizontal/trend analysis may be overcome to some extent by finding some other standard of financial performance as a yardstick against which to measure the record of any particular firm. The yardstick may be a comparable company, the average record of several companies in the same industry, some predetermined standard. However, differences in accounting methods may lessen the comparability of financial data for two companies.

King III advocates for integrated reporting as a way of informing stakeholders on the company's operations to society and environment. Specifically, ratios integrate all areas of performance reflecting on the choices made in the strategic decisions adopted by the company and this helps guide investors on their decision making as regards return on investment thereby fulfilling management's obligation to investors.

## **2.4 EFFECT OF CSR ON BUSINESS OPERATIONS AND PERFORMANCE.**

In a typical organization, it makes good business sense to fully integrate the interests of all the stakeholders into corporate strategies as, over the long term, this approach can generate more growth and profits. CSR may not be about financial value, but the value derived from sound governance, transparent reporting, satisfied employees and customers and the overall integration of stakeholders into a productive whole -

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corporate community. CSR has brought forth a number of initiatives, which find ways to make a better link between social and financial performance (Wood, 1995). In essence, there is a need to align social priorities while focusing on bottom-line imperatives.

Historically, business success was measured against the barometers of the Income Statement and the Balance Sheet, indicating effective measurement of revenue and expense streams as well as use of assets and equity. Firms continue to use such measures but are beginning to realize profit does not indicate value. Many profitable firms have seen their stock price and market value shrink or remain mired in mediocrity (Bishop & Beckett, 2000). Shareholder value is a poor measure of firm performance in key areas of the business including employee retention, ethnic diversity, competitive practices and the environment. These firm performance indicators have long been associated less with firm financial performance and more with the concept of firm sustainability or stewardship (Porter & Kramer, 2006). Marquez and Fombrum (2005) concluded that “Early efforts to assess the extent to which some companies are ‘socially responsible’ and others are not, have given way to more focused analysis of the business risks associated with specific production activities, service sectors and management practices”.

Business Operations and Performance of an organization, important as they may be, need to be planned for with social responsibility in mind. Triple Bottom Line - Reporting not only traditional financial performance measures, but also environmental and social indicators in order to assess the full effect of a company's activities provides a broad range of information about financial and non-financial aspects of an

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organization's social performance (Davis, 2004). Integrated reporting, a holistic and integrated representation of the company's performance in terms of both its finances and its sustainability is now a recommended principle which can take the form of a single report or dual reports (King III, 2009). King III was of the view that integrated sustainability performance and integrated reporting enables stakeholders to make a more informed assessment of the economic value of a company. Reporting should be integrated across all areas of performance, reflecting the choices made in the strategic decisions adopted by the Company, and should include reporting in the triple context of economic, social and environmental issues. The integrated report should describe how the company has made its money; hence the need to contextualize financial results by reporting on the positive and negative impact the company's operations had on its stakeholders. It is important for sustainability reporting and disclosure to highlight the company's plans to improve the positives and eradicate or mitigate the negatives in the financial year ahead (King III, 2009). The discipline of measuring these risks can yield valuable management information (Davis, 2004).

Extensive research over the last 30 years on the effect of firm social actions on business performance have shown both a positive and negative correlation between CSR and firm financial performance, and in some cases mixed results (Margolis and Walsh, 2003). Pava and Krausz (1996) examined 21 studies of corporate social performance and business performance between 1972 and 1992, finding that 12 demonstrated a positive association, eight showed no association, and only one study indicated a negative correlation. The results of these examinations indicate uncertainty in predicting purely positive CSR and business performance correlations. Pava and Krausz (1996) summed the findings well by stating that while not all studies

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prove high-CSR firms perform better, there is evidence that such firms perform at least as well as lower-CSR firms. In the earlier studies of the 1980s, Ullman (1985) researched on the aspect of CSR and Business Performance focusing on firm disclosure of CSR practices and effect to business performance. In an empirical review of five studies (mostly associated with disclosing pollution and emission levels), Ullman received mixed results, with two firms showing positive financial performance as a result of the disclosures, two showing no correlations, and the fifth demonstrating a negative correlation. Ullmann (1985) noted that despite these results, the broader view is one of disclosure being necessary if firms are to achieve strategic goals related to additional financing or access to financial markets. A final focus of Ullman's research related to whether a firm could practice too high of a level of CSR and the effect such a strategy might have. Ullmann (1985) argued that the amount of resources needed to obtain a high CSR level will ultimately have a negative effect on business performance.

Scholars as above have argued that a positive and negative effect of social responsibility on financial performance exists. McGuire *et al* (1988) cite the argument that a firm perceived as high in social responsibility may face relatively fewer labour problems or perhaps customers may be more favorably disposed to its products and this builds up a bigger market for the products and customers hence sales.

It would be unrealistic not to acknowledge that tensions will exist between business performance and social responsibility goals as companies most of the time exist to deliver increasing value to their shareholders. Friedman (1970) claims that, business has only one social responsibility and that is to maximize the profits of its owners.

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However, shareholders are showing an increasing interest in the CSR effects of business performance. This raises the prospect that into the future companies with relatively poor CSR performance will find themselves starved of investor's funds in just the same way as they would if they turned in poor financial performance results. As has been written, what can be conceived as "social responsibility" can range from simply maximization of profits, to satisfaction of stakeholders' social needs, or fulfillment of social contractual obligations, fulfillment of a firm's needs, achievement of a social equilibrium - depending on the stance taken (Balabanis, 2003).

According to Ullman (1985), financial Profitability and Social responsibility are positively related - profitable firms are better social performers. Cyert and March, (1963) agrees to Ullman's view on this positive relationship stating that well-to-do companies can afford positive social performance. According to this view, a firm's economic performance affects its capability to undertake programs to meet social demands. Thus firms need excess resources to be good social performers because social performance involves substantial costs, and only firms with these resources are capable of absorbing these costs. Marcus, (1993) illustrates the positive effect of CSR on Corporate performance citing that firms that have a good effect on society are also highly profitable. According to this perspective, good social responsibility contributes to profitability i.e. it pays to be good. Alexander and Buchholz, (1978) state that socially aware and concerned management may possess the skills needed to run a superior company in the traditional finance sense. These skills may be sensitivity to outside forces and creative adjustments to external pressures. Similarly, social responsibility may benefit the corporation by creating good will, (Cornell & Shapiro, 1984) and may raise employee morale and result in increased productivity; fewer

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strikes and work stoppages may more than offset the other costs associated with being socially responsible (Marcus, 1993). Alternatively, CSR activities might improve a firm's reputation and relationship with bankers, investors and government officials which may well be translated to economic benefits. A firm's CSR behavior seems to be a factor that influences banks and other institutional investors' investment decisions. Thus, a high CSR profile may improve a firm's access to sources of capital, which in the end is transformed into good financial performance.

The core idea is that corporations and society depend on one another for their well-being, so the cooperation between corporations and society is mutually beneficial in the long run. Although CSR may not produce immediate benefit in terms of financial outcome and there are no unambiguously proved causal linkage between CSR and Profit, the interaction between the two spheres is necessary and useful for corporations (Wallich and McGowan, 1970).

Those who have theorized that a negative effect of social responsibility on business performance exists have argued that a high investment in social responsibility results in additional costs. According to McGuire *et al* (1988), the added costs may result from actions such as "making extensive charitable contributions, promoting community development plans, maintaining plants in economically depressed locations and establishing environmental protection procedures". These costs might put a firm at a financial performance disadvantage compared to other, less socially responsible, firms (Lyll, 2003).

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Taking care of the different stakeholders in regard to business operations can provide a broad range of information about financial and non-financial aspects of an organization's environmental and social performance. Managed social responsibility can generate information about how the use of resources with environmentally and socially related effects affects the financial position and performance of organizations and how organizational operations affect environmental and social systems (Burritt and Schaltegger, 2002).

Conclusions from the research into the effect of CSR practices on business performance are numerous. The need for additional research is evident as the results remain mixed. Higher profits have simply not emerged for all firms practicing CSR. There remains a need for large-scale and secondary data analysis of the effect of CSR on firm value (Lou & Bhattacharya, 2006). Measures of business performance must be constructed using multiple accounting and market measures, examined over time, to add to the wealth of single-variable measurement studies of the last 30 years (Margolis & Walsh, 2003). It's on this premise that the researcher sought to establish what effect Corporate Social Responsibility has on Business Operations and Performance using the Vision Group and Uganda Clays Limited (UCL) as case studies.

## **2.5 SUMMARY OF THE LITERATURE REVIEW**

Managed social responsibility can generate information about how the use of resources with socially related effects affects the operations and performance of organizations and how organizational operations affect social systems. (Hahn and Schaltegger, 2002).

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Research opportunities into the link between CSR and business performance center primarily upon the need for multiple measures of financial and non financial performance and the duration of the time period analyzed. Business performance is better assessed considering the effect on a number of financial measures beyond simple profitability. Additionally, CSR practices can and often do affect business performance negatively, especially in the short-term. Additional research of the long-term financial effect of CSR practices can provide for a more accurate view of the relationship between how a firm fulfills the CSR expectations of multiple stakeholders while generating the business performance expected by shareholders, potential investors and the financial markets.

As sustained growth in business performance is a primary goal for most managers, trends in accounting-based measures are frequently used in evaluating the performance of management. Given that in periods of low profitability economic demands may have priority over discretionary social responsibility expenditures, satisfactory business performance may have a definite influence on the level of support top corporate decision makers can commit to future social responsibility activities (Ullmann, 1985). Based on this argument, it can be suggested that a positive effect of CSR on business operations and performance should exist (Cornell and Shapiro, 1987). In addition, for any evaluation of CSR for financial and non-financial benefits to the organization, clarity around what constitutes CSR practices or actions is needed (Kaspert, 2008).

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## **CHAPTER THREE**

### **RESEARCH METHODOLOGY AND METHODS**

#### **3.0 INTRODUCTION**

A research design provides a framework for the collection and analysis of data and can be in various forms; experimental, cross-sectional, longitudinal, case study or comparative research design. The choice of research design reflects decisions about the priority being given to a range of dimensions of the research process (Bryman, 2004, pg 27). As highlighted by Collis and Hussey (2003), Vogt (1993, pg 196) defines research design as the “science (and art) of planning procedures for conducting studies so as to get the most valid findings”. A proper research design gives a detailed plan that a researcher can use to guide and focus the research.

This chapter is intended to acquaint the reader with the procedures that the researcher followed when carrying out the study. It describes the research methodology and methods adopted for this study thereby explaining the research design.

#### **3.1 RESEARCH PARADIGMS**

Paradigms broadly refer to how research should be conducted. They offer a framework comprising an accepted set of theories, methods and ways of defining data (Collis and Hussey, 2003). Creswell (1998, pg 74) defines paradigms as a basic set of beliefs or assumptions that guide researchers’ inquiries. These assumptions relate to the nature of reality, the relationship of the researcher to what is being researched, the role of values in a study and the process of research. Collis and Hussey (2003, pg 47) identify two main research paradigms; Positivistic and phenomenological. The

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paradigm a researcher adopts has great importance for the methodology as it determines the entire course of the research project.

### **3.1.1 Positivistic Paradigm**

The positivistic approach according to Collis and Hussey (2003) seeks the facts or causes of social phenomena, with little regard to the subjective state of the individual. The two authors further contend that with positivistic reasoning, logical reasoning is applied to the research so that precision, objectivity and rigour replaces hunches, experience and intuition as the means of investigating research problems. Bryman (2004, pg 11) defines positivism as an epistemological position that advocates the application of the methods of the natural sciences to the study of social reality and beyond.

Positivism is founded on the belief that the study of human behavior should be conducted in the same way as studies conducted in the natural sciences. It is based on the assumption that social reality is independent of us and exists regardless of whether we are aware of it. Collis and Hussey (2003, pg 52) conclude under positivism ‘the act of investigating reality has no effect on that reality’. In the same line as highlighted by Wanyama (2006), Burrell and Morgan (1979) note that the term positivism can be used to describe epistemologies which seek to explain and predict what happens in the social world by searching for regularities and causal relationships between the constituents; these reflect traditional research approaches which dominate the natural sciences. The positivistic paradigm is quantitative, objectivist, scientific, experimentalist and traditionalist.

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### 3.1.2 Phenomenological Paradigm

Collis and Hussey (2003) explain phenomenological paradigm as concerned with understanding human behavior from the participant's own frame of reference. It's a qualitative approach that stresses the subjective aspects of human activity by focusing on the meaning, rather than the measurement, of social phenomena. Considerable regard is paid to the subjective state of the individual. A reaction to the positivistic paradigm, it is assumed in this approach that social reality is within us; therefore the act of investigating reality has an effect on that reality.

Wanyama (2006) highlights Burrell's and Morgan's (1979) argument that the common characteristic of the interpretive paradigm is to attempt to understand and explain the social world from, primarily, the point of view of the actors directly involved. Burrell and Morgan conclude that "the interpretive paradigm is informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experience".

The research methods used under this approach are 'an array of interpretative techniques which seek to describe, translate and otherwise come to terms with the meaning, not the frequency of certain more or less naturally occurring phenomena in the social world' (Van Maanen, 1983, pg 9). The phenomenological paradigm is qualitative, subjectivist, humanistic and interpretive. It's also referred to as the interpretivist paradigm (Collin and Hussey, 2003).

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## 3.2 RESEARCH METHODOLOGY

Collis and Hussey (2003, pg 55) define research methodology as the ‘overall approach to the research process, from theoretical underpinning to the collection and analysis of data’. There are quite a number of methodologies depending on the type of paradigm chosen for research as highlighted in research paradigms under Section 3.1 above. Phenomenological methodologies would be similar to Burrell and Morgan’s (1979) subjective dimension while the positivistic would relate to the objective type (Wanyama, 2006). Verily, different methodologies can be used for research by way of triangulation (Collis and Hussey, 2003, pg 78).

A mixed methods approach using existing/archival records and a survey to collect and analyze both quantitative and qualitative data on Corporate Social Responsibility (CSR) practices and Business Performance was used. The first stage of the study has been a review of the existing literature as shown in Chapter 2 of this study. The literature review highlights the case for and theories that explain CSR on one part and the business operations and performance measurement on the other part. It concludes with an analysis of the effect of CSR on Business Operations and Performance.

The research methodology was cross-sectional, seeking to gather data only at the time of the survey; however a multiple year approach was used to correlate annual business performance with CSR practices from FY 2005/2006 through FY 2009/2010 of two different identified case study firms. The selected methodology for this research is appropriate to the intent of the study scope. Measurement of business performance was performed by examining secondary data sources and trends; however, a customized interview guide survey approach was needed to collect data representing

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respondent's likely decisions as regards CSR and its effect on business operations and performance. Corporate annual reports, as well as compiled financial measures for the selected firm were used for analysis of performance for the 4 year period.

Quantitative and qualitative approaches are appropriate to answering the research questions proposed. The quantitative collection and analysis of existing financial records is necessary for multi-year comparisons to self reported and publicly available information on corporate social practices of the firm under study. This approach was considered for drawing relationship conclusions between CSR practices or levels in a given year and overall results across multiple indicators. Data collected was interpreted for drawing conclusions on the effect of CSR practices on business operations and performance.

### **3.3 RESEARCH METHODS**

Collis and Hussey (2003, pg 54) define research methods as the various means by which data can be collected and/or analyzed. Primary and secondary data was collected for this study. The researcher identified interviews and questionnaire survey as the methods of collecting primary data for this study. Documentary review and secondary analysis was applied to archival/existing records.

#### **3.3.1 Interviews**

Interviews are a method of collecting data in which selected participants are asked questions in order to obtain information on issue(s) of interest and can take a structured, or unstructured (open ended) form (Sekaran, 2004, pg 227). Structured interviews are those conducted when it's known at the outset what information is

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needed and of a list of predetermined questions asked of everybody in the same manner with the aid of a formal interview schedule.

In contrast, unstructured interviews are those where the interviewer does not enter the interview setting with a planned sequence of questions to be asked of the respondent. The type and nature of the questions asked vary from interview to interview (Sekaran, 2003, pg 225). In line with Sekaran, Bryman (2004, pg 545) describes unstructured interview as ‘an interview in which the interviewer typically has a list of topics or issues, often called an interview guide, that are typically covered but with phrasing and sequencing of questions varying from interview to interview. Bryman (2004, pg 545) however sets the middle ground by describing a semi-structured interview in which the interviewer has a series of questions that are in the general form of an interview guide but is also able to vary the sequence of questions. The interviewer usually has some latitude to ask further questions in response to what are seen as significant replies.

Semi-structured interviews were conducted for data collection to comprehensively cover areas discussed in the literature review of this research with the possibility that significant other issues could be raised during the interview. A cross-section of corporation managers, lawyers, HR administrators, accountants and sales & marketing staff were interviewed from the media and building materials industries depending on their willingness to participate in the research. Selection of respondents depended on their knowledge, experience and engagement in the concepts of Corporate Social Responsibility and Business Operations and Performance.

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### **3.3.2 Survey Questionnaire**

Questionnaires are an efficient data collection mechanism when the researcher knows exactly what is required and how to measure the variables of interest (Sekaran, 2004, pg 236). In the same line as interviews, questionnaires can also be categorized as structured, semi-structured or unstructured. The main reason(s) the researcher used questionnaire survey alongside interviews was derived from questionnaires being a cheaper option and less time consuming as well as offering possibility of having a large sample for the study data.

A survey questionnaire was administered to respondents in a semi-structured form for the collection of primary data. The questionnaire instrument used in this study sought to understand generally the importance entities put in designing CSR programs (e.g., how important is it to you that the company engages in socially responsible behavior?) and factors that influence the practice of CSR in Uganda.

### **3.4 STUDY POPULATION**

The study population for this study was derived from two case study firms both publicly traded on the Uganda Stock Exchange (USE), one, dealing in media services and the other dealing in building materials. The total population for this study from the study firms was 120, a population of 15 from top management, 39 from middle management and 66 from lower level personnel. Firms were selected to ensure comparability in size. A sample of respondents was selected from these firms and contact was limited to examination of public financial and CSR records of the selected firms. The sample was disproportionately spread across the different levels (operational, tactical and strategic) of the corporations chosen for this study.

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### **3.5 SAMPLE SIZE AND SELECTION STRATEGIES**

Stratified sampling was applied where respondents in the identified population were subdivided into strata as: Managers, Accountants, Administrators, Marketing executives; each at least representing the different operational levels and business units of the corporation. As a measure to assure that the different units in the population had equal probabilities of being chosen, a stratified random selection method (Creswell, 2003) was used wherein a disproportional sample from each of the entities was randomly selected.

It was planned to have a sample size of 58 respondents with 50 under questionnaires and 8 under interviews. The proposed sample comprised of 8 top management officials, 26 middle management officials and 24 operational level staff. This number was chosen because it was thought that it would give sufficient data required for this study. A disproportionate stratified random sampling procedure was used to select the sample where; respondents were sorted by level in the management hierarchy and a percentage in each level calculated as 53%(8) from top management, 67%(26) from middle level management, and 36%(24) from the operations level staff.

### **3.6 DATA ANALYSIS**

Data analysis consisted of separate and distinct approaches of the variables that were to be measured. CSR practices were measured using the degree of CSR expenditure in each year as a percentage of gross revenues and business performance was measured using ratio analysis and descriptive statistics (calculation of means and standard deviations) where possible. The balanced scorecard was embraced for this study.

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Trending analysis for each measure of the collected data over the 4 year period was done for the financial measurements and a comparison was made with the CSR variable. This was to shed light on whether CSR practices influence/affect business performance and determination of any disconnects.

### **3.7 VALIDITY AND RELIABILITY**

To ensure validity of the survey instrument, the researcher made sure that the questions asked were in conformity with the research objectives of the study. These were rated on a Likert scale; strongly disagree, disagree, neither agree nor disagree, agree, and strongly agree. A pilot test of the survey instrument was conducted and a calculation using Cronbach's alpha was computed for question reliability assessment. Use of additional methods for reliability testing was deemed inappropriate given the time constraints. Table 7 shows the results from the questionnaire reliability test as below.

**Table 7: Reliability Statistics**

Cronbach's Alpha	N of Items
.839	41

*Source: Primary data.*

An alpha score of .70 or greater was deemed acceptable and implied high reliability.

### **3.8 ETHICAL CONSIDERATION**

All information used to fulfill the research objectives of this research was gained from publicly accessible sources or directly from the companies being researched on. Where contact was required, the researcher approached the corporation management using a letter of recommendation from the University. A copy is provided as

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Appendix I.

Respondents were adequately informed about the procedures of the data collection and the survey was to remain anonymous (no provision for identifying the respondent on the survey questionnaire existed). Both the questionnaire and interviews were only conducted with willing respondents.

### **3.9 SUMMARY**

This chapter presents the research methodology and methods adopted for this study. A cross-sectional methodology was adopted to collect both quantitative and qualitative data that was used to correlate CSR practices and business performance. Data collection consisted of interviews and a survey questionnaire in modified form to collect data for this study from 58 stratified randomly selected respondents. These methods were selected because of their convenience in the collection of data.

The key question, one that is central to this research, was “What effect has CSR on business operations and performance?” The researcher hopes the methods proposed in this chapter answered the question posed as well as providing more justification and guidance as specified under Section 1.6. Chapter 4 presents the results of the data collection process as a result of employing the research methodologies described in Chapter 3.

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## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.0 INTRODUCTION

The main objective of this study was to determine the effect of Corporate Social Responsibility on Business Operations and Performance of Companies. This study seeks to provide knowledge and understanding about CSR and its effect on business performance for leaders of organizations and how best to satisfy multiple stakeholders. This study also seeks to find out which factors influence entity CSR practices and approaches.

The study sought to examine what kind of effect Corporate Social Responsibility practices has on Business Operations and Performance of the selected Corporations. In addition, the study also sought to establish the trend of business performance of the study firms and the factors that influence the practice of the identified CSR practices.

Data collection regarding factors that influence the practice of CSR and approaches adopted was undertaken using a survey questionnaire developed by the researcher. Financial performance data was gathered through the examination of existing statistical and public corporate information from annual reports. Use of existing statistical research is appropriate and recommended by Neuman (2005) when researchers are centered on topics involving information collected by organizations. Secondary source research was found appropriate for assessment of business performance for this study.

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This chapter presents the research findings of the study and a discussion of those findings. All statistical tests were performed using Microsoft EXCEL 2003 and SPSS software programs. Financial data collected was analyzed and annual percentage changes calculated in key financial measures over a four year period.

The financial results from FY 2007-2010 for two publicly listed corporations in Uganda were examined in comparison with the CSR practices/expenditure in each of the four years. The researcher sought to identify whether business operations and performance moved in tandem with the level of CSR practices in each firm during each of the four years. Factors that influence CSR practice and entity approaches were assessed using the results from the questionnaire survey. Commonly accepted descriptive statistics including measures of central tendency for frequency distribution and standard deviation as a measure of variation were determined, as advocated by Neuman (2003) and Stephens (2004).

The data analysis performed allowed for the research questions posed to be answered, namely:

- What factors influence the practice of CSR in Ugandan Corporations?
- What are the different approaches used by Corporations in their practice of CSR?
- What has been the trend of Business Operations and Performance of the Corporations under study over the last four years?
- What is the effect of Corporate Social Responsibility on Business Operations and Performance?

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#### **4.1 DATA COLLECTION PROCESS**

Two publicly listed Corporations in Uganda, one dealing in media services and another in construction materials were selected for this study. These were selected owing to their history as market leaders in the respective industries and the availability of public information pertaining to their operations and performance. Both firms have over the years highlighted in their annual reports as being socially responsible and engaged in different CSR activities.

Archival data in the form of corporate annual reports were gathered from the public websites of each of the two companies. Direct contact was also made with the different departments of the companies to secure information that was not available for public view on the website. Corporate annual reports were used to calculate the five financial measures (Net Profit Margin, Return on Capital Employed, Return on Shareholders' funds, Return on Assets and Earnings per Share) for each of the study companies for each year from 2007 – 2010.

Data collection by questionnaire survey related to the factors that influence CSR practices and approaches to CSR by the firms. As the corporations did not have sustainability reports produced over the years, annual corporate reports were used instead to corroborate data collected through use of the questionnaire survey. An interview guide was also used to collect primary data from management where a questionnaire approach was not possible.

Important to note is that the two corporations were not being compared to each other, so the use of differing sources across companies, but consistent sources within each

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corporation and the resultant differences in source documents were not deemed significant.

The data collection process associated with the survey used in this research began with contacting the management of the corporations for permission to access staff and information deemed not for public consumption. Permission was sought and granted for the researcher to administer a questionnaire to staff and also have access to the budgets and details of the financials of those corporations. Survey data collection consisted of development and pilot testing of the survey questionnaire.

#### *Survey process*

The survey questionnaire was administered in July 2011 to a cross-section of staff including those from Finance, Sales & Marketing, Operations, Management and Administration of the Corporations. The survey questionnaire comprised of 13 questions and these were sub-divided into other questions. In total the questionnaire had 41 items divided into different sections and were designed on a Likert scale approach. Questions on general issues were asked as well as those that focused on the research questions. The survey questionnaire used for this research study is attached as Appendix II.

The questionnaire was tested for functionality where Cronbach alpha scores were computed using SPSS. The results from the functionality test are as shown in table 8 below.

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**Table 8: Questionnaire functionality test results**

Factor	Cronbach's Alpha Based on Standardized Items	N of Items
Business of business is business	.771	5
Caring for customers and community	.741	4
Profit through caring	.908	2
Other Factors	.775	5

*Source: Primary data.*

An alpha score of .70 or greater was deemed acceptable for non-clinical research reliability (Groth-Marant, 2003; Hair, Anderson, Tatham & Black, 1998). As is noted, the questionnaire variables displayed alpha scores as a group of .804, .740 and .775 respectively.

*Study population and sample*

The study population in the two corporations totaled 120 of which 50 were randomly selected to mirror the general population. The sample of 50 respondents comprised 28 respondents from Vision Group and 22 respondents from Uganda Clays Limited. Respondents were 56% male and 44% female. Approximately 56% of the respondents were of age 30-39 years, 24% were of 18-29 years and 18% were of 40-49 years. 1 respondent didn't indicate his/her years. In addition to the 50 respondents, 7 interviews instead of the planned 8 were held by use of an interview guide in appendix III; 2 with the management officials of UCL and 5 with management officials of Vision Group.

The questionnaire survey respondents were analyzed and grouped into different departments, given their importance in the CSR practices of the corporations under study. Basic respondent data is as shown in table 9 below.

**Table 9: Basic respondent data (questionnaire survey)**

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Male	28	56.0
Female	22	44.0
<b>Total</b>	<b>50</b>	<b>100.0</b>
<b>Age range</b>		
18-29 years	12	24.0
30-39 years	28	56.0
40-49 years	9	18.0
Total	49	98.0
Missing	1	2.0
<b>Total</b>	<b>50</b>	<b>100.0</b>
<b>Function</b>		
Finance	16	32.0
Production	6	12.0
Quality control	3	6.0
Sales and marketing	11	22.0
Management	7	14.0
Others*	7	14.0
<b>Total</b>	<b>50</b>	<b>100.0</b>

*Source: Primary data.*

\*Other functions specified include 4 from Internal Audit, 1 from IT and 2 from Operations.

The interviewees were also analyzed and grouped into different departments as shown in table 10 below.

**Table 10: Basic respondent data (interview guide)**

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Male	4	57.1
Female	3	42.9
<b>Total</b>	<b>7</b>	<b>100.0</b>
<b>Age range</b>		
18-29 years	1	14.3
30-39 years	3	42.9
40-49 years	3	42.9
<b>Total</b>	<b>7</b>	<b>100.0</b>
<b>Function</b>		
Finance	4	57.1
Human Resource and Administration	1	14.3
Legal/CSR Committee	1	14.3
Sales and marketing/CSR Committee	1	14.3
<b>Total</b>	<b>7</b>	<b>100.0</b>

*Source: Primary data.*

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### *Data analysis*

Data analysis associated with financial performance was conducted while the researcher awaited the completed questionnaire surveys. Ratios were computed and analyzed for each of the two companies in the study to determine the degree of change of each of the five measures of financial performance namely; Net Profit Percentage change year to year, Return on Capital Employed change year to year, Return on Shareholders' Funds change year to year, Return on Assets change year to year, and Earnings per Share change year to year change in the levels of CSR as a percentage of revenue.

## **4.2 PRESENTATION OF RESULTS AND FINDINGS**

This section deals with the presentation, discussion and analysis of findings obtained from the data collected using the methodology described in Chapter three. Data is presented in tables and later discussed and analyzed.

### **4.2.1 CSR management**

Respondents were asked in questions 5 and 6 of the questionnaire whether the corporations under study had a CSR policy and whether the existent policy was written down. 94% believed that the study companies had CSR policies in place and of these, 70% believed that the policy was written down. Respondents were also asked in question 11 whether the corporations under study aligned their CSR practice with financial priorities and this yielded a mean of 1.10 and standard deviation of .303. Questions 12 and 13 required respondents to state whether CSR was part of the annual budget and what percentage of the budget was allocated to CSR. The results from Question 12 yielded a mean of 1.06 and standard deviation of .240. Question 13

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results indicated that Vision Group allocates <5% of their sales to CSR and Uganda Clays Limited allocated 2% - 3% of their sales to CSR. From the results of questions 11, and 12, one may conclude that the corporations under study do not align their CSR practices with financial priorities, neither do they make CSR part of their annual budget.

The researcher confirmed from secondary sources that although attention was being paid to some social costs, assessment of the degree to which the costs were being identified and allocated to specific products and business processes was not easily revealed. It was also observed that CSR activities' costs were at times allocated to products generically and at times charged to administration and business promotions overheads.

#### **4.2.2 Factors that influence the practice of CSR in Uganda Corporations**

Question 7 highlighted a number of factors that influence CSR practice and respondents were asked whether they were in agreement with the identified factors. Statements in this question were rated on the 5 point Likert scale ranging from 1 = strongly disagree, 2 = disagree, 3 = neither agree nor disagree, 4 = agree and 5 = strongly agree. Item means and standard deviations measuring a level of agreement were computed from the respondents' responses. Table 11 below shows respondents' views on factors that influence the practice of CSR in Uganda corporations.

**Table 11: Views on factors that influence the practice of CSR**

Factors that influence our CSR practice	Business of business is business		Caring for customers and community		Profit through caring		Other factors	
	Mean	Standard Deviation	Mean	Standard Deviation	Mean	Standard Deviation	Mean	Standard Deviation
Profit maximization	3.16	1.419						
Long-term survival	3.78	1.112						
Customer approval	3.74	1.121						
Customer loyalty maintenance	3.84	1.131						
Enhancement of corporate image	4.32	1.019						
Addressing community needs			3.88	1.136				
Community acceptance			3.90	1.074				
Better contribution to community welfare			4.08	1.027				
Environmental conservation			3.68	1.168				
Enhanced staff morale					3.60	1.069		
Improved staff welfare					3.52	1.111		
The organization's interest in CSR							3.76	1.098
Competitor practices							3.24	1.349
Industry standards							3.64	1.102
Reducing business risk							3.34	1.189
Increasing rivals' costs							2.90	1.374
<b>Overall Mean/Std. Deviation</b>	<b>3.7680</b>	<b>.84017</b>	<b>3.8850</b>	<b>.82408</b>	<b>3.5600</b>	<b>1.04315</b>	<b>3.3760</b>	<b>.88860</b>

*Source: Primary data.*

From table 11 above, the overall means of the four different categories of factors posed to respondents are all above 3, and almost 4 for category ‘caring for community and customers’, significantly showing that there is agreement of respondents to the factors that influence CSR practice. An overall standard deviation of <1 for categories ‘business of business is business’, ‘caring for community and customers’, and ‘other factors’ further confirmed that indeed means of 3.7680, 3.8850, and 3.3760 represented the general level or true measure of agreement. Exception was noted in the response mean of ‘profit through caring’ with a mean of 3.5600 and standard deviation of 1.04315.

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'Business of business is business' category was aimed at stressing the importance of businesses making sufficient profits for their survival and growth to be able to serve societal needs. Respondents were asked whether they believed profit maximization to be an influencer to the corporation's practice of CSR and this was accompanied with a mean of 3.16 and a standard deviation 1.419. Questions in this category were aimed at replicating propositions of Friedman (1970) who stressed that CSR is not the primary concern of businesses which should be concerned about making profits for the shareholders and the needs of the community to be served by the products and services provided by the companies. Interestingly, results from this survey indicate that respondents felt enhancement of corporate image and customer loyalty maintenance are factors that influence most their respective corporation's CSR practices with means of 4.32 and 3.84 respectively. These were followed by long-term survival and customer approval with means of 3.78 and 3.74. Much as profit maximization received a low mean result, the researcher observed responses in this category as a clear representation of the need to keep customers happy which is central to sales growth which may in the end enhance profits.

Respondents were also found to be in agreement with the statements under 'Caring for customers and the community'. The overall response to this category of factors resulted into an overall mean of 3.8850 and a standard deviation of .82408. The statement with the highest mean in this category was "Better contribution to the community influences our CSR practice" with a mean of 4.08 and a standard deviation of 1.027. This was followed by "community acceptance", "addressing community needs" and "environmental conservation with means of 3.90, 3.88, 3.68 and standard

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deviations of 1.074, 1.136 and 1.168 respectively. Statements in this category of factors were designed to represent a corporations' willingness to ensure a reasonable financial return for its investments and, at the same time, address the issues of environmental conservation and the expectations of the community. The issues of responsibility to the community and the environment were examined in line with the discussion in Chapter two of this study.

The statements under 'profit through caring' yielded an overall mean and standard deviation at 3.5600 and 1.04315 respectively. Respondents were of the view that CSR practices are also dully influenced by the need to enhance staff morale and improved welfare with means of 3.60 and 3.52 and standard deviation of 1.069 and 1.111 respectively. Respondents under this category clearly illustrated a business's sincerity with regard to its obligations to the internal markets comprising the most valuable constituents, their employees. This clearly showed a passion for balancing the economic and social obligations of corporations. This category received the lowest mean and a more dispersed measure of central tendency. Important to note is that in Uganda, staff welfare issues are more or less mandatory as corporations are obliged to follow a number of legislations covering employees and conditions of work at the work place. These were highlighted in the literature review of this study.

A mix of factors were categorized under 'other factors' by the researcher and respondents felt that CSR practices in their corporations was also influenced by the "business' interest" in CSR and "industry standards" These yielded means of 3.76 and 3.64 respectively. Respondents were also of the view that "reducing business risk", "competitor practices" and "increasing rivals' costs" were not influencers in their

corporation's CSR practice, with low resultant means of 3.34, 3.24 and 2.90. The highest means in this category suggest that businesses are interested in undertaking CSR activities if management embraces the concept of CSR and if there is an industry – wide practice of CSR. The middle level agreement on competitor practices seemed to suggest that businesses are driven by their willingness to match the activities of competing firms only for strategic reasons and instances where the business risk is reduced as a result of good CSR practices.

#### 4.2.3 The different approaches used by Corporations in their practice of CSR

The second research question sought to establish the different approaches used by entities in their approach to CSR. Respondents were asked in the questionnaire survey which CSR activities had been committed to CSR by the corporations they work for. The different CSR activities had been picked from the various aspects of CSR commitments as highlighted in chapter two namely; responsibility towards customers, responsibility towards community, responsibility towards customers, responsibility towards environment and responsibility towards investors. Findings from the survey questionnaires are as follows in the table 12 below.

**Table 12: Views on CSR approaches by corporations in their practice of CSR**

Aspect	Response	Frequency	Percent
The Company provided preventative health, safety & good working conditions	Yes	50	100.0
The Company provided funding to community's well being in 2010	Yes	40	80.0
	No	10	20.0
The Company enhanced product quality, customer care & instituted ethical advertising	Yes	50	100.0
The Company integrated environmental management into business processes	Yes	38	76.0
	No	12	24.0
The Company sent only 5% of manufacturing waste to landfills	Yes	12	24.0
	No	38	76.0
The Company instituted sound systems to guide investor decisions	Yes	39	78.0
	No	11	22.0

*Source: Primary data.*

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*Responsibility towards employees*

All the sampled respondents agreed that their company had provided them with health, safety and good working conditions. The 100% commitment to employees was largely in part that in Uganda, businesses are by law required to provide health services and generally acceptable good/safe conditions of work under provisions of the Employment Act 2006, Occupational Health and Safety Act 2006. The respondents that were interviewed were of the view that commitment of companies to employees was a way of avoiding risks associated with losing productive employees and of motivating employees. “A critical component of our responsibility to the employees is the health programme, through which medical cover is extended to our employees, their spouses and dependants” (UCL Annual report, 2008). The researcher observed from the interviewees that their engagement in this area was more of compliance as the benefits outweighed the costs.

*Responsibility towards the community*

80% of the respondents agreed that their company had provided funding to the community’s well being in the year 2010. This was confirmed from the annual reports of the companies where it was found that Vision Group run a number of stories geared at encouraging breast-feeding among working mothers, breast cancer campaign where survival stories were published highlighting the plight of young women living with breast cancer, HIV/AIDS awareness as well as financial support to Buganda Kingdom for the reconstruction of Kasubi tombs. UCL in its commitment to the community provided building materials to Kajjansi Police Post, as a donation towards the extension of the traffic office in March 2010. In the same year, the researcher observed that UCL provided relief and support for the victims of the

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Bududa landslides where about 350 people and property worth millions of shillings were washed away on 1<sup>st</sup> March 2010. From the interview responses, the researcher got to understand that Vision Group engages in community initiatives as a way of being a good corporate citizen and UCL's management believes strongly in giving back to communities in which it operates as this is in line with the company's strategic objectives and vision.

*Responsibility towards customers*

This was another aspect of CSR commitment where all the respondents (100%) agreed that activities aimed at making the customers happy and feel part of the company were engaged in by the company. Substantial investments aimed at improving product quality were indeed noted from the annual reports ranging from staff training and development (performance management) to capital expenditure in modern equipment. From the interview, the researcher was informed that CSR is used as a marketing strategy where the market is meant to perceive the organization as a pro-people company, make customers feel connected to the business thereby improving customer satisfaction and financial returns. Indeed, some of the CSR expenditure from the corporations under study was found to have been incorporated in the marketing budget where there was ease of contact with the customers. Specifically, Vision Group has regularly redesigned its newspapers to meet the ever changing reader needs and keep them up-to-date with global trends. Customers out of these initiatives have enjoyed balanced news and enhanced reader value due to the wide coverage of information/news through; education vision & jogs, women's vision, health & beauty, farming, business vision and weekend vision. UCL as a way of being responsible to its customers instituted efficiency improvement measures in

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order to give better service to their customers. This was through staff training in areas of productivity improvement and work performance enhancement. This has enabled the introduction of new quality products on the market namely; KK vents, ZZ vents, Galda vents, Floor tiles D, Max pan 2 and Kamlesh bricks. The foregoing initiatives in innovation and product quality were some of the examples to highlight the corporations' duty to act responsibly towards their customers. As highlighted in Chapter two of this study, a company has a duty to act responsibly towards customers through providing goods and services hallmarked by integrity, quality and care (Carly, 2002).

#### *Responsibility towards the environment*

Respondents were asked whether their company integrated environmental management into the business processes and 76% did agree. It was established that at the time of undertaking this research, UCL had taken the initiative to establish and implement an Environment Management System based on ISO 14001:2004 series of standards and the TORs had been approved by National Environment Management Authority (NEMA). This was in addition to ISO 9001:2000 (Quality Management System), the company already has. Archival data seen revealed that at the Kamonkoli factory, plans were underway to create fish ponds in the areas from which clay had been extracted. The company management felt that fish farming being one of the livelihood activities for the community in this area, the fish ponds would be open to the people for this purpose. Furthermore, as a way of being responsible to the environment, the researcher observed that the company was encouraging environmental conservation in Kamonkoli by emphasising tree planting. This was by way of distributing tree and fruit seedlings to the community.

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### *Responsibility to Investors*

78% of the respondents agreed that there were initiatives in place to institute sound systems to guide investor decisions. As documented in Chapter two, managers have a responsibility to ensure that they do not act irresponsibly towards shareholders by denying them their due earnings or misrepresenting company resources. It was established from the study firms that there was commitment to the highest standards of corporate governance where full disclosure of operating results and other material information was made available to company shareholders, the general public and the requisite regulatory bodies like the Uganda Securities Exchange (USE) and Capital Markets Authority (CMA). Vision Group and UCL by virtue of being listed on the USE have an obligation to submit reports regularly to CMA and publish their annual audited accounts and half year unaudited accounts in the newspapers for the shareholders' information needs within a specified period of time. Listed companies are by law supposed to distribute to shareholders and submit to the Exchange their annual report within 4 months after the end of the financial year and at least within 21 days before the date of the AGM (Reg. 47, USE Listing Rules, 2003).

The researcher from archived information did confirm that in an effort of fulfilling the responsibility of reporting to investors, Vision Group published their financial results of FY ending 30<sup>th</sup> June, 2010 in the New Vision newspaper of 16<sup>th</sup> September, 2010 and the unaudited results for the half year ending 31<sup>st</sup> December, 2010 on 31<sup>st</sup> January, 2011. UCL in the same line as Vision Group also published their audited accounts of FY 2010 in the New Vision newspaper on 09<sup>th</sup> May, 2011 and the unaudited half year results of FY 2011 on 3<sup>rd</sup> August, 2011. Soft copies of the annual reports were also viewed posted onto the corporation's websites with details on the financial reports and

CSR activities undertaken over the years. From the annual reports, the corporations under study were seen to be actively demonstrating to investors that corporate social responsibility makes good business sense, and they were already seeing the benefits it can bring them in terms of risk management and attracting investment. The researcher confirmed that through the requirement of keeping in touch with investors, an investor relations desk had been put up in Vision Group to provide much more than just financial results like playing a pivotal role in helping investors appreciate the business case for social responsibility and its practical effect on the business' performance.

#### 4.2.4 Business Performance and Operations of Vision Group and UCL

This research question was for the purpose of acquainting the researcher with trends in the business operations and performance of the study firms. Respondents were asked whether they were in agreement with a number of statements pertaining to the business operations and performance of the respective firms over the last four years. Attempts were made to replicate the balanced score card as highlighted in Chapter two of this study. Table 13 below shows the findings from the research survey questionnaire.

**Table 13: Views on Business operations and performance of study firms**

	Mean	Std. Deviation
The company attempts to identify and measure costs of social responsibility activities	3.70	1.282
The company has Social Responsibility compliance and regulatory measures in place	3.70	1.216
The company sets particular objectives for its accounting and conversion process	3.84	1.057
Use of recycling has doubled over the last 4 years	3.08	1.175
Product/ service attributes have improved in the last 4 years	4.04	1.029
Customer relationships have improved over the years	4.12	.940

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Image and reputation of the company has improved over the years	4.24	1.080
New products and services have been developed in the last 4 years	4.28	1.213
There has been growth in the entity's business value	4.20	1.309

*Source: Primary data.*

### *Customer perspective*

Respondents were asked whether there were trends of improvement by the company in aspects that matter to customers. This was to be measured with regard to; product and service attributes, customer relationships, image and reputation among others. With a mean of 4.04, 4.12, and 4.24, it is deemed that respondents did agree to the research question that there were improvements made to satisfy the customers. Archival information seen from the Vision Group showed that the company has grown from a print only to a truly multi-media business incorporating newspapers, magazines, radio stations and television with an overall 60% market share in the print media and 65% advertising spend of the market (Rights Issue Information Memorandum, 2008).

New products have been developed over the years at Vision Group like launch of Vision Voice (now XFM) in 2007, launch of Flair in 2008, Bukedde FM in 2008, and Bukedde TV in 2009. While new products have been introduced at the Vision Group, old ones have been rebranded like the New Vision and its sister papers (New Vision, 8<sup>th</sup> August, 2010), Vision Voice (now XFM) among others, to add more product attributes and enhance image and reputation of the Company. From the archival sources, the researcher observed that product quality has also been supported by the investment in technology (New Vision, 9<sup>th</sup> March, 2011).

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A survey on the most read dailies in Uganda by Synovate Uganda in December 2010 showed that two of Vision Group's brands were the most read at 35% for New Vision and 29% for Bukedde as compared to The Daily Monitor at 25%, Red Pepper at 17% and Kamunye at 3%. These are as shown in Figure 1 below.

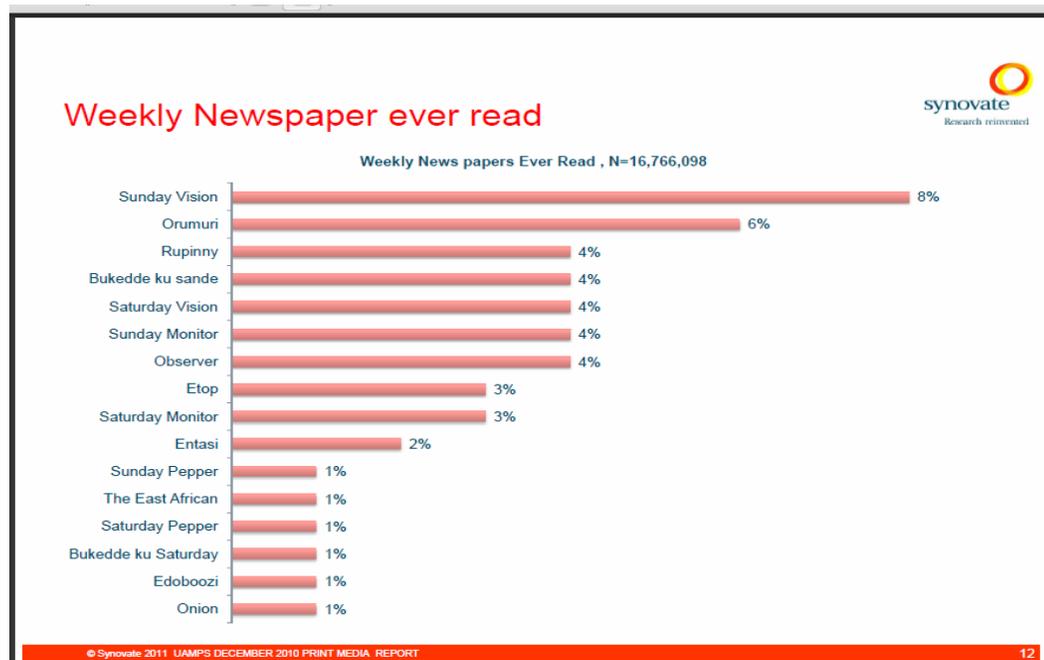
**Figure 2: Daily Newspaper readership survey results**



*Source: Synovate Print Media Report, 2011*

The same was for the weeklies papers with Vision Group papers taking the 5 top slots; Sunday Vision topping the list at 10%, Orumuri at 6%, Rupiny, Bukedde ku Sande, and Saturday Vision all at 4% as compared to Sunday Monitor at 4%, Observer at 4%, Saturday Monitor at 3% and Sunday Pepper at 1% (Synovate Uganda, 2010). The foregoing are as shown in Figure 2 below.

**Figure 3: Weekly Newspaper readership survey results**



*Source: Synovate Print Media Report, 2011*

The researcher also found out that as a way of giving more value to their customers and tapping into new customers, UCL has also over the last 4 years introduced new products on the market namely; KK vents, ZZ vents, Galda vents, Floor tiles D, Max pan 2 and Kamlesh bricks. The secondary data also showed that the two firms have rebranded their logos in the last 4 years as a way of improving their reputation and image.

#### *Internal Business processes perspective*

This perspective looks at the efforts by companies aimed at improving internal processes and decision making. Measures range from development of new products, products and services delivery. Respondents were asked whether over the years, there were initiatives by the company to improve on their internal processes and whether

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there were new products developed and put on the market. The computed findings show a mean response of 4.28, which falls in the category of agree on the Likert scale adopted for this study. As already highlighted under customer perspective above, new products have been introduced to the market and new modern internal processes introduced by the study firms with a focus on achieving financial and customer objectives. UCL for example in 2008 set up a modern, state-of-the art factory at Kamonkoli, which is semi-automated and designed to recycle energy through an internal drying system. With this new modern internal process, drying time of the products has been cut down and as a result, productivity and output have significantly increased over the years (Annual report, 2008). Important to note however is that, investment in this new factory has led to massive debts for UCL and its bad performance with a loss of 707,062,000/- in 2009 and 3,858,961,000/- in 2010 in addition to the high finance costs. UCL's business risk arising out of this investments points to a grim picture for the company in the immediate future and has inevitably led to the fall in the EPS of UCL from 3.05 in 2007 to (4.82) in 2010 and the share price from UGX 100 per share at the time of the share split to the present price of 55 per share at the time of writing this report. Important to note is that much as UCL has given back to the community and taken initiatives to conserve the environment, there are concerns for the investors where there has been no dividend payment since FY 2008. One may conclude that UCL has not performed well in the CSR shareholder theory perspective as proposed by Friedman (1970)<sup>2</sup>

Vision Group under the perspective of internal business processes has automated a number of functions in its operations as a way of increasing its efficiency (Annual report, 2010).

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<sup>2</sup> Business has only one social responsibility and that is to maximize the profits of its owners.

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### *Innovation and Learning perspective*

This perspective was incorporated in the questionnaire as a way of analyzing whether there were attempts by the study firms to continually improve and create future value. Focus of analysis was on business capacity to maintain a competitive position through the acquisition of new skills and the development of new products. Archival sources at the study firms showed that human resource development and training was one of the considerations by management to improve and create future value of the business. In their 2010 Annual Report, UCL reported that it has continued to emphasize the development of their human resources who play a significant role in the productivity of the company. Vision Group also reported in their 2010 Annual Report that they had significantly invested in skills acquisition of their staff to be able to manage the new business lines as well as create a competitive advantage for the predominant existing business lines. The research findings also show that information system capabilities have also been a platform for the study firms to improve on efficiency in the company operations. Under this perspective, the researcher noted that Vision Group has over the years upgraded its Internet service to cater for growing related business needs including online banking, Internet search and communication (Annual report, 2010).

### *Financial perspective*

Respondents did agree that there had been growth in the business value of the study firms. This response yielded a mean of 4.20. As highlighted in Chapter two of this study, proper accounting and financial reporting is one of the critical and important responsibilities of management, especially in public-quoted companies. This perspective approach focused the researcher on the financial performance of the study firms as it was part of the main research question. Archival sources showed that

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indeed there was good performance and growth in the overall business value of the study firms as shown in Table 14 below.

**Table 14: Vision Group's financial results 2006/2007 – 2009/2010**

Vision Group	2006/2007	2007/2008	2008/2009	2009/2010
	Shs '000	Shs '000	Shs '000	Shs '000
Sales Revenue	32,633,131	39,061,869	43,200,812	49,947,578
Net Profit/(Loss)	3,368,276	4,720,643	2,182,847	734,786
Total Assets	18,307,057	23,209,320	55,186,141	59,762,245

*Source: Vision Group Annual report, 2007 – 2010.*

From table 14 above, Vision Group's sales revenue has been growing over the years from 32.6billion in 2006/2007 to 49.9billion in 2009/2010, registering a 53.1% growth over the 4 years of study. The researcher observed from secondary sources that this good performance was experienced in all the business platforms; circulation, commercial printing, advertising among others.

Net Profit grew by 40.15% for the two years 2006/2007 and 2007/2008, only to slump by 53.76% in the FY 2008/2009. For the 4 years under study, 2006/2007 – 2009/2010, the company registered an overall decrease in net profit of 78.19%. This decrease was however explained in the Group's annual report 2009/2010 as coming from a number of factors that increased the cost of sales notably; increased inputs to meet the growth in volume of business, depreciation of the shilling against the dollar (most of the inputs are imported in foreign currency while earnings are in shillings) among others. There were also notable increases in administration costs arising out of the need to finance operations of new investments in television and radio, fuel costs and depreciation. The researcher also found out that a disposal of the printing press at

a price lower than the book value was also a significant contributor to the reduction in the profitability of Vision Group.

Indeed on close examination of the Vision Group FY 2009/2010 accounts, the researcher confirmed that; cost of sales grew by 18.5% from 30.1bn to 35.6bn and administration by 14.2% from 8.8bn to 10.1bn. Specific increments were in depreciation at 65.4%, motor vehicle running costs at 88.1%, grants and donations at 170%, Insurance at 76.9%, TV content at 100+% (new investment) and security at 97.9%. Notably, all these increments were higher as compared to the growth in sales revenue of 15.6% in the FY 2009/2010. The researcher also confirmed a disposal of PPE in the FY 2009/2010 worth 3.3bn that registered a loss on disposal of 1.4bn.

From the secondary sources seen by the researcher, Vision Group posted impressive growth in its Total Assets registering a combined 226.4% over the years. The researcher through examination of the FY 2008/2009 accounts found out that, overall business value grew to a tune of 27.2billion as a result of inclusion of the rights issue proceeds and this helped in financing a number of investments notably; a new printing press at \$9m (18billion), pre-press equipment, expansion of radio & TV business and a new purpose-built factory at \$5m (10billion) over the years.

**Table 15: UCL's financial results 2007 – 2010**

UCL	2007	2008	2009	2010
	Shs '000	Shs '000	Shs '000	Shs '000
Sales Revenue	11,699,713	13,548,257	16,722,124	17,792,671
Net Profit/(Loss)	2,107,841	2,151,982	(707,062)	(3,858,961)
Total Assets	39,758,943	52,470,889	57,461,644	40,120,783

*Source: Uganda Clays Limited Annual report, 2007 – 2010.*

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From table 15 above, UCL's sales revenue grew by 52.1% from FY 2007 to FY 2010. The researcher found that this positive shift in growth of sales was due to the demand for the Company's products and increased marketing strategies that led to the opening up of outlets in strategic locations in Uganda and the East African region. The improved performance in sales revenue was also found to have arisen out of the increased output with the coming on board of Kamonkoli factory in May 2009 and the increase in the prices for bricks and tiles by 9% over the years under review. Important to note was the reduced production losses at Kamonkoli resulting in a rise from 1359 tonnes of roofing tiles and half brick in the first quarter of 2010 to 5351 tonnes of the same products in the first quarter of 2011.

The researcher on analysis of the financial statements in the annual reports found out that there was minimal growth in the net profit of UCL, with only a 2% growth in the years 2007 – 2008. The researcher observed from secondary sources that this low increment was as a result of the sharp rise in prices of inputs especially diesel. The researcher was also informed that the company in FY 2008 invested in new equipment to be able to improve on the quality of the products and this had associated costs of production/operations adjustments and financing that led to a slow growth in the net profit. Archival information showed that in FY 2008, an expansion drive was started with Kamonkoli factory; however, a strike in the neighboring Kenya had an adverse effect on the delivery of vital components to the new factory which ultimately pushed project costs upwards. The researcher found out that the foregoing circumstances led to high production and financing costs at Kamonkoli factory which, in turn, led to a net loss of 0.7bn in FY 2009, a reduction in net profit performance of 67.1%. An examination of the accounts showed that cost of sales has tremendously

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grown by 104.3% from 6.8bn in FY 2008 to 13.9bn in FY 2010. Specific increments were noted from FY 2008 to FY 2010 in; drying process at 551.8%, electricity & generator expenses at 87.6%, kilns (baking process) at 191.4%, wages at 40.7%, depreciation of plant at 270.1% and the largest percentage was noted in financing costs at 4160.7% (96.8 million in FY 2008 and 4.1bn in FY 2010). As from the table 16 above, the situation hasn't changed for the better and the company faces difficulties in cutting down on its operational costs. Suffice to say, investment in Kamonkoli factory has negatively affected the performance of UCL.

UCL had improved performance in their total asset base with an increment of 44.5% for the period 2007 – 2009. There was however a decrease in the total asset base of 30.2% as at end of FY 2010. Growth in the total asset values of 31.97% for the period 2007 – 2008 was found to have arisen from the rights issue in the FY 2008 that yielded 11.5billion, of which 9.7billion was recognized in the balance sheet of the same year, retained earnings' growth of 29.8% and long-term borrowing that grew by 60.7% to a tune of 14.1billion. The decrease in total assets for the FY 2010 was found to have arisen from the depreciation of capital work in progress of 26.9billion upon transfer to buildings and plant & machinery for which no depreciation had been recognized in the financials prior to FY 2010. This explains the increased depreciation of 34.8% in FY 2010 as compared to FY 2009. The researcher further confirmed that there were disposals of assets to a tune of 434.9million in the FY 2009 and this too affected the total asset base of UCL.

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#### 4.2.5 Effect of Corporate Social Responsibility on Business Operations and Performance.

Respondents were asked whether there is a relationship between Corporate Social Responsibility, Business Operations and Performance and what possible effect CSR practices have on the business's operations and performance. Question 10 of the questionnaire survey required respondents to state their level of agreement on the effect of CSR on 5 aspects of Business Operations and Performance. Table 16 below shows findings computed from the study survey.

**Table 16: Views on CSR effect on Business Operations and Performance**

	Mean	Std. Deviation
CSR has an effect on Customer satisfaction	4.00	1.355
CSR has an effect on internal business processes of the company	3.82	1.173
CSR has an effect on the company's competitiveness	3.90	1.266
CSR has an effect on the company's profitability and financial performance	3.56	1.343
CSR has an effect on attainment of company objectives/ goals	4.12	1.062
The company aligns its CSR with Financial priorities	1.10	.303
CSR is part of the company's annual budget	1.06	.240

*Source: Primary data.*

##### *CSR effect on Customer Satisfaction*

Respondents did agree that CSR has an effect on customer satisfaction. This response yielded a mean of 4.00. From the interview responses, the researcher was informed that businesses need to keep their customers happy and satisfied; that, if a business finds itself on the wrong end of consumer opinion, its business in the market place could be damaged. Some of the interviewees argued that CSR attributes like product

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quality and care to customers directly satisfy customers who end up doing repeat purchases. The sales and marketing manager at UCL noted that:

Customers are becoming increasingly demanding. As price and quality become more equal, they are looking towards brand values which match their own, and companies whose activities they can respect. Whilst you may want your customers to remember best the good things you do, you can be sure they'll remember most the times you mess up – one piece of negative publicity and you'll feel the pain.

Verily, negative publicity does affect company business in the market place. A practical example in Uganda is that of SCOUL, which gathered a lot of negative publicity with the proposed give away of Mabira Forest to Mehta for sugar production 4 years ago. The Mabira issue courted controversy with groups of environment activists to the extent that messages were sent out using mobile phones and online forums de-campaigning Lugazi sugar as possible means of blocking the de-gazetting of Mabira. Sentiments raged high culminating into hatred towards SCOUL and the Indian community in Uganda resulting into deaths of two people (Daily Monitor, 12<sup>th</sup> April, 2007).

The revenue and circulations manager at Vision Group was of the view that a huge amount of a company's market capitalization can be what are called "intangibles" - and such intangibles are hugely tied to corporate reputation, which can be easily derived from well thought out CSR programs.

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*CSR effect on internal business processes*

Some of the respondents argued that CSR has an effect on internal business processes with a response mean of 3.82. They noted that some of the CSR commitments engaged in by companies are about improving conditions at the market place and workplace for efficient service delivery and engaging in some of them is within the bounds of the law. Examples given were product quality governed by the Uganda National Bureau of Standards (UNBS), accurate information to the public on products governed by the Media and Broadcasting council, environmental preservation/management governed by NEMA among others. The views indicated by the interviewees were that internal business processes underlie the amount of risk you take; if you get it wrong, the costs can be high.

The sales and marketing manager at UCL argued that internal business processes for a production oriented business ought to incorporate environmental management in its operations. When asked to give an example on how CSR might affect UCL's internal business processes, the sales and marketing manager responded:

The environmental legislation body, NEMA will present us with fines for any environmental disasters on our sites which might damage the company's reputation. Being seen as a convicted environmental polluter can have all sorts of impacts in terms of whether you come to be seen as a supplier of choice by your corporate customers.

The cost accountant at Vision Group had a different view. When asked how CSR might affect the internal business process at the media company, the accountant noted that CSR is giving a good return to the business' shareholders and referred to internal business processes as being business efficiency. The accountant noted:

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If you haven't studied your process to identify where waste occurs, you're losing out on turnover that could be switched straight from the trash heap to the bottom line. Wasted raw materials and time that are paid for and then thrown away, accidents leading to fines – all these cost your business money that would have enabled you give a good return to your shareholders.

Vision Group as a way of cutting on wastage and costs was found to have initiated robust mechanisms for prompt reporting of any faults in their production processes at every level. The researcher noted that specific levels of wastage are set and an explanation has to be made for any excesses arising for example from faulty machines, poor quality materials or negligence. The researcher from archival information confirmed that in FY 2010, UCL streamlined its internal business processes through divesting out of non-operational assets and human resource audits that eliminated voluntary redundancies saving 1.2bn with a corresponding increase in productivity. All the foregoing was observed to be measures of improving on the profitability of the corporations.

*CSR effect on company competitiveness*

Respondents were asked whether they believed CSR has an effect on the company's competitiveness. The questionnaire survey response yielded a mean value of 3.90, an indication that respondents were in agreement with the questionnaire statement. All the interviewees were of the view that Corporate Social Responsibility ups the corporate reputation of the business, which is a significant consideration by a number of stakeholders when deciding which entity to associate with. The Human Resource Office at Vision Group noted that, having made a corporate brand in the media industry and this brand further promoted through the company's CSR activities,

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Vision Group was now the preferred employer of choice among graduates and ranked sixth in the country's best employers (Exquisite Solutions poll, 2008). On Vision Group's competitiveness and CSR, the human resource office observed:

There is plenty of evidence as well that the corporate reputation of the business - including its social responsibility - is seen as a key factor for a significant number of graduates considering where they should go.

The most noted effect of CSR on competitiveness from responses of the interviewees was on sales revenue and market share. Indeed, it was confirmed by the researcher that some of the CSR activities of the study firms were embedded within the marketing budget to enable sales and marketing staff use CSR as a marketing strategy. Examination of the accounts for both corporations revealed that CSR is not budgeted for independently, but rather incorporated within the marketing budget. This indeed explains the response results 1.06 as shown in table 8 above. There was concurrence between the CSR focal person at Vision Group and the sales and marketing manager at UCL who both observed that:

CSR is incorporated in the promotions and marketing budget to help the sales team make the market perceive the company as a pro-people company. This in the end make the customers want to associate with us, and end up buying our products.

A percentage change in CSR expenditure for FY ending 2009 and 2010 for both study firms in comparison to a percentage change in sales revenue for both study firms in the same period showed that they were both moving in the same direction. CSR expenditure increment of 57.06% corresponded to 15.6% growth in sales for Vision Group and 36.8% increment in CSR expenditure corresponded with a 6.4% growth in

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sales for UCL. The same pattern was also noticed for years 2006/2007 for both Vision Group and UCL where an increment in CSR expenditure corresponded to an increment in sales revenue. One may conclude that an increase in CSR expenditure has a direct effect on sales revenue.

*CSR effect on company profitability and financial performance*

Respondents were asked whether CSR has an effect on profitability of the business. The response computation yielded a mean value of 3.56. Analysis of the available secondary data was done by comparing CSR percentage of revenue change with the financial ratios of net profit, return on capital employed, return on shareholders' funds, return on assets, and earnings per share change over the 4 year period.

*a. CSR and Profitability*

The first analysis dealt with the effect CSR has on financial performance, specifically the measure of Net Profit. From the computed results of CSR change and net profit change of the two study firms across the years, a 16.50% decrease in CSR activities corresponded to 17.15% increase in net profit for Vision Group's FY 2007/2008 and in FY 2008/2009, the opposite was noted when a 204.94% increase in CSR activities corresponded to a 58.23% decrease in net profit. The researcher further noted that an increase of 35.63% in CSR activities in FY 2009/2010 corresponded to a decrease in net profit of 70.89%. The foregoing analysis is as shown the table 17 below.

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**Table 17: Vision Group CSR and Net Profit**

Year	CSR %	CSR % change	Net Profit %	NP% change
2007	0.97%		10.32%	
2008	0.81%	-16.50%	12.09%	17.15%
2009	2.47%	204.94%	5.05%	-58.23%
2010	3.35%	35.63%	1.47%	-70.89%

*Source: Vision Group Annual report, 2007 – 2010.*

UCL's data indicated an increase in CSR activities of 97.67% corresponded to a decrease in net profit of 11.88% in the year 2007/2008. The same behavior was noted for the FY 2008/2009 and 2009/2010 where an increase in CSR activities corresponded to a decrease in net profit. For example, in 2008/2009, a 9.41% increase in CSR corresponded with a 126.64 % reduction in net profit. The foregoing analysis is as shown in the table 18 below.

**Table 18: UCL CSR and Net Profit**

Year	CSR %	CSR % change	Net Profit %	NP% change
2007	0.43%		18.02%	
2008	0.85%	97.67%	15.88%	-11.88%
2009	0.93%	9.41%	-4.23%	-126.64%
2010	1.19%	27.96%	-21.69%	-412.77%

*Source: Uganda Clays Limited Annual report, 2007 – 2010.*

From the above analysis, it's possible to conclude the effect CSR percentage change has on net profit percentage change. There is no direct positive effect noted where an increment in CSR corresponded to an increment in net profit. Rather, the opposite was noted where an increase or decrease in CSR activities corresponded to an opposite movement in net profit. These results reflect the findings of Barnett and Salomon (2006) who argued that CSR expenditures simply raise the cost of doing business, thereby eroding net profits.

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The researcher confirmed that Vision Group's total costs grew by 68.2% between FY 2007/2008 and FY 2009/2010 as compared to sales revenue growth of 53.1% in the same period. UCL's total costs grew by 125.7% as compared to growth in sales of 52.1% from FY 2007 to FY 2010 end. Major increments were noted in cost of sales, administration and finance cost at 46.8%, 42.8%, and 164.4% for Vision Group and 145.6%, 212.7% and 2721.2% for UCL respectively.

The researcher made efforts to see how much net profit would change if CSR expenditure had not been undertaken over the years by the corporations under study and realized that Vision Group's net profits would have reduced to 34.7% instead of 78.1%. For UCL, net profits would have decreased by 269.0% instead of 283.1%. This indicated a 43.4% change for Vision Group and 14.1% change for UCL. UCL would still have incurred losses without the CSR expenditure being incurred. The analysis revealed that profitability of a corporation is affected by numerous factors and not CSR alone. This is evident in the notable growth in the finance costs, cost of sales and administration costs for the two companies under study.

*b. CSR and other financial performance measures*

The second analysis dealt with the effect of CSR on other financial performance measures, specifically the measure of return on capital employed (ROCE), return on shareholders' funds (ROSF), return on assets (ROA) and earnings per share (EPS). Examining the computation results between CSR activities expenditure change and the stated measures, again the researcher noted no direct movement. The results are as shown in the table 19 and 20 below. A detailed analysis is in appendix IV.

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**Table 19: Vision Group CSR and other financial performance measures**

Year	CSR % change	ROCE% change	ROSF% change	ROA% change	EPS% change
2007					
2008	-16.50%	11.87%	14.13%	10.61%	40.9%
2009	204.94%	-72.91%	-80.65%	-77.40%	-68.82%
2010	35.63%	-41.38%	-66.00%	-68.94%	-65.52%

*Source: Vision Group Annual report, 2007 – 2010.*

**Table 20: UCL CSR and other financial performance measures**

Year	CSR % change	ROCE% change	ROSF% change	ROA% change	EPS% change
2007					
2008	97.67%	-44.12%	47.35%	-22.64%	-11.48%
2009	9.41%	-51.58%	-133.86%	-130.00%	-132.60%
2010	27.96%	-193.47%	-2666.56%	-682.11%	

*Source: Uganda Clays Limited Annual report, 2007 – 2010.*

As with the correspondence to net profit, opposite movements were noted between CSR and the financial measures of performance. The computed figures showed no positive effect emerged from CSR percentage change on each of the four financial measures of performance for the two firms in this study. The researcher found out that where the CSR percentage increased, financial measures of performance percentage change reduced. One might conclude that little or no relationship exists between CSR practice and the financial measures of performance. Other than ROCE which only incorporates operating profit and not net profit in its computation, the other measures of performance are affected by net profit in their computation. As already shown in the preceding analysis, high CSR expenditure erodes profits and this underlying effect is visible in ROSF and ROA.

Important to note is that, much as it is un-refutable and evident that CSR has an effect both direct and indirect on a company's reported profit, the researcher also observed

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other factors that might have had a negative effect on the profits of the case studies. Vision Group for example in the period under study had undergone a massive expansion drive that necessitated an increment in the administration and operations costs while Uganda Clays Limited had incurred huge finance costs when they got a loan to finance the expansion at Kamonkoli and the incidental operations costs. It's from the above observation that the researcher notes CSR as being just one of the myriad factors that affect profitability and financial performance.

### **4.3 SUMMARY**

The main purpose of this research study was to determine the effect of CSR on business operations and performance of Ugandan Corporations focusing on two publicly listed corporations. The research premised on 4 aspect to achieve the stated objectives namely; factors that influence the practice of CSR in Ugandan Corporations, the different approaches used by Corporations in their practice of CSR, the trend of business operations and performance of the corporations under study over the last four years and the effect of Corporate Social Responsibility on Business Operations and Performance.

A survey questionnaire, interview guide and desk research were the method used to answer the research questions arising from the stated objectives of this study. The survey questionnaire and interview guide were used to collect primary data while archival information was used to collect secondary data. The researcher felt the methodology adopted for this research was appropriate to achieve the objectives of this study.

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The findings from the data collected revealed that there are a number of factors that influence the practice of CSR in Ugandan Corporations. The factors that influence the practice of CSR in Vision Group and UCL case studies were found to hinge on economic, legal, ethical and philanthropic aspects as proposed by Carroll (1991). From the respondent responses and archival information reviewed by the researcher, it was found out that CSR practice arose majorly out of the need to grow sales, existing compliance requirements and caring for the community and environment.

The different approaches employed by the corporations were found to be staff motivation through welfare enhancements and trainings as a responsibility to employees, product quality improvements and care for customers as a responsibility to customers, environmental conservation and planting of trees as a responsibility to the environment, disclosure of performance by publishing financials in the newspapers and the entity websites as well as improved performance as a requirement to investors.

A number of initiatives were found to have been put in place by the corporations as a way of improving performance and aligning business operations to CSR requirements. The researcher observed improvements in product quality through investment in modern equipment and technology, rebranding of the logos as a way of repositioning in the market and improving on corporate image, streamlining operations to reduce on wastage and costs, coming up with new products and distribution channels to enhance sales and overall business performance.

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Engagement in CSR was found to yield results that were two fold, firstly, the researcher observed a positive effect as regards customer satisfaction and market share growth. The two corporations were found to command a considerable portion of the market share and sales were noted to be on the upward trend. Products from Vision Group for example commanded regular readership especially for New Vision and Sunday Vision. UCL on the other hand from archival information was found to be commanding a bigger share in the market of tiles and bricks. Noticeably, a positive effect was observed where an increment in the CSR expenditure corresponded to an increment in sales revenue. Secondly, a negative effect was noted where an increment in CSR expenditure corresponded with a reduction in profitability and the other financial measures of performance. CSR alone however does not lead to the reduction in profitability as a number of other cost centers were found to adversely affect financial performance of a business.

In Chapter 5 conclusions and inferences from this research related to CSR practices, Business Operations and Performance will be developed and presented. Discussion of recommendations for future and additional research to enhance the field of study and provide stakeholders greater information on social responsibility practices & conduct and business performance will be provided.

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## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 INTRODUCTION

The main objective of this study was to determine the effect of Corporate Social Responsibility on Business Operations and Performance. The study was limited to two publicly listed corporations in Uganda, one in the media industry and the other in building materials production. These were selected due to the availability and easy access of their operations and performance information and their history as market leaders in the respective industries. Chapter five presents the conclusions from the data analysis as well as recommendations and implications of this research study with focus on research questions identified in Chapter one.

##### *Methodology*

The study sought to find out which factors influence the practice of CSR in Ugandan Corporations, identify the different approaches used by Corporations in their practice of CSR, establish the trend of Business Operations and Performance of the Corporations under study over the last four years and the determine the effect of Corporate Social Responsibility on Business Operations and Performance. A survey questionnaire and interview guide were developed and used to collect data from a cross-section of study firms' staff. A total of 50 survey questionnaires and 7 interview responses were received and analyzed.

The researcher also used desk research where archival documents were reviewed for secondary data. Corporate annual reports information was used to calculate the five financial measures of performance (Net Profit Margin, Return on Capital Employed,

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Return on Shareholders' Funds, Return on Assets, and Earnings per Share) for Vision Group and UCL from 2007-2010. Descriptive statistics approach was used to analyze the collected data.

## **5.1 SUMMARY OF FINDINGS**

### **5.1.1 Factors that influence the practice of CSR in Uganda Corporations**

This study basing on Vision Group and UCL revealed that there are many factors that influence a Ugandan Corporation's practice of CSR. The researcher grouped the the factors into four underlying categories: business of business is business, caring for customers and community, profit through caring, and other factors with each category having a number of statements drawn from different aspects that have dominated the debate of CSR as highlighted in the literature review. Factors that yielded high mean results were: enhancement of corporate image with a mean of 4.32, better contribution to community welfare with a mean of 4.08, community acceptance with a mean of 3.90, addressing community needs with a mean of 3.88, customer loyalty maintenance with a mean of 3.84, long-term survival with a mean of 3.78, organizational interest with a mean of 3.76 and customer approval with a mean of 3.74. Caring for the community was found to be the highest influence on entity practice of CSR and this incorporated issues to do with community and environment. Following in line was business of business is business which incorporated issues to do with customers and investors. Profit through caring that focused on employees was the third category and lastly was a mix of factors that catered for different stakeholders.

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### *Community*

From the research findings, the major factors of influence in this area were; the need to address community needs, community acceptance and better contribution to community welfare. Awareness campaigns, donations, and financial support to community projects were some of the efforts by corporations observed as regards the issues concerned with the community.

### *Customers*

The major factors of influence revealed by this study as regards customers were found to be; enhancement of corporate image, customer loyalty maintenance, and customer approval. Product quality, customer care, new products e.t.c were some of the interventions observed by this research study as regards customers.

### *Employees*

Enhanced staff morale and improved staff welfare were the factors revealed as influencers to the corporations in their practice of CSR. Important to note is that some of the CSR requirements as regards employees are embedded within the statutory laws thereby compliance to the law being a major push factor for corporations in the employee welfare issues.

### *Environment*

Environmental conservation was revealed as a factor of influence in entity practice of CSR. Examples noted from this area were use of recyclable materials and renewable energy. The issues concerning the environment were also noted to be under scrutiny by the regulator, NEMA, and this was an issue taken care of under reducing business

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risk and industry standards, which as well was found to be a factor of influence on entity operations where the environment is concerned. Tree planting was one of the interventions used by the corporations under study in the area of the environment.

### *Investors*

Long-term survival of the business was the major factor of influence as revealed by this research followed by profit maximization. Notable in this area was sales revenue growth to boost the bottom line, disclosure mechanisms put in place by the corporations and risk management as some of the issues focused on by the management of the corporations under study.

## **5.1.2 Different approaches used by Corporations in their practice of CSR**

In the literature review, the researcher found out that, CSR approaches incorporated commitments such as; responsibility towards customers, responsibility towards employees, responsibility towards investors, responsibility towards suppliers, responsibility towards community and responsibility towards environment.

This research revealed that responsibility towards customers encompasses; fair pricing of products and services, provision of high quality products and services, ethical advertising, among others. Continuous improvements to business products as well as rebranding of the corporations under study were some of the approaches geared to serve the customers better.

Approaches towards employees were found to include provision of a safe and healthy work environment for the employees to enable employees to work injury free.

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Occupational and Health and Safety policies were some of the initiatives in place to drive CSR towards the employees in Vision Group and UCL. Staff motivation and enhancement in Vision Group and UCL were some of the other approaches and these were through staff training, development and skills transfer. Approaches in this aspect were largely influenced by the existing laws, management strategy and the need to manage business risk.

Full disclosure of performance results and clear corporate governance mechanisms were some of the approaches highlighted by the interviewees as the CSR approaches adopted as commitment to investors. Enhancement of sound systems to guide investor decisions and risk management endeavors were some of the approaches that the researcher observed from the available information pertaining to the corporations under study. Examples of disclosure were noted from the publishing of the financial statements in the newspapers and entity websites by both Vision Group and UCL. It was however observed that, the corporations under study have not yet adopted the "Triple Bottom Line" reporting as there were no sustainability reports seen at the time of this research.

Tree planting and use of recyclable material were some of the approaches engaged in by the corporations towards the environment. UCL had embarked on tree planting while Vision Group only used newsprint that is recyclable and not harmful to the environment. Good environmental management was found to be partly influenced by the existence of National Environmental Statute.

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### **5.1.3 The trend of Business Operations and Performance of Corporations**

This research study embraced the balanced scorecard matrix in attempt to spot trends of operations and performance of the corporations under study over the last four years. This research study observed good strides made by the corporations under study in the area of customer perspective where product quality enhancements and new products to customers were some of the activities undertaken in the four years of the study.

Internal business processes were also improved upon by the corporations under study. Both Vision Group and UCL focused on automation of operations processes as ways of improving on efficiency. While automation initiatives helped Vision Group improve on efficiency and look forward to profits, UCL on the other hand had its profitability dip and end up into losses especially with investments at Kamonkoli.

Good trends were also observed in the innovation and learning perspective. Both Vision Group and UCL instituted skills development of the staff and information system upgrades to enhance learning and innovation. From the financial perspective, both corporations registered incremental sales revenue over the years. Vision Group maintained the same trend in net profit while UCL reported a net loss from 2009.

### **5.1.4 The effect of CSR on Business Operations and Performance**

Majorly, the issue on business operations as regards CSR focuses on the need to reduce on the costs associated with CSR especially those arising out of compliance or regulatory conflicts. From the interview responses, Management of corporations was found eager to design and align business operations in ways that would help the

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business enjoy economic benefits of CSR especially the avoidance of impacts to earnings arising from negative events, creation of goodwill that in the end impacts on the earnings positively and efficiencies in production processes which may reduce amount of required resources in the long run. A good example was observed at Vision Group where cost management system were robust especially on the need to explain any wastage in the process line, the prompt reporting of any faulty equipment and the existence of wastage levels that are not supposed to be exceeded. UCL looked forward to recycling energy in the drying process at its new factory in Kamonkoli to cut down on the drying time of the clay products. This research study summarizes that economic benefits arising from well aligned business operations to CSR include: enhanced organizational reputation, sales revenue growth, manageable business risk, and improved internal efficiency. Indeed, CSR expenditure was found to have a direct effect on sales revenue as increments were noted in both. The researcher further observed that business operations if not well aligned with CSR affects the financial performance of the business negatively This is in agreement with Lyall (2003)<sup>3</sup>. There is thus a need by corporations to design and implement robust accounting and operations systems that identify and highlight CSR associated costs.

The study found out that CSR has a number of benefits that positively affect the business operations and performance of a corporation. These were observed especially in the non-financial aspects of performance. Through the economic benefits of CSR, Corporations enjoy a number of benefits that inevitably lead them into avoiding the negative effects of events or externalities. This research study observes that CSR generates goodwill from the community, efficient internally generated

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<sup>3</sup> CSR costs might put a firm at a financial performance disadvantage compared to other less socially responsible firms.

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competences, and good reputation as highlighted in earlier research by Cornell & Shapiro (1984)<sup>4</sup>. Being socially responsible was also found to help businesses potentially gain from higher quality, more productive employees that are the key drivers of business performance as was envisaged by Cornell & Shapiro (1984)<sup>5</sup> and Marcus (1993)<sup>6</sup>. Important to note is that the CSR benefits are not easy to represent on the balance sheet. Both Vision Group were observed from archival documents to have a considerable share of the market and goodwill from the community as evidenced from the sales revenue growth figures, good and good product quality.

The study also yielded a direct and negative effect of CSR on financial performance. A direct effect was noted in sales revenue where an increase in CSR expenditure corresponded to an increase in sales revenue for the four year period under study. A negative effect of CSR was however observed on the financial performance where an increase in CSR expenditure corresponded to a decrease in each of the five financial measures computed for the entire four – year period. The CSR and net profit for each of the study firms moved together inconsistently, with Net Profit rising in years of decreased CSR and falling in years with increases in CSR. Similar results were noted when examining the other financial measures of performance namely; ROCE, ROSF, ROA, and EPS. The computed results failed to support a direct effect of CSR on the corporations' financial performance. These results echo the findings of Barnett and Salomon (2006)<sup>7</sup>.

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<sup>4</sup> Social responsibility may benefit the corporation by creating goodwill.

<sup>5</sup> CSR may raise employee morale and result in increased productivity.

<sup>6</sup> Fewer strikes and work stoppages may more than offset the other costs associated with being socially responsible.

<sup>7</sup> CSR expenditure simply raises the cost of doing business, thereby eroding net profits.

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## 5.2 CONCLUSIONS

Clearly from the results of this research, factors that influence CSR practice come from all the stakeholders' perspectives of community, customer, employees, investors, suppliers and the environment. A business needs to incorporate all the stakeholder needs in its business operations as these have underlying benefits to a socially responsible corporation.

Approach to CSR combines a strong sense of responsibility with modern business sense and a commitment to: quality service for customers and a culture of continuous improvement; an emphasis on strong public accountability; responsible employment practices with well – trained, well – managed and motivated employees, who are fairly rewarded; contributing to community well being and playing a full role as a corporate citizen; a sustainable approach to environmental issues, including the use of natural resources and energy; actively managing risks to businesses, clients and stakeholders, as well as to company's reputation and a good return to shareholders. Results from this research indicate that the CSR activities that were engaged in by Vision Group and UCL in the areas of the customer, employee, supplier, investor, community and the environment fit well in the legal, economic, ethical and philanthropic aspects as highlighted by Carroll (1991). Good working conditions for the employees, disclosure requirements, sales growth, product quality and packaging fit in well with the economic and legal aspects while awareness campaigns, donations to the community, tree planting among others fit in well with the ethical and philanthropic aspects.

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Basing from the outcomes of the study, the corporations under study registered positive trends as regards their business operations and performance in the areas of customers where new products and product quality enhancements were observed, internal business processes where new automation of processes was observed, innovation and learning where new skills and training were imparted onto the staff and the financial perspective where sales grew for each year. Organizations wishing to survive in today's volatile environment must adhere to corporate social responsibility requirements by indulging in activities that spur efficient operations and better performance. There is need for continued support from senior management and all the stakeholders, the challenge being to continuously ascertain what the company's significant social and environmental impacts are and attaching shilling values to these impacts to ably evaluate operations and performance.

Earlier research has yielded mixed results on the effect of CSR on business operations and performance with a number of researchers; Wood (1995)<sup>8</sup>, McGuire *et al* (1988)<sup>9</sup>, Ullman (1985)<sup>10</sup>, stating a positive effect and others stating a negative effect; Lane (2003)<sup>11</sup>, Lyall (2002)<sup>12</sup> while others; Margolis and Walsh (2003)<sup>13</sup> have concluded with mixed results. This research observed a positive and negative effect of CSR on Business Operations and Performance of the two Corporations under study for the four year period. Positive effects may not easily be represented on the balance sheet

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<sup>8</sup> CSR has brought forth a number of initiatives, which find ways to make a better link between social and financial performance.

<sup>9</sup> A firm perceived as high in CSR may face relatively fewer labour problems or perhaps customers may be more favorably disposed to its products and this builds up a bigger market for the products and customers hence sales.

<sup>10</sup> Financial profitability and social responsibility are positively related – profitable firms are better social performers.

<sup>11</sup> Addressing CSR does not automatically lead to improved performance.

<sup>12</sup> The extra costs in form of CSR might put a firm at a financial performance disadvantage compared to other less socially responsible firms.

<sup>13</sup> Extensive research over the last 30 years on the relationship between firm social actions and business performance have shown both a positive and negative correlation between CSR and firm financial performance, and in some cases mixed results.

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especially market share, corporate image and goodwill. A positive effect of CSR on Business Operations and Performance was observed especially in the non-financial measures of performance. In effort to meet CSR requirements, improvements were noted as regards customers perspective (product quality and service attributes, market share, image and reputation), internal business processes perspective (cost management, new products, modern processes that are energy efficient, sales growth), and innovation and learning perspective (staff development and efficient services delivery/operations). A negative effect was observed on financial performance where an increment in CSR expenditure resulted into a decrease in net profit and the other financial measures of performance computed (return on capital employed, return on shareholders' funds, return on assets and earnings per share).

Argument can be made that any increase in expenses must have a similar decrease in profits in the short run. Suffice to say that much as CSR has benefits to a corporation, CSR costs have to be well managed to fully realize the benefits. There is thus need to account for all social responsibility impacts where costs are being recorded for each impact. This is as regards both quantitative and qualitative information. Social responsibility costs should be defined clearly. This will go a long way to minimize the uncertainty that is held by both interested stakeholders both internal and internal to the corporation.

### **5.3 RECOMMENDATIONS**

#### *Factors that influence the practice of CSR*

The increase in publicity and attention towards CSR will likely continue and there is need for leaders and corporations to protect their reputations in the eyes of

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stakeholders. Pressure to address CSR is coming from: NGOs, investors, governments, suppliers, customers, employees, regulators and the media. These all are raising questions whether companies are living up to their Vision and Values in regard to environmental and social responsibility and whether organizations actively demonstrate CSR. At first, corporations did not believe that these groups could have any real influence on corporate behavior, but there is now increasing awareness that a company that does not deal with environmental and social risk factors may damage its value in the market. It is important to note that, consumers, or customers are not always end users but may be clients, or other companies in supply chains. Whoever they are, reputation matters.

*Approaches used by corporations in their practice of CSR*

The area defined by advocates of CSR increasingly covers a wide range of issues such as plant closures, employee relations, human rights, corporate ethics, community relations and the environment. Responsible companies engaged in CSR should carefully consider their response to economic, environmental, and social issues. These can range from how an organization selects and markets its products or services, manages and remunerates its employees, takes responsibility for its supply chain, interacts with local communities, and addresses environment health and safety and well being.

*Business operations and performance*

Corporations should consider CSR practices and outcomes just as any other decision factor when designing business processes and evaluating performance. Business operations more than ever therefore have to be designed and aligned to suit CSR

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requirements. If done well, responsible corporate behavior will minimize expenditures that companies may come to pay as a matter of convenience. Thus, whilst the primary role of business is to produce goods and services that society needs, there is also necessity for interdependence between business and society in the need for a stable environment.

#### *Effect of CSR on Business Operations and Performance*

Business managers remain well-served to recognize the growing strength and determination of the socially-conscious stakeholders. Top management has to take a strong stand on social responsibility and develop a policy statement outlining that commitment. A carefully managed program to that effect should be instituted and put in place with a designated executive who should have the responsibility of monitoring the CSR program and ensure that implementation is consistent with the firm's policy statement and strategic plan. In all, the organization has the responsibility of performing occasional social audits and compliance checks – systematic analysis of its success in using funds it has earmarked for its social responsibility goals for the good of itself and the stakeholders. Stronger levels of disclosure and promotion can be strategically managed, allowing top corporation managers to concentrate on shareholder and other non – CSR stakeholder needs and interests. CSR programs can be linked to the firm's marketing departments so that better publicity and communication regarding CSR efforts reaches the stakeholders and consumers.

Investor relations departments are a new trend with publicly listed corporations that is tasked with filling the gaps of CSR and business risk management, and these should clearly be embraced by corporations in attempts to manage stakeholders. Continued

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communication about social responsibility is extremely important to ensure success. Staff must understand the importance and benefits associated with being focused more towards social responsibility.

Regardless of whether a firm has a formal sustainability function, the benefits of increased social practices disclosure go beyond consumers and shareholders. There is a need for reviewing the existing accounting system with the objective of determining how CSR costs are presently accounted for and disclosed, given that the costs are attributed to products by way of arbitrary allocations and at times by some form of activity based costing. The task of listing CSR costs to be analyzed and the bases of allocation currently being employed will require close work with the accounting staff. Some costs might be 'hidden' though. Identification of social responsibility revenues or even cost cutting opportunities currently being ignored is an issue to consider. Care should be taken to answer questions like: where can improvements be made? Can waste be better sorted and recycled? Is waste being generated because of inferior materials being acquired, faulty equipment or negligent staff? How would such initiatives influence costs? The accounting system adopted should have clear and accurate disclosure mechanisms. In today's capital intensive and credit restrictive environment, business managers should embrace methods of gaining access to lenders and investors and this is possible through disclosure. The same recommendation was given by Ullman (1985)<sup>14</sup>

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<sup>14</sup> If firms are to achieve strategic goals related to additional financing or access to financial markets, the broader view is one of disclosure.

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## 5.4 IMPLICATIONS OF THIS STUDY

### *Factors that influence the practice of CSR*

The attention to CSR practices in firms and the resulting publicity is likely to get stronger rather than diminish. The number and varied interests of socially – active stakeholders is increasing. There needs to be a belief that even if CSR practices don't appear in financial statements or raise financial returns, stakeholders would prefer to associate with a company that cares for their well being.

### *Approaches used by Corporations in their practice of CSR*

Responsible action is not worth a company's investment if it does not address the concerns of those you want to impress. This implies that an un-emphasized or improper CSR policy may not likely achieve the desired objectives despite its being in place. A corporation needs to have its highest product standards fully translated into meeting standards of employee care, customers, environment and, the wider society.

### *Business operations and performance*

An increasing number of executives now realize that certain issues related to Corporate Social Responsibility enhance corporate image, enhances customer loyalty and consequently increases profits. Therefore, in addition to making a profit, business managers should help to solve social problems whether or not business helps to create those problems even if there is probably no short-run or long-run profit potential. The challenge now is for corporations of all sizes and across all sectors to find ways of being socially responsible in their operations at the same time improving performance.

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*Effect of CSR on Business Operations and Performance*

Research into the effect of CSR practices on business performance began in the 1970's and continues today. Despite almost four decades of research, the results remain mixed. Part of this may be with the difficulty in measuring CSR efforts (Aupperlee et al., 1985) and the generally common and accepted measurements of business performance. More accurate and measurable methods of assessing and comparing CSR practices need to be developed. Secondly, measures should be developed that are required reporting by firms and not voluntary. This is to say that a firm's level of CSR is often hidden because of a desire not to tout one's charity in the public eye. There are likely many very CSR conscious corporations that simply do not report all the positive practices they employ or donations they provide. Therefore, obtaining a truer picture requires more objective and commonly reported measures of CSR. Business managers need to better understand the tradeoffs and consequences of seeking short term financial gains at the expense of longer-term social goodness Windsor (2001). Perhaps leaders need to simply have faith that Corporate Social Responsibility, Business Operations and Performance are linked in the long term, even if it cannot be demonstrated on a balance sheet.

Earlier studies have tended to focus large firms. Large firms are in a brighter public spotlight, future research could help shed light on smaller and mid-sized firm's CSR practices, operations and performance. Smaller firms may be more representative of CSR in the real-world where fewer economic resources available to the firm may result in different choices.

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**APPENDIX 1: LETTER OF RECOMMENDATION**



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making a difference

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**Office of the Dean  
Faculty of Business Administration and Management**

Your ref:  
Our ref:

Nkozi, 24<sup>th</sup> January 2011

**TO WHOM IT MAY CONCERN**

Dear Sir/Madam,

**Re: Research Work Assistance**

Greetings and best wishes from Uganda Martyrs University.

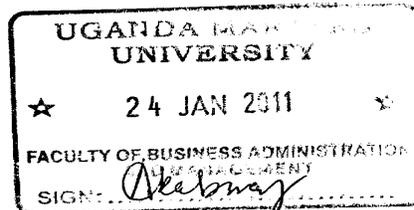
This is to introduce to you Mugisa Jimmy who is a student of this University. As part of the requirements for the award of the Master of Business Administration and Management of this University, the student is required to carry out field research for the submission of a Project paper.

I therefore kindly request your assistance in permitting and facilitating the student in this survey. Your support will be greatly appreciated.

Thank you in advance.

Yours Sincerely,

Mr. Steven Akabwai  
Associate Dean



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## APPENDIX II: SURVEY QUESTIONNAIRE

### VISION GROUP QUESTIONNAIRE

Dear respondent,

Thank you for participating in this survey. There are no right or wrong answers and you may stop at any time; however, completing the entire survey (about 5 – 10 minutes) is greatly appreciated. Your results will remain anonymous.

This Questionnaire is academic oriented and is for a study under the topic. **“THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON BUSINESS OPERATIONS AND PERFORMANCE.**

Thank you for helping me advance my academic studies.

.....  
**Respondent Particulars (please tick as appropriate)**

1. Please tell us your gender:            M            F
2. Please tell us which range best describes your age:  
18-29      30-39            40-49            50-59            60 or over
3. What function of Vision Group are you involved with?
  - Finance
  - Production
  - Quality Control
  - Sales and Marketing
  - Management
  - Others (please specify) .....
4. For how many years have you been with Vision Group?
  - Less than 5
  - 5 or more

#### Section 1

5. Does the Vision Group have a Corporate Social Responsibility policy?
  - Yes
  - No
6. If YES in 5, is this policy written down?
  - Yes
  - No

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## 7. Factors that influence the practice of CSR

Please indicate your level of agreement in respect to the following statements as they relate to CSR practice of your organization (**please tick or circle**: 1 = strongly disagree, 5 = strongly agree)

### Caring for the customers and community

- |   |   |   |   |   |   |
|---|---|---|---|---|---|
| a. Addressing community needs influences Vision Group's CSR practice    | 1 | 2 | 3 | 4 | 5 |
| b. Community acceptance influences Vision Group's CSR practice          | 1 | 2 | 3 | 4 | 5 |
| c. Better contribution to community influences the Group's CSR practice | 1 | 2 | 3 | 4 | 5 |
| d. Environmental conservation influences Vision Group's CSR practice    | 1 | 2 | 3 | 4 | 5 |

### Profit through caring

- |  |   |   |   |   |   |
|--|---|---|---|---|---|
| a. Enhanced staff morale influences Vision Group's CSR practice  | 1 | 2 | 3 | 4 | 5 |
| b. Improved staff welfare influences Vision Group's CSR practice | 1 | 2 | 3 | 4 | 5 |

### Business of business is business

- |   |   |   |   |   |   |
|---|---|---|---|---|---|
| a. Profit maximization influences Vision Group's CSR practice         | 1 | 2 | 3 | 4 | 5 |
| b. Long-term survival influences Vision Group's CSR practice          | 1 | 2 | 3 | 4 | 5 |
| c. Customer approval influences Vision Group's CSR practice           | 1 | 2 | 3 | 4 | 5 |
| d. Customer loyalty maintenance influences the Group's CSR practice   | 1 | 2 | 3 | 4 | 5 |
| e. Enhancement of corporate image influences the Group's CSR practice | 1 | 2 | 3 | 4 | 5 |

### Other factors

- |  |   |   |   |   |   |
|--|---|---|---|---|---|
| a. Vision Group's interests in CSR influences its CSR practice     | 1 | 2 | 3 | 4 | 5 |
| b. Competitor practices influences Vision Group's CSR practice     | 1 | 2 | 3 | 4 | 5 |
| c. Industry standards influences Vision Group's CSR practice       | 1 | 2 | 3 | 4 | 5 |
| d. Reducing business risk influences Vision Group's CSR practice   | 1 | 2 | 3 | 4 | 5 |
| e. Increasing rivals' costs influences Vision Group's CSR practice | 1 | 2 | 3 | 4 | 5 |

## Section 2

### 8. Approaches to CSR

To your knowledge, has **Vision Group** done any of these practices?

- |  | Yes                      | No                       |
|--|--------------------------|--------------------------|
| a. Provided preventative health, safety and good working conditions to all employees | <input type="checkbox"/> | <input type="checkbox"/> |
|  | <input type="checkbox"/> | <input type="checkbox"/> |

- 
- b. Provided funding to community's well-being in 2010
  - c. Enhanced product quality, customer care and instituted ethical advertising
  - d. Integrated environmental management into business processes
  - e. Sent only 5% of manufacturing waste to landfills
  - f. Instituted sound systems to guide investor decisions

**Section 3 (please tick or circle as appropriate)**

**9. Business Operations and Performance**

Please indicate your level of agreement in respect to the following statements (**please tick or circle**: 1 = strongly disagree, 5 = strongly agree)

- a. Vision Group attempts to identify and measure costs of social responsibility activities. 1 2 3 4 5
- b. Vision Group has Social Responsibility compliance and regulatory measures in place 1 2 3 4 5
- c. Vision Group sets particular objectives for its accounting and conversion processes 1 2 3 4 5
- d. Use of recycling has doubled over the last 4 years 1 2 3 4 5
- e. Product/service attributes have improved in the last 4 years 1 2 3 4 5
- f. Customer relationships have improved over the years 1 2 3 4 5
- g. Image and reputation of Vision Group has improved over the years 1 2 3 4 5
- h. New products and services have been developed in the last 4 years 1 2 3 4 5
- i. There has been growth in the entity's business value 1 2 3 4 5

**Section 4**

**10. CSR and Business Operations/Performance**

Please indicate your level of agreement in respect to the following statements (**please tick or circle as appropriate**: 1 = strongly disagree, 5 = strongly agree)

- a. CSR has an effect on Customer satisfaction 1 2 3 4 5
- b. CSR has an effect on internal business processes of Vision Group 1 2 3 4 5
- c. CSR has an effect on Vision Group's competitiveness 1 2 3 4 5
- d. CSR has an effect on Vision Group's profitability 1 2 3 4 5
- e. CSR has an effect on attainment of Company objectives/goals 1 2 3 4 5

---

11. In your opinion, does the Vision Group align Corporate Social Responsibility with Financial priorities?

- Yes
- No

12. Is CSR part of the Company's annual budget

- Yes
- No

13. What percentage of the budget is allocated to CSR?

.....

**Thank you again for participating in this survey.**

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## UGANDA CLAYS LIMITED QUESTIONNAIRE

Dear respondent,

Thank you for participating in this survey. There are no right or wrong answers and you may stop at any time; however, completing the entire survey (about 5 – 10 minutes) is greatly appreciated. Your results will remain anonymous.

This Questionnaire is academic oriented and is for a study under the topic. **“THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON BUSINESS OPERATIONS AND PERFORMANCE.**

Thank you for helping me advance my academic studies.

.....

### Respondent Particulars (please tick as appropriate)

1. Please tell us your gender:            M            F
2. Please tell us which range best describes your age:  
18-29      30-39            40-49            50-59            60 or over
3. What function of UCL are you involved with?
  - Finance
  - Production
  - Quality Control
  - Sales and Marketing
  - Management
  - Others (please specify) .....
4. For how many years have you been with UCL?
  - Less than 5
  - 5 or more

### Section 1

5. Does UCL have a Corporate Social Responsibility policy?
  - Yes
  - No
6. If YES in 5, is this policy written down?
  - Yes
  - No

---

## 7. Factors that influence the practice of CSR

Please indicate your level of agreement in respect to the following statements as they relate to CSR practice of your organization (**please tick or circle**: 1 = strongly disagree, 5 = strongly agree)

### Caring for the customers and community

- |   |   |   |   |   |   |
|---|---|---|---|---|---|
| a. Addressing community needs influences Vision Group's CSR practice    | 1 | 2 | 3 | 4 | 5 |
| b. Community acceptance influences Vision Group's CSR practice          | 1 | 2 | 3 | 4 | 5 |
| c. Better contribution to community influences the Group's CSR practice | 1 | 2 | 3 | 4 | 5 |
| d. Environmental conservation influences Vision Group's CSR practice    | 1 | 2 | 3 | 4 | 5 |

### Profit through caring

- |  |   |   |   |   |   |
|--|---|---|---|---|---|
| a. Enhanced staff morale influences Vision Group's CSR practice  | 1 | 2 | 3 | 4 | 5 |
| b. Improved staff welfare influences Vision Group's CSR practice | 1 | 2 | 3 | 4 | 5 |

### Business of business is business

- |   |   |   |   |   |   |
|---|---|---|---|---|---|
| a. Profit maximization influences Vision Group's CSR practice         | 1 | 2 | 3 | 4 | 5 |
| b. Long-term survival influences Vision Group's CSR practice          | 1 | 2 | 3 | 4 | 5 |
| c. Customer approval influences Vision Group's CSR practice           | 1 | 2 | 3 | 4 | 5 |
| d. Customer loyalty maintenance influences the Group's CSR practice   | 1 | 2 | 3 | 4 | 5 |
| e. Enhancement of corporate image influences the Group's CSR practice | 1 | 2 | 3 | 4 | 5 |

### Other factors

- |  |   |   |   |   |   |
|--|---|---|---|---|---|
| a. Vision Group's interests in CSR influences its CSR practice     | 1 | 2 | 3 | 4 | 5 |
| b. Competitor practices influences Vision Group's CSR practice     | 1 | 2 | 3 | 4 | 5 |
| c. Industry standards influences Vision Group's CSR practice       | 1 | 2 | 3 | 4 | 5 |
| d. Reducing business risk influences Vision Group's CSR practice   | 1 | 2 | 3 | 4 | 5 |
| e. Increasing rivals' costs influences Vision Group's CSR practice | 1 | 2 | 3 | 4 | 5 |

## Section 2

### 8. Approaches to CSR

To your knowledge, has **UCL** done any of these practices?

- |   | Yes                      | No                       |
|---|--------------------------|--------------------------|
| a. Provided preventative health, safety and good working conditions | <input type="checkbox"/> | <input type="checkbox"/> |

- 
- to all employees
  - b. Provided funding to community's well-being in 2010
  - c. Enhanced product quality, customer care and instituted ethical advertising
  - d. Integrated environmental management into business processes
  - e. Sent only 5% of manufacturing waste to landfills
  - f. Instituted sound systems to guide investor decisions

**Section 3 (please tick or circle as appropriate)**

**9. Business Operations and Performance**

Please indicate your level of agreement in respect to the following statements (**please tick or circle**: 1 = strongly disagree, 5 = strongly agree)

- a. UCL attempts to identify and measure costs of social responsibility activities. 1 2 3 4 5
- b. UCL has Social Responsibility compliance and regulatory measures in place 1 2 3 4 5
- c. UCL sets particular objectives for its accounting and conversion processes 1 2 3 4 5
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- g. Image and reputation of UCL has improved over the years 1 2 3 4 5
- h. New products and services have been developed in the last 4 years 1 2 3 4 5
- i. There has been growth in the entity's business value 1 2 3 4 5

**Section 4**

**10. CSR and Business Operations/Performance**

Please indicate your level of agreement in respect to the following statements (**please tick or circle as appropriate**: 1 = strongly disagree, 5 = strongly agree)

- a. CSR has an effect on Customer satisfaction 1 2 3 4 5
- b. CSR has an effect on internal business processes of UCL 1 2 3 4 5
- c. CSR has an effect on UCL's competitiveness 1 2 3 4 5
- d. CSR has an effect on UCL's profitability 1 2 3 4 5
- e. CSR has an effect on attainment of Company objectives/goals 1 2 3 4 5

---

11. In your opinion, does UCL align Corporate Social Responsibility with Financial priorities?

- Yes
- No

12. Is CSR part of the Company's annual budget

- Yes
- No

13. What percentage of the budget is allocated to CSR?

.....

**Thank you again for participating in this survey.**

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### **APPENDIX III: INTERVIEW GUIDE**

1. Does the company have a CSR policy? If yes, is this policy written down?
2. How do you find the CSR policies of the company?
3. What influences management's engagement in CSR?
4. Does Government have a role towards organizational behavior?
5. Are there any specific regulations, statutory or otherwise that the company should comply with as regards CSR?
6. Of what value is engaging in CSR to the business?
7. What different approaches has management instituted in the practice of CSR?
8. In your opinion, does engagement in CSR have any effect on the business performance and operations of the business?
9. What effect has CSR on stakeholder relationships and satisfaction with the business' undertakings?
10. How does management incorporate CSR costs into the overall business operations?
11. What more do you think the company should do to make better its CSR engagements?

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## APPENDIX IV: FINANCIAL DATA SUMMARY OF CASE STUDY FIRMS

### VISION GROUP

#### Financial summary

Particulars	2006/2007	2007/2008	2008/2009	2009/2010
Sales Revenue	32,633,131	39,061,869	43,200,812	49,947,578
EBIT	4,904,484	6,956,551	4,155,905	2,535,827
Net profit	3,368,276	4,720,643	2,182,847	734,786
Total Assets	21,262,729	26,944,246	55,186,141	59,762,245
Current Liabilities	2,955,672	3,734,926	4,019,039	6,524,744
Shareholder's funds	16,527,343	20,293,881	48,453,922	48,041,208

#### Ratio computation

Year	CSR related expenditure	CSR % of revenue	Net Profit%	ROCE %	ROSF%	ROA%	EPS
2007	318,000,000	0.97%	10.32%	26.79%	20.38%	15.84%	66
2008	369,800,000	0.81%	12.09%	29.97%	23.26%	17.52%	93
2009	1,066,019,000	2.47%	5.05%	8.12%	4.50%	3.96%	29
2010	1,674,253,000	3.35%	1.47%	4.75%	1.53%	1.23%	10

### UGANDA CLAYS LIMITED

#### Financial summary

Particulars	2007	2008	2009	2010
Sales Revenue	11,699,713	13,548,257	16,722,124	17,792,671
EBIT	3,324,425	3,252,135	1,543,325	(1,320,076)
Net profit	2,107,841	2,151,982	(707,062)	(3,858,961)
Total Assets	39,758,943	52,470,889	57,461,644	40,120,783
Current Liabilities	14,199,203	7,734,190	13,619,320	15,138,000
Shareholder's funds	12,566,706	24,384,715	23,677,653	19,818,692

#### Ratio computation

Year	CSR related expenditure	CSR % of revenue	Net Profit%	ROCE %	ROSF%	ROA%	EPS
2007	49,790,780	0.43%	18.02%	13.01%	16.77%	5.30%	3.05
2008	114,512,710	0.85%	15.88%	7.27%	8.83%	4.10%	2.70
2009	155,323,160	0.93%	-4.23%	3.52%	-2.99%	-1.23%	-0.88
2010	211,929,700	1.19%	-21.69%	-5.28%	-19.47%	-9.62%	-4.82

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## APPENDIX V: DESCRIPTIVE STATISTICS OF CASE STUDY FIRMS

### VISION GROUP

Measure	2007	2008	2009	2010	Min value	Max value	Mean
Net Profit	10.32%	12.09%	5.05%	1.47%	1.47%	12.09%	7.23%
ROCE	26.79%	29.97%	8.12%	4.75%	4.75%	29.97%	17.41%
ROSF	20.38%	23.26%	4.50%	1.53%	1.53%	23.26%	12.42%
ROA	15.84%	17.52%	3.96%	1.23%	1.23%	17.52%	9.64%
EPS	66	93	29	10	10	93	49.5

### UGANDA CLAYS LIMITED

Measure	2007	2008	2009	2010	Min value	Max value	Mean
Net Profit	18.02%	15.88%	-4.23%	-21.69%	-21.69%	18.02%	1.97%
ROCE	13.01%	7.25%	3.52%	-5.28%	-5.28%	13.01%	4.63%
ROSF	16.77%	8.83%	-2.99%	-19.47%	-19.47%	16.77%	0.79%
ROA	5.30%	4.10%	-1.23%	-9.62%	-9.62%	5.30%	-0.36%
EPS	3.05	2.70	-0.88	-4.82	-4.82	3.05	0.01