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THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND FIRM FINANCIAL PERFORMANCE IN HORMUUD COMPANY AT MOGADISHU

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ABSTRACT

Corporate social responsibility (CSR) is a significant notion that is progressively being deliberated and adopted worldwide. Various stake holders are demanding the incorporation of social activities in the organizations daily practices. Some of the reasons why companies adopt CSR are; compliance with the law, to enhance a competitive advantage, others do it because it is the right thing to do for the society. Currently, the issue of Corporate Social Responsibility (CSR) becomes increasingly important. The growing trend of CSR becomes an interested challenge for companies and their management. The purpose of this research is to investigate if CSR has an association with financial performance (FP) of Hormuud Telecommunication Inc. The different theories are examined which support the linkage between CSR and FP. Furthermore, some prior researches was examined which focuses possible on the association between CSR and FP. The results suggest that there is a positive association between CSR and FP.

The study was focused on the relationship between corporate social responsibility and firm's financial performance, the time scope provides adequate information to the problem under investigation. The researcher used closed questionnaires. The researcher directly distributed questionnaires to the respondents. The sample size consisted of 120 participants. Data was collected, analyzed. The data was analyzed and processed electronically using statistical package for social scientists (SPSS version 22) to analyze on the relationship between corporate social responsibility and firm's financial performance. The results of this analysis have practical applications in the boardroom; they are proof that all social policies increment financial resources, and vice versa, that increased financial performances lead to greater social benefits. As a consequence, this paper encourages all board members to seriously weigh investing financial resources in developing policies that boost the levels of social behavior components in order to contribute globally to the improvement of society

INTRODUCTION

This Project aimed to investigate the relationship between corporate social responsibility and Firms financial performance. Therefore, the introduction chapter is an act as an overview of the main issues of this proposal. This chapter will provide an overview about the study starting with the background of the study, followed by a discussion of the problem statement, research objectives, research

questions, and significance of the study. The chapter also offered an overview of the scope of the study and definition of terms.

This study will present empirical findings on the relationship between corporate social responsibility and financial performance in Mogadishu Somalia. In this study, I propose to examine the relation between corporate social responsibility associated with increased sales and gross margin in the long-run. In

1970, Milton Friedman ignited a robust debate with the above quote in the *New York Times* that is still being disputed. On the surface of his argument, it appears that Friedman believes businesses should not adopt corporate social responsibility (CSR) programs because they are outside the profit-making scope and are unnecessary expenditures. Progressing deeper into his argument, it is revealed that Friedman supports the integration of CSR programs into business operations, but only if it positively impacts profitability in the long-run.

John Mackey, like many critics of Friedman, believes Friedman's view is too focused on investors and argues that corporations have a social responsibility to its other stakeholders, even if such responsibility entails a sacrifice in profits. This study serves to strip off these socialism and capitalism biases on social responsibility to show objective, financial impacts of CSR programs. This study has implications for managers, the beneficiaries of CSR programs (environment, community, consumers, employees, and stakeholders), and future research. According to financial theory, there exists one overlying objective of a corporation: to maximize the value of shareholder's wealth. This objective is straightforward and complements the financial interest of shareholders. However, corporations are impacted by stakeholders other than shareholders, constituents who are often motivated by non-monetary interests such as the company's impact on the community and the environment.

Corporate social responsibility (CSR) is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders. CSR is a concept with many definitions and practices.

While there is no universally accepted definition of corporate social responsibility, it is usually described in terms of a company considering, managing and balancing the economic, social and environmental impacts of its activities (PJC 2006). The notion of corporate social responsibility as a part of the core business operations of a company, rather than a separate 'add on', distinguishes it from corporate philanthropy which may be funded out of operations that are damaging to the communities in which business is conducted. Companies that embrace the concept of corporate responsibility are realizing that the long-term financial interests of a company are not 'mutually exclusive' with acting fairly in the interests of stakeholders (other than shareholders) (PJC 2006).

Finance theory differs on who the firm should be responsible to in the course of its business. According to stakeholder theory, firms possess both explicit and implicit contracts with various constituents, and are responsible for honoring all

contracts (Freeman, 1984). As a result of honoring these contracts, a company develops a reputation that helps determine the terms of trade it can negotiate with various stakeholders. While explicit contracts legally define the relationship between a firm and its stakeholders, implicit contracts have no legal standing and are referred to in the economic literature as self-enforcing relational contracts. Since implicit contracts can be breached at any time, Telser (1980) argues that they become self-enforcing when the present value of a firm's gains from maintaining its reputation (and, therefore, future terms of trade) is greater than the loss if the firm reneges on its implied contracts. This theory, therefore predicts a positive relationship between CSR and corporate financial performance (CFP). However, stakeholder theory has acquired opponents from various areas including classical economics, industrial relations and management. (Sternberg, 1997) for example, argues that the principles of stakeholder theory undermine the property rights of the owners of the company, compromise the mechanism of the free market, destabilize the operations of governments and thus subvert the very nature of capitalism.

According to the social contracts theory, businesses must not just act in a responsible manner because it is in their commercial interest, but because it is how society expects the business to behave. Society is a series of social contracts between members of society and society itself (Gray et al, 1996). Managers are therefore expected to take decisions in an ethical manner. Donaldson and (Dunfee,1999) developed an integrated social contracts theory as a way for managers to use their discretion to make decisions but to ensure their decisions do not have negative effects on others. Businesses are expected therefore, to provide some support to the community under given circumstances. Since the contract is not written, businesses only get to feel its consequences when they fail to do what is expected.

Corporate Social Responsibility (CSR) is a form of corporate self-regulation integrated into business models. CSR functions as a self-regulatory mechanism by which a corporation ensures its active compliance with the spirit of the law and ethical standards. Its aim is to increase the long-term profits or survival of a firm through constructing positive public relations and high ethical standards, in order to reduce the business and legal risk and build shareholder trust. Accordingly, the CSR strategies of a corporation are tightly related to its sustainable growth. To ensure sustainable growth, it is necessary for a company to make a positive impact on the surrounding environment, as well as on its stakeholders, such as its consumers, employees, investors, communities, and others. Beltratti (2005) and Jamali et al.(2008) examined the positive

relationship among CSR, corporate governance, and the enhancement of the firm's value. Furthermore, Beltratti (2005) concluded that by ensuring the protection of the stakeholders, firms are more likely to survive in the long term and Aras and Crowther (2008) pointed out the significance of the corporate governance and the subsequent sustainability of firm.

Thus, CSR has become a noticeable issue in the management literature, not only from a theoretical point of view, but also from empirical methods' point of view about how to measure CSR activities (McWilliams et al. 2006; Dobers 2009; Nejati and Ghasemi 2012). Attempts to identify the relationship between CSR and the performance of firms have been made by many scholars (Aupperle et al. 1985; Mittal et al. 2008; Crisóstomo et al. 2011).

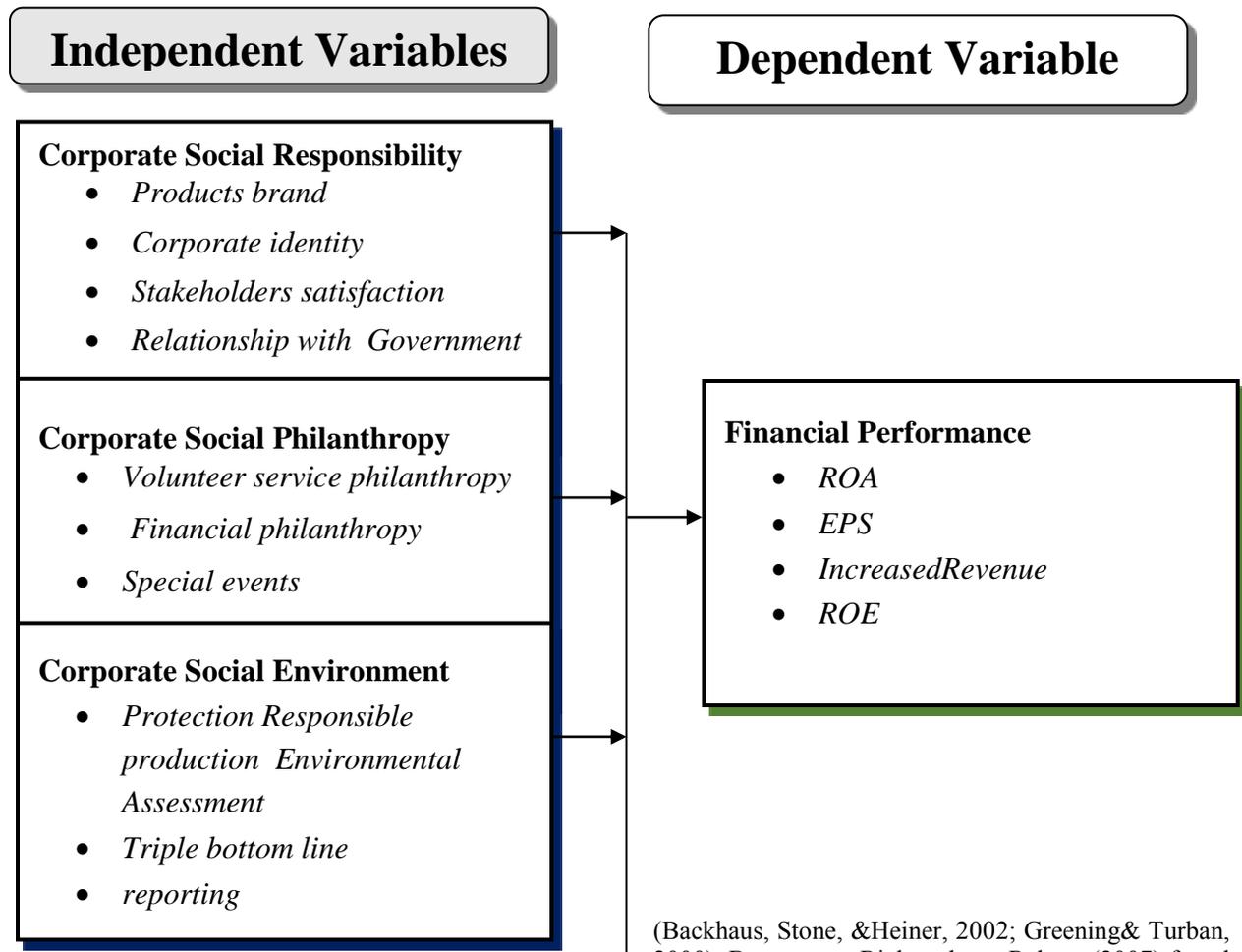
In Africa context many studies are conducted in the area of corporate social responsibility and focus on other variables which highlight the corporate social responsibility of stakeholders, customer's investors and others. The study found corporation who social responsibility related to financial performance and also the study found that corporation make any profit from corporate social responsibility extension to stakeholder wealth and customer.

Since the second half of the 20th century a long debate on corporate social responsibility (CSR) has been taking place. In 1953, Bowen (1953) wrote the seminal book *Social Responsibilities of the Businessman*. Since then there has been a shift in terminology from the social responsibility of business to CSR. Additionally, this field has grown significantly and today contains a great proliferation of theories,

approaches and terminologies. Society and business, social issues management, public policy and business, stakeholder management, corporate accountability are just some of the terms used to describe the phenomena related to corporate responsibility in society. Recently, renewed interests for corporate social responsibilities and new alternative concepts have been proposed, including corporate citizenship and corporate sustainability. Some scholars have compared these new concepts with the classic notion of CSR (see van Marrewijk, 2003 for corporate sustainability; and Matten et al., 2003 and Wood and Lodgson, 2002 for corporate citizenship). Furthermore, some theories combine different approaches and use the same terminology with different meanings.

This problem is an old one. It was 30 years ago that Votaw wrote: "corporate social responsibility means something, but not always the same thing to everybody. However, some attempts have been made to address this deficiency. Frederick (1987, 1998) outlined a classification based on a conceptual transition from the ethical-philosophical concept of CSR (what he calls CSR1), to the action-oriented managerial concept of social responsiveness (CSR2). He then included a normative element based on ethics and values (CSR3) and finally he introduced the cosmos as the basic normative reference for social issues in management and considered the role of science and religion in these issues (CSR4). In a more systematic way, Heald (1988) and Carroll (1999) have offered a historical sequence of the main developments in how the responsibility.

Conceptual Framework



(Backhaus, Stone, &Heiner, 2002; Greening& Turban, 2000). Berens, van Riel, and van Rekom (2007) found that individuals prefer companies that actively engage in

CSR initiatives as these relate to the firm's products, stocks, and employment. This point was accentuated by Turban & Greening (1997), who noted that companies perceived as engaging in CSR initiatives have a lower employee turnover rate than those that do not engage in such initiatives.

However, in general, there is a lack of consensus regarding the relationship between a firm's CSR initiatives and its financial performance. Some researchers have reported positive linkages (Wu, 2006; Allouche&Laroche, 2005; De Bakker & den Hond, 2005; Margolis & Walsh, 2003; Orlitzky, Schmidt, &Rynes, 2003; Roman et al., 1999; Johnson & Greening, 1999; Berman, Wicks, & Jones, 1999; Turban & Greening, 1997; Preston & O'Bannon, 1997; Waddock& Graves, 1997; Raihi-Belkaoui, 1992), while others have reported negative linkages (Bromiley& Marcus, 1989; Davidson, Chandy, &

LITERATURE REVIEW

This chapter discusses the literature review related to "corporate social responsibility and firm financial performance in Hormuud Telecom Mogadishu Somalia" It essentially focuses on the finding of earlier researches. In this section, the research reviews key literature in the following areas, prior corporate social responsibility concepts, and prior financial performance concepts, effect of corporate social responsibility and firm financial performance, conceptual frame work, and summary and conclusion of the chapter.

Increasingly, more and more firms are embracing the concept of CSR, since it has a positive impact on the choices made by the firm's key stakeholders in their decision to enter a relationship with the firm, especially consumers (Del Mar Garcia de los Salmones, Crespo, & Rodriguez del Bosque, 2005; Brown &Dacin, 1997) and potential employees

Cross, 1987; Davidson & Worrell, 1988). Still others have found no significant linkages between CSR initiatives and financial performance (Freedman & Jaggi, 1982; Aupperle et al., 1985). There are several reasons suggested for the lack of consensus. Davidson and Worrell (1990), suggest that the lack of consensus is due to: (1) the use of questionable social responsibility indices, (2) poor measurement of financial performance, and (3) unsuitable sampling techniques. Conversely, Ruf, Muralidhar, Brown, Janney, and

Paul (2001), suggest that the fundamental reasons for the inconsistencies in the findings are a lack of a sound theoretical foundation, a lack of a systematic measurement of CSR, a lack of proper methodology, limitations in sample size and composition, and mismatches between social and financial variables. Performance measures; In general, there are two sets of measures used to evaluate performance—those that measure the firm's market performance and those that measure the firm's accounting performance. Accounting performance measures focus on profitability, asset utilization, and growth, while market-based measures include stock performance, market return, and market value to book value, as well as other market based performance measures (Chand, 2006; Wu, 2006; Griffin & Mahon, 1997). Both measures offer.

In Africa concept Corporate Social Responsibility (CSR) concept emphasizes community participation by business enterprises. It proposes that a private firm has responsibilities to society that extend beyond making a profit. It is the obligation of the firm's decision makers to make decisions and act in ways that recognize the relationship between the business and society. It is therefore important for a business to continue in its commitment to behave ethically and contribute to economic development while improving the quality of life of the work force and the surrounding community at large. This can be achieved through the various CSR activities that the business chooses to engage in for the benefit of its stakeholders (such as employees, suppliers, shareholders, government, community/society and customers). Bowen (1953) defines social responsibility of businessmen as to the obligation of businessmen to pursue those policies, to make decision or to follow those lines of action which are desirable to society.

Literature on the definition of CSR and CSP is inconclusive (De Baker et al., 2005), as is the literature on the relationship between CSP and CFP. This link has been studied extensively, but outcomes fail to be consistent. Davidson and Worrell (1990) give three reasons for the lack of consensus existing in the field: (1) the use of questionable social responsibility indexes, (2) Poor measurement of financial

performance, and (3) Unsuitable sampling techniques. Ruf et al. (2001) suggest that the reasons for inconsistency include a lack of theoretical foundation, a lack of systematic measurement of CSP, a lack of proper methodology, limitations on sample size and composition, and a mismatch between social and financial variables. All these reasons point toward a need for an in-depth analysis of the CSP-CFP link and a more comprehensive investigation of the existing research. Hence, the variability and inconsistency in the results of studies in this field are of concern (Griffin and Mahon, 1997; Maron, 2006; Preston and O'Bannon, 1997; Wu, 2006). It is not surprising that the need for a unified theory has been proposed (Maron, 2006), which, however, demands more research (Griffin, 2000; Waddock and Graves, 1997).

Consequences of Corporate Social Performance When looking at the financial consequences of CSR, differences in the measurement of CSP and CFP need to be considered carefully, as they can influence the research outcomes (Orlitzky et al., 2003; Wu, 2006). Brown (1998) takes this position and argues that inconsistency in the measurement of CSP causes problems for analyzing the relationship between CSP and CFP. Hence, it is important to know which kind of measurement is being used in the different relationships. To overcome definitional differences, it is important to outline these two concepts explicitly and clearly in the conceptual model in this study. In order to build a theoretical model around the concept, it is necessary to recognize the different dimensions and include multiple dimensions, if we are to have an appropriately representative construction (Allouche and Laroche, 2005; Waddock and Graves, 1997). This research describes CSP as a concept consisting of three categories, which can be described as follows: CSP 1 : the extent of social disclosure about matters of social concern (Wu, 2006); disclosure measurement consists of the content analysis of corporate disclosures to the public (Orlitzky et al., 2003), CSP 2 : corporate action, such as philanthropy, social programs, and pollution control; corporate action refers to concrete observable CSR processes and outcomes. Questionnaires addressed to employees or managers are included in this category because they directly reflect actions of the firm in question. CSP 3 : corporate reputation ratings such as KLD, Fortune, Moskowitz, and Business Ethics (Wu, 2006); these reputation ratings assume that CSP reputations are good reflections of underlying CSR values and behaviors.

RESEARCH METHODOLOGY

This chapter will present the methodology, which will use to carry out of the study. It will further describe the type and the source of data, the target population and sampling method and techniques that

will use to select sample size. It also will describe how data will collect and analyze.

The researcher accomplishes quantitative method and explanatory research design to determine of whether or not and to what area a relationship between two or opposite variable exists. The researcher's purpose contrast two or more characteristics from the similar set and give details how characteristics vary to gather. Correlation design is preferably appropriate for study where there is a relationship between independent and dependent variable (oso&onen, 2008). In order to minimize time and effort, the researchers will use primary data collected using questionnaire as data collection instrument. Cross sectional survey method will be employed to collect the data from the respondents. The population of this study will be derived from some selected companies in Mogadishu, and exact number of total target population is unknown since there no accurate records due to lack of effective government in Somalia. Researchers target populations consist of Hormuud Telecommunication, especially the manager and chief of finance department because they have comprehensive knowledge and experience about corporate social responsibility The sample sizes of the study will 86 respondents from some selected companies in Mogadishu; this sample size adapted from a similar research made in Kenya which addressed the corporate social responsibility on financial performance which used 120 sample size (Cooper & Schindler (2003)). Researcher adapted this sample size since the target pollution (which is necessary for determination of sample size)

CORRELATIONS

The first objective of this study is investigating the relationship between corporate social responsibility and firm financial performances, in Hormud companies in Mogadishu Somalia. As you will see table 4., shows the results of a correlation analysis of the relationships among corporate social responsibility, corporate social responsibility, environmental and corporate social responsibility Philanthropy, and firm financial performance.

Hence, corporate social responsibility has positive has a significant positive relationship with Firm financial performance ($r=.612^{**}$ and $p=.000$). Besides, firm actively present improvements and corporate social responsibility in business, changes in service line moreover, firm actively current improvements and in CSR in services business, changes in service line have been quite affected and firmly encourages development of employees ideas for business improvement then, firms with higher CSR tend to achieve higher increased the sales volume of the year ended, this company had extraordinarily decreased its dividend after allocating budget to CSR increasing on sales with growing market share, Our firm added value to the shareholder value of interest other than .

CSR has a significant positive relationship with CSRPhr ($r=.416^{****}$ and $P=.000$). Those items showed in the improved firm financial performances. Also CSR has a significant positive correlation with corporate social responsibility, environmental ($r=.320^{****}$ and $P=.000$), in this relationship between Corporate social responsibility and corporate social responsibility environment are strongly correlated. Also, the third objective of this study was to identify the relationship between corporate social responsibility and Firm financial performance in Hormuud company in Mogadishu, Somalia.

CSRENV has a positive relationship between CSR Phr Hormuud companies in Mogadishu Somalia. This means it has correlations with ($r=.484^{**}$ and $p=0.000$). This means Hormud company in Mogadishu, Somalia was more usefulness Corporate social responsibility that improved fir financial performances.

The third objective was to assess how the CSREN influences firm financial performances in Hormud company in Mogadishu, Somalia. The correlation between CSRENV and firm financial performance have a strong positive relationship ($r=.461^{**}$, $p=0.000$). This correlation shows there is Positive correlation with firm financial performance.

Other side CSR Phillan has positive correlation with firm financial performance (0.685, $p=0.000$).

Table 4.8 Correlation

		CSR response	CSRPhillan	CSRENV	FFP
1	CSR	1	0.412, $p=0.0000$	0.320 ^{**} , $p=0.000$	0.612 ^{**} , $p=0.0000$
2	CSRPhilan	.416 ^{**} , $p=0.000$	1	0.484 ^{**} , $p=0.000$	0.685 ^{**} , $p=0.000$
3	CSRENV	320 ^{**} $p=0.000$	0.484, $p=0.000$	1	0.461 ^{**} , $p=0.0000$

4	FFP	0.612**p= 0.000	0.685, p=0.000	0.461**, p=0.000	1
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DISCUSSION OF THE RESULTS

This study was highlighting the significant role of basing corporate social responsibility for the firm financial performance of the Hormuud company in Mogadishu Somalia. The study investigated and argued that CSR, SRENV and CSR Phillanthropy could discover firm financial performance.

The results of this study confirm a significant effect of corporate social responsibility with the positive direction of the firm financial performance Hormuud company in Mogadishu Somalia. This means that the best Corporate social responsibility can improve the values of the firm financial performance of Hormuud company. An excellent application of Corporate social responsibility was leading to increased firm financial performance. That explains the attainment of sound corporate social responsibility is expected to continue expanding in the future be improved. This means that the value of training, employee, encouraged and stimulated managers the results were the reflect through honest and moral responsibility in firm activities, therefore company can use of the Corporate social responsibility, Corporate social responsibility environmental and corporate social responsibility philanthropy financial return and corporate social responsibility effects organization had cut its cos to the corporate social responsibility, our corporation is an instrument of the wealth creation with Corporate social responsibility conceived as a strategic tool to promote economic objectives, allocating high Corporate social responsibility budgets by your company is very important, our firm added value to the shareholder value of interest other than CSR, this company had an extra-ordinarily decreased its dividend after allocating budget to CSR confirmed there is significant relationship with firm financial performances for all sample of the Hormuud company in Mogadishu Somalia.

MAJOR FINDINGS

Furthermore, the purpose of this study was to discover the role the Corporate Social Responsibility on the Firm financial performance of Hormuud company in Mogadishu Somalia. Therefore, this study was to identify the influence of CSR, CSRENV and CSR Philan. To have a positive effect on Firm financial performance, the study tested the correlation by using Pearson product thrust correlation. And the result obtained indicated that there is a strong positive relation.

Among relationships except for Corporate Social Responsibility, Corporate Social Responsibility, environmental, and Corporate Social

Responsibility philanthropy while these variations noted Positive associations with Firm financial performance. The results suggested that Corporate Social Responsibility has great influence on Firm SRC has ($r=.351$; $P=0.00$) impact on the financial performance, while CSRENV ($r=.405^{**}$; $P=.000$) correlation with Firm financial performance. This means if Corporate Social Responsibility (CSR, CSRENV and CSRPhilan) are possibly managed, then their effects on firm financial performance (Our corporation is an instrument of wealth creation with CSR conceived as a strategic tool to promote economic objectives, our corporation is an instrument of wealth creation with CSR conceived as a strategic tool to promote economic objectives,). Lead to achieving the financial goal and objectives. On the additional, the researcher investigated and tested the hypothesis of the three V: CSR, CSRENV and CSRPhilan working and Firm Financial performance with seven dependent variables: Firm financial performance. The first hypothesis indicated the relationship between corporate social responsibility, and firm financial performance and found that there is a significant relationship between the variables ($\beta=.351$; $T=9.137$; $P=0.000$) therefore H1 was accepted. The second hypothesis showed that there is a relationship between corporate social responsibility, environmental and firm financial performance, as exemplify that there is a significant relationship between the variables ($\beta=.078$; $T=2.541$; $P=0.012$). As a result, the H2 was accepted. The third hypothesis of this research as indicated that corporate social responsibility has positive a correlation between firm financial performance, and lastly found that has a significant relationship between the variables ($\beta=.405$; $T=10.567$; $P=.000$) therefore H3 was accepted. With the total score of the hypothesis (R Square=.608) which means the estimated hypothesis discussed in chapter two of our study corresponds with the real results. However, some researches have been supporting the current findings, these studies conducted through financial management practice on financial performance and the two of them recognized that there is a positive relationship between the variables. The results of this study support the views expressed in the survey conducted by (Njagi and Kariuki 2017) indicated that investigated Corporate Social responsibility on firm financial performance with

The significance of the finding of this research equals the results of the reviewed literature on the

topic, which also explain that there are strong positive correlations between Corporate Social responsibility and firm financial performance. As researcher previous estimated in chapter to the findings and our prediction converted the same. Opportunity research should further investigate ambiguous that affect Corporate social responsibility effect of the firm financial performance management positive way, with Hormuud Business sector. Such analysis may be helpful to leader financial management policy, meanwhile empathetic the associations between these immaterial are significant for the reassuring value of CR, CSREN and CSR Philanthropy and effectiveness. Our study confirmed that ranked regression equation modeling could be used for assessing the relationship between the variables corporate social responsibility and firm financial performance.

Furthermore, many similar studies in the rest of the world, as well as studies based on additional indicators of the effect of corporate responsibility and firm financial performance, confirmed the same result that study conducted. Therefore, the investigation came to be familiar with those employees of professional private know small on financial pieces of the business financial performance, and this director them with the statement that their firms are financially appropriate, while there is an exit option of the opposing.

This study required for Corporate social responsibility employed in the Hormuud company in Mogadishu region, Somalia and their effect on firm financial performance. This rotated around the corporate Social responsibility, our organization having a CSR structure and Our Company makes an assessment of impact of its business on the stake holders are helpful in decision making, and the geographical area of CSR Interventions affects firmly the company, Our firm's main principle is honesty in every business dealing, Our organization adheres environmental laws as they are set for, the owner /manager is trained in corporate social responsibility Financial return and CSR effects Our organization had cut its cost to the CSR .Meanwhile, this part is a summary of the main findings of the study and relates to the findings of previous studies, and were discussion extra each finding on the case segment. This study was fundamentally suggested to recognize the relationship between the effect of corporate social responsibility on firm financial performance in Hormuud company employed, managed and owner managers in Mogadishu Somalia.

RECOMMENDATIONS

The study has strongly confirmed that the Hormuud company in the Mogadishu area is:

1. The best firm financial performance strongly relates to the well-organized management of Corporate Social Responsibility and Corporate social responsibility, environmental, whereby the owners of Hormuud company value can be shaped over short-time trustee of the cash transformation.
2. The administration would classify the Hormuud company accepted the unique Corporate Social Responsibility drivers and. Corporate Social Responsibility, environmental and Corporate social Responsibility philanthropy.
3. The Hormuud company must not focus on fast-moving up range periods and postponing payments to creditors as the study has shown that these three need to be shortened for any financial gain.
4. If the shareholder felt delaying payments may create immoral relations between the Hormuud company and their suppliers while an un-professional assembly actions can lead to the loss of some customers that hurt the Hormuud company in Mogadishu Somalia.
5. The study that insurances other parts of the country with unique business situations would be welcomed and practicing corporate social responsibility on firm financial performance in the Mogadishu area.

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