Does Corporate Social Responsibility contribute to Performance in Sugar Manufacturing Firms?

Dr. Benson Mbithi¹, Prof. Charles Rambo²,
¹School of Business, Jomo Kenyatta University of Agriculture and Technology, Kenya
²School of Continuing and Distance Education, University of Nairobi, Kenya

Abstract: The study investigated effects of Corporate Social Responsibility (CSR) on performance of organizations by focusing on its four fundamental components: economic, social, political and philanthropic. Using 8 sugar manufacturing firms, the study findings indicated that corporate social responsibility to have a predictive power and it could explain variations in firm performance. Ability to explain variations in company performance was realized through sales volume by 18% ($R^2 = 0.180$), capacity utilization by 16% ($R^2 = 0.160$) while profitability after tax by 20.3% ($R^2 = 0.203$). Findings of CSR performance results show that though CSR activities have been viewed to contradict companies’ ultimate mandate of profit making and sidetracking organization core activities, statistical results from this study shows positive performance outcomes especially profitability. This may be attributed to positive company image and brand as a result of CSR activities.

Keywords: Corporate Social Responsibility, Organizational performance, Total Turnover, Profitability, Sales Volume, Capacity Utilization

INTRODUCTION

Corporate social responsibility activities of companies have been found to be those that exceed compliance with respect to environmental or social regulations, in order to create the perception or reality that these firms are advancing a social goal [1].

In 1970’s, business managers applied the traditional management functions when dealing with CSR issues, while 1980s business and social interest came closer and firms became more responsive to their stakeholders. During 1990s, the idea of CSR became almost universally approved, and was coupled with strategy literature and finally, in the 2000s, CSR became definitively an important strategic choice [2].

Spector B [3] has argued that the roots of the current social responsibility movement can be traced to the period 1945 – 1960, the early years of the cold war [3]. In the 1950s, there was some limited discourse about CSR. Abrams, F.W [4] introduced concerns about management’s broader responsibilities in a complex world. Abram argued that as management was professionalizing, companies had to think not just about profits but also about their employees, customers and the public at large. Bowen, H. R [5] further contributed in shaping of the subject by publishing his seminar book, social responsibilities of the businessman. Frederick, W.C [6] a noted contributor to the CSR literature argued that there were three core ideas about CSR that stood out in the 1950s. These included the idea of the manager as public trustee, the balancing of competing claims to corporate resources and corporate philanthropy.

Reality shows that firms have recently been able to adapt to a changing world not only by developing economically but also socially and ethically [7] and therefore brings corporate social responsibility as a determinant of company growth. A need is evidently growing for corporate social responsibility from stakeholders [8]. The demand has been marked by numerous claims linking CSR to firm financial performance [9]. Empirical studies have found positive, negative and curvilinear relationships between CSR and performance. Such studies include [8] on corporate social responsibility and financial performance; [10] on the link between competitive advantage and corporate social responsibility; [11] on corporate social responsibility and financial performance; [12] on a meta-analysis of corporate social responsibility and financial performance.

Corporate social responsibility has been defined as actions on the part of a firm that appear to advance the promotion of some good beyond immediate interests of the firm/shareholders and beyond legal requirements [8]. CSR activities of companies have
been found to be those that exceed compliance with respect to for example environmental or social regulations in order to create the perception or reality that these firms are advancing a social goal [13]. Recent theories of CSR [14, 8] conjecture that companies engage in profit maximization CSR based on anticipated benefits from these actions. Examples of such benefits include reputation enhancement, the potential to charge premium price for its products or the enhanced ability to recruit and retain high quality workers [8].

Based on the profit maximization CSR hypothesis, most academic studies of CSR have focused on a narrowly defined business oriented research question; do socially responsible firms achieve higher, lower or similar levels of financial performance than comparable firms that do meet the same CSR criteria? [15,16]. McWilliams, A et al. [8] pointed out two types of empirical studies of the relationship between CSR and financial performance.

Continuous performance is the objective of any organization. Knowing the determinants of organizational performance is important especially in the current business competitive environment. Identification of those factors is important and should be treated with keen interest with aim of improving on the performance. This study explored both quantitative and qualitative measures of performance to show the impact of strategy – environment.

The idea that business has duties towards society and more specifically towards identified constituents (the stakeholders) is widely acknowledged. There is empirical evidence of the relationship between choices of strategy on performance of companies. One set of studies uses the event study methodology to assess the short-run financial impact (abnormal returns) when firms engage in socially responsible or irresponsible acts, for example, [17-19]. The results of these studies have been mixed. Wright, P et al. [19] found a negative relationship; Posnikoff , J [17] reported a positive relationship; and Teoh, S et al. [18] found no relationship between CSR and financial performance, when examining divestitures from South Africa during the Apartheid controversy. A second set of studies examines the nature of the relationship between some measure of corporate social performance, CSP (a measure of CSR), and measures of long term firm performance, using accounting or financial measures of profitability. The results from these studies have also been mixed. Aupperle, K. E et al. [20] found no relationship between CSP and profitability, McGuire, J et al. [21] found that prior performance was more closely related to CSP than was subsequent performance, while Waddock, S. A et al. [22] found significant positive relationships between an index of CSP and performance measures such as ROA.

There is evidence with regard to performance implications of corporate social responsibility. There however exist gaps that this study seeks to address, like determining the degree to which corporate social responsibility impacts on performance. The study therefore addresses the effect of corporate social responsibility on the different performance measures of sugar companies in Kenya.

The study was guided by the following objective; To establish how corporate social responsibility affects performance of sugar companies in Kenya. The study further seeks to answer the question; How does corporate social responsibility affect performance of sugar companies in Kenya? The study tested the following null hypothesis; $H_0$: There is no significant relationship between corporate social responsibility and performance of sugar companies in Kenya.

Theoretical Framework

Stakeholder theory was originally detailed by Freeman, F. R [23]. The theory identifies and models the stakeholders of a corporation and then recommends methods by which management can give due regard to the interests of those groups [23,24] found corporate social responsibility (CSR) and the notion of stakeholder approach as pivotal concepts when examining the role of business in society. The role of stakeholder theory in business is further supported by Lantos, G.P [25] and Moir, L [26] who claim that business people are simply using the resources of the principle they ultimately serve and therefore do more of a disservice that good to society [27] expresses that there is a natural fit between the idea of corporate social responsibility and an organizational stakeholders.

According to stakeholder theory, success of the organization depends primarily on how well are well managed relationships with many key groups and other important community organizations within which it operates [28]. Other stakeholder theory the work of a manager is to support all these groups, carefully align their differing interests that should create the organization to be a place where shareholders’ interests can be collectively maximize gradually [29]. Critics have found stakeholder’s theory as a failure, because of one, it does not help the management to identify who what groups are or are not stakeholders [30]. Secondly, they theory does not specify how a manager should compare the competing interests of different stakeholder groups [31]. However, this study finds relevance in stakeholder theory in its focus to describe and explain the characteristics and behaviours of firms. The theory is instrumental to this study in identifying
corporate goals.

<table>
<thead>
<tr>
<th>CORPORATE SOCIAL RESPONSIBILITY</th>
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<tbody>
<tr>
<td>Economic activities</td>
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<td>Ethical activities adopted</td>
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<tr>
<td>Legal requirements fulfilled</td>
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<td>Philanthropic activities involved</td>
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The study was guided by the following conceptual framework.

<table>
<thead>
<tr>
<th>PERFORMANCE OF SUGAR COMPANY</th>
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<tbody>
<tr>
<td>Total turnover</td>
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<tr>
<td>Profitability after tax</td>
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<tr>
<td>Sales volume</td>
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<tr>
<td>Capacity Utilization</td>
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Empirical review of existing literature

Manyasi et al. [32] investigated corporate social responsibility towards employees and business performance of sugar manufacturing firms in Kenya. The study employed descriptive causal survey research design. The study targeted a total of 2450 employees with a sample size consisting of 245 employees. The 245 employees were selected through simple random while purposive sampling techniques was used to select the 10 NGOs, 15 departmental heads and 5 members of NEMA. The findings of the research were that there is a positive statistically significant linear correlation between practicing employee oriented activities and business performance of sugar manufacturing firms in Kenya. It further recommended that managers, investors of sugar manufacturing firms as well as the interested parties in sugar firms should proactively participate in employee oriented activities since it has a positive significance towards the performance of sugar firms [32].

In exploring corporate communal accountability towards the populace and whether it aimed at increasing solvency of sugar manufacturing firms in Kenya, [33] used a sample of two hundred and forty five employees from sugar manufacturing firms. The study specifically investigated effect of sugar firms participating in construction of community roads, sponsoring of needy students and construction of school on their solvency. To achieve this, both primary and secondary data collection instruments were used. Suitable descriptive and inferential statistical tools like mean standard deviation, ANOVA, Pearson correlation done at 95% confidence level were used in the study. The findings showed that firms with high profitability participated in socially responsible activities while those with low profitability did not participate in socially responsible activities. On the basis of these findings, the study recommended that shareholders and investors of sugar manufacturing firms as well as the interested parties in sugar firms should stress on the need for sugar firms to adopt social responsibility as a primary objective in the course of business [33].
A study by Pavie, J. J. E et al. [12] investigated the relationship between corporate social responsibility and financial performance using the meta-analytic method developed by Hunter, J. E et al. [34]. In this effort they borrowed the hypotheses formulated by Orlitzky, M et al. [35], who used 52 articles published between 1968 and 1997, to see if they are still valid for the period from 1998 to 2007. Study conclusion was that there is a positive correlation between corporate social performance and financial performance; that this relation tends to be bidirectional and simultaneous; that firms’ reputation is an important moderator of this relation; and that the various measures of financial performance and social performance are behind this relation [12].

The field of corporate social responsibility (CSR) has grown exponentially in the last decade. Nevertheless, there remains a protracted debate about the legitimacy and value of corporate responses to CSR concerns [11]. There are different views of the role of the firm in society and disagreement as to whether wealth maximization should be the sole goal of a corporation. Tsoutsoura, M [11] carried out a study on Corporate Social Responsibility and Financial Performance, using extensive data over a period of five years, explored and tested the relationship between corporate social responsibility and financial performance. The dataset included most of the S&P 500 firms and covered the years 1996-2000. Testing using empirical methods results indicated that the sign of the relationship was positive and statistically significant, supporting the view that socially responsible corporate performance can be associated with a series of bottom-line benefits.

According to Margolis, J. D et al. [36], one hundred twenty-two published studies between 1971 and 2001 empirically examined the relationship between corporate social responsibility and financial performance. The first study was published by Narver, J. C [37] in 1971. Empirical studies of the relationship between CSR and financial performance comprises essentially two types. The first uses the event study methodology to assess the short-run financial impact (abnormal returns) when firms engage in either socially responsible or irresponsible acts. The results of these studies have been mixed. Wright, P et al. [19] discovered a negative relationship; Posnikoff, J [17] reported a positive relationship, while [18] found no relationship between CSR and financial performance. Other studies, discussed in [8], are similarly inconsistent concerning the relationship between CSR and short run financial returns.

The second type of study examines the relationship between some measure of corporate social performance (CSP) and measures of long term financial performance, by using accounting or financial measures of profitability. The studies that explore the relationship between social responsibility and accounting-based performance measures have also produced mixed results. Cochran, P. L [38] located a positive correlation between social responsibility and accounting performance after controlling for the age of assets. Aupperle, K. E et al. [20] detected no significant relation between CSP and a firm’s risk adjusted return on assets. In contrast, [22] found significant positive relationships between an index of CSP and performance measures, such as ROA in the following year.

Studies using measures of return based on the stock market also indicate diverse results. Vance, S. C [39] refutes previous research by Moskowitz by extending the time period for analysis from 6 months to 3 years, thereby producing results which contradict Moskowitz and which indicate a negative CSP/CFP relationship. However, Alexander, G. J [40] improved on Vance’s analysis by evaluating stock market performance of an identical group of stocks on a risk adjusted basis, yielding an inconclusive result.

Over decades, the pressure on firms to engage in corporate social responsibility (CSR) has increased. Many managers have responded to these pressures, but many have resisted. Those who resist typically have invoked the trade-off between socially responsible behavior and profitability. McWilliams, A et al. [8] responded to this by attempting to demonstrate the effect of CSR on profitability. By conducting a regression test of firm performance on corporate social performance, correlation test of CSR and R&D, estimation of CSR on performance, the results of relationship between CSR and profitability were inconclusive, reporting positive, negative, and neutral results. Their study hypothesized that this inconsistency could be due to flaws in empirical analysis. One particular flaw was econometric estimation of a mis specified model. To test their hypothesis, the study estimated two models. The first was the same specification as [22] and the second was one in which it included R&D intensity. The results confirmed that CSP and R&D are highly correlated, and that, when R&D intensity is included in the equation, CSP is shown to have a neutral effect on profitability [8]. The study was however mainly confined on financial performance and therefore posing a challenge on correlations of other qualitative performance parameters.

A study by Kaufmann, M et al. [41] examined the question of measurability of the impact of Corporate Social Responsibility on Business Performance. The study was basically empirical literature review described newer trends of measuring business performance, showing that one can observe a shift from
the classical short-term analysis with particular focus on indicators like shareholder value, revenue and market share toward taking also into account soft indicators, such as employee and customer satisfaction, that contribute to the long-term success of a company [8]. This approach was shown based on the European Foundation of Quality Management (EFQM) criteria. The study went on to give an overview of latest trends in the field of Corporate Social Responsibility and then offered a possible way to measure its impact on Business Performance on the basis of the stakeholder concept.

The study findings were that the impact of CSR on Business Performance can be measured. However, an indirect approach must be chosen. Although it is virtually impossible to subtract out the influence of CSR on Business Performance directly, it is possible to determine the influence of CSR on different stakeholders of the company by using a new approach concluded the study [41]. The study further found it necessary to measure changes in stakeholder satisfaction levels due to investments in Corporate Social Responsibility [41]. Lack of not able to conclusively determine the level of corporate social responsibility impact on performance posed a limitation on the study.

Morrison-Paul, C [1] using empirical study reviews described some perspectives on corporate social responsibility (CSR), in order to provide a context for considering the strategic motivations and implications of CSR. The study provided an important foundation for economic CSR analysis by showing how one might evaluate the costs and benefits of CSR activities in the context of productivity and cost efficiency. The study documents that CSR activities may affect the productive impacts of efficiency, technical change and scale economies, as well as increase input costs and composition (potentially increasing outsourcing and reducing investment and employment). The findings also indicate that these impacts are dependent on firm characteristics such as the motivations for socially responsible actions, tax laws, location, and plant age and innovation activities. These results provide provocative insights, therefore, regarding how CSR must be balanced by benefits or regulations (implied social benefits) to motivate firms to carry out such activities [1]. The study’s limitation emerged in the consideration of firm characteristics as a dependent variable other than economic performance.

Examining whether corporate social responsibility (CSR) towards primary stakeholders influences the financial and the non-financial performance (NFP) of Indian firms a study was conducted by [42]. Perceptual data on CSR and NFP were collected from 150 senior-level Indian managers including CEOs through questionnaire survey. Hard data on financial performance (FP) of the companies were obtained from secondary sources. The study used a questionnaire for assessing CSR developed with respect to six stakeholder groups – employees, customers, investors, community, natural environment, and suppliers. A composite measure of CSR was obtained by aggregating the six dimensions. Findings indicated that stock-listed firms showed responsible business practices and better FP than the non-stock-listed firms. Controlling confounding effects of stock-listing, ownership, and firm size, a favorable perception of managers towards CSR is found to be associated with increase in FP and NFP of firms. Such findings hold good when CSR is assessed for the six stakeholder groups in aggregate and for each stakeholder group in segregate. Findings suggest that responsible business practices towards primary stakeholders can be profitable and beneficial to Indian firms [42]. The study was however limited to Indian companies whose outcome cannot be generalized to both highly developed or less developed nations.

The effect of corporate social responsibility (CSR) on financial performance was examined by Flammer, C [43]. The study used secondary data from risk metrics and fact set with a sample 102 CSR-related proposals. A cross sectional analysis conducted regressing CSR on marginal returns (performance). Specifically, the study analyzed the effect of CSR-related shareholder proposals that pass or fail by a small margin of votes. The passage of such “close-call” proposals is akin to a random assignment of CSR to companies and hence provides a clean causal estimate. Consistent with the view that CSR is a valuable resource; the study found that adopting a CSR-related proposal leads to superior financial performance. The effect is weaker for companies with higher levels of CSR, suggesting that CSR is a resource with decreasing marginal returns. Finally, consistent with institutional theory, the study found that the effect is stronger for companies operating in industries where institutional norms of CSR are higher [43]. The study’s limitation emerged by considering performance in terms of financial measures whereas qualitative performance would have been necessary to give an overall performance.

RESEARCH METHODOLOGY

The target population of the research entailed eight sugar companies in Kenya. The industry is a sub-sector within the larger agriculture sector in Kenya. The population of this study comprised of both parastatal and private companies in the sugar industry in Kenya totaling to eight companies by 2014. Target population were fifteen senior managers who include heads of departments and sections whose portfolio held a crucial role in developing strategic measures in the targeted
companies. At least 120 respondents were targeted to fill the questionnaire and one for interview questions. In total the study aimed at reaching all the respondents representing the eight companies.

The current research required that non-probability sampling approaches be used and in particular purposive sampling. According to Leedy, P. D et al. [44] purposive sampling is meant for a particular purpose, where people are chosen who are relevant to the research topic and who the researcher believes can provide the best information to achieve the objectives of the study [45]. The study in its choice of respondents targeted members of senior management who bore the greatest responsibility in decision making and strategy formulation.

The study used a set of questionnaires, face to face interview and secondary data. A set of questionnaires were designed to generate responses on study items covering company general characteristics, diversification strategy and performance dimensions developed in a pattern earlier used by Jauch, L. R et al. [46]. Secondary data covered resources in strategy to performance on variables such as profits, total output turnover, sales volume and capacity utilization covering a period between years 2009–2013. Study theme on corporate social responsibility and performance sought data on how economical, ethical, legal and philanthropic responsibilities affected performance dimensions.

The final part of the questionnaire sought information of company performance which was collected from both primary and secondary sources since it entailed profits, sales volume, total turnover and capacity utilization. The Secondary data was collected through published information like company annual reports for the period covering 2009 – 2013. Face to face interview which aimed at collecting information at least from one respondent per company supplemented information on the questionnaires and guide questions as outlined and any other relevant information that emerged in seeking clarity on responses given.

Data was analyzed using a combination of both descriptive and inferential statistics. Descriptive statistics were used because they enable the researcher to meaningfully describe distribution of scores or measurements using a few indices [47]. Data frequency distribution and cross tabulation was used in describing and explaining the situation as it is in the companies. Descriptive statistics was further used to provide a profile of company demographics. In this respect, fundamental statistical measures (averages, frequencies, percentages) were used.

In order to test the hypotheses, regression analysis was conducted using performance as the dependent variable and strategic choice indicators as predicting variables. Regression analysis beta (β) equivalent to the Karl Pearson Correlation Coefficient (r) [48] was used to determine the effect of the independent variable and the moderating variable on the dependent variable. The hypothesis was tested at 0.05% significance level, with 95% confidence, which is acceptable in nonclinical research works and was used to establish the relationship among the study variables and to test the formulated hypotheses. The Regression model for this study takes the form:

\[ Y = \beta_0 + \beta_1 X_1 + \varepsilon \]

Where \( Y \) = dependent variable (Company performance)
\( \beta_0 \) = Constant or intercept which is the value of dependent variable when all the independent variables are zero.
\( \beta_1 \) = Regression Coefficient for each independent variable (corporate social responsibility)
\( \varepsilon \) = Stochastic or disturbance term or error term
\( X_1 \) = Independent variable indicator

The test criteria was set such that the study rejects the null hypotheses \( H_0 \) if \( \beta \neq 0 \), otherwise the study will fail to reject \( H_0 \) if \( \beta = 0 \). To test the hypotheses, mean of Company performance was correlated with mean of corporate social responsibility. The correlation(r) was calculated to determine strength of the relationship between the dependent variable and independent variable. Adjusted \( R^2 \) indicated percentage of variation in which independent variable (corporate social responsibility) explain dependent variables (performance).The t-test statistic indicated significance of variables where P-value will show significance how independent variables (corporate social responsibility) determine dependent variable (performance) eg. P-value less than alpha, assumed to be 0.05 in this case would indicate significance. Standardized coefficients assessed the contribution of each independent variable towards the prediction of the dependent, since they had been converted to the same scale to show comparison. Beta coefficients were to establish by how much a unit increase in independent variable would increase dependent variable.

**Corporate social responsibility**

An independent variable that was measured using four dimensions on the extent to which respondents companies’ fulfilled economic, ethical, legal, philanthropic responsibilities. The study used four point scale to capture the level at which the strategy was applied. The scale was described as; no fulfillment at all, poorly fulfilled, fairly fulfilled, highly fulfilled. Similar measurement approach was successfully used by Nesvadbova, I. K [31].
The dependent variable that was measured using four dimensions. First dimension was on how respondents rated the performance of their company in terms of total turnover which used further four point scale described as; no change in turnover, total turnover has been deteriorating, total turnover has experienced fluctuations, total turnover has constantly improved.

The second performance dimension was on how respondents rated the performance of their company in terms of profitability using four point scale presented as; profitability has not changed, there has been constant losses, profitability has been fluctuating, profitability has constantly been raising.

Third performance dimension was on how respondents rated performance of their company in terms of Sales volume using four point scale indicated as; Sales have not changed at all, Sales volume have deteriorated, Sales have been fluctuating, Sales have constantly been improving.

The fourth and final performance dimension was on how respondents rated the performance of their company in terms of capacity utilization. Using four point scale described as; CU has not changed at all, CU has experienced downward trend, CU has been fluctuating, CU has been improving constantly.

**RESULTS AND DISCUSSIONS**

A total of 120 managers in sugar companies in both public and private were targeted and to this effect 120 questionnaires were issued. Out of these 72 usable questionnaires were received back giving a return rate of 60%. [49] considered a response rate of at least 51% in an open study to be adequate while [50] further researched the return rates reported by 141 published studies and 175 surveys in five top management journals and found that the overall average return rate was 55.6%.

**Corporate Social Responsibility and Sugar Companies**

The study’s objective was determining the extent to which CSR as a strategy has been adopted by sugar companies. Studies have been done on CSR on different performance measures in terms of profitability to stakeholders [42], superior financial performance [43, 11], favourable community initiatives [51]. This study has considered CSR activities through its indicators to the level in which companies engage in economic, legal, ethical and philanthropic responsibilities. Corporate social responsibility (CSR) can help you cut costs and boost sales while other significant benefits include improved reputation, stronger customer loyalty and motivated employees. The level in which a company engages any of the CSR activities shows the level in which the company is progressing in fulfilling its CSR mandate which in turn boosts its image to stakeholders. The results are further presented in the following sub-themes.

**Economic Responsibilities**

The sub theme means companies fulfill their economic activities in their administrative systems. Economic aspect of CSR has been expressed in terms of fulfilling stakeholders interests [42]. The respondents were asked to state the extent to which their company fulfilled their economic aspect mandate of corporate social responsibility. The responses were summarized into following four point scale and presented in table 1 below.

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency (f)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not fulfillment at all</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Poorly fulfilled</td>
<td>7</td>
<td>9.7</td>
</tr>
<tr>
<td>Fairly well fulfilled</td>
<td>8</td>
<td>11.1</td>
</tr>
<tr>
<td>Highly fulfilled</td>
<td>57</td>
<td>79.2</td>
</tr>
<tr>
<td>Total</td>
<td>72</td>
<td>100.0</td>
</tr>
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</table>

The findings in Table 1 above shows clearly that out of 72 respondent managers who participated in the study, 57(79.2%) had their companies highly fulfill their economic responsibilities as a corporate social responsibility mandate, 8(11.1%) fairly well fulfilled economic responsibilities, 7(9.7%) had their companies poorly fulfilled economic responsibilities while no company that did not fulfill their economic responsibility at all. This implies that all the companies 72(100%) fulfilled economic responsibilities in one way or another while (90.3%) of the companies fulfilled their economic responsibility well. Given that 90.3% of the sugar companies in western Kenya fulfilled their economic mandate well, it is expected that the companies would improve in performance. Contrary to that expectation Table 4.27 shows that CSR does not have significant effects on almost all measures of performance and therefore can be concluded that increase in CSR activities does not necessarily improve performance significantly. The study fails to confirms conclusion earlier drawn by Morrison-Paul, C [1] that economic activities of CSR affects productive impacts of efficiency, technical change and sales economies as well as increase input costs and composition. Further
Pavie, J. J. E et al. [12] showed positive relations between the various measures of CSR and financial performance.

From interviews, on how their companies fulfilled the economic responsibilities, the respondents were quoted; “Fair pricing of products and remuneration for employees motivates them and this eventually impacts on fulfilling organizational performance through achieving organizational goals”.

### Table 2: Extent to which companies fulfill their ethical responsibilities

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency (f)</th>
<th>Percentage (%)</th>
</tr>
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<tbody>
<tr>
<td>Not fulfillment at all</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Poorly fulfilled</td>
<td>5</td>
<td>6.9</td>
</tr>
<tr>
<td>Fairly well fulfilled</td>
<td>23</td>
<td>31.9</td>
</tr>
<tr>
<td>Highly fulfilled</td>
<td>44</td>
<td>61.0</td>
</tr>
<tr>
<td>Total</td>
<td>72</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The findings in Table 2 above shows clearly that out of 72 respondents who participated in the study, 44(61%) indicated that their companies highly fulfilled ethical responsibilities, 23(31.9%) had fairly well fulfilled ethical responsibilities, a minimum of 5(6.9%) had ethical responsibilities poorly fulfilled with none of the companies failing to fulfill at all. The above findings imply that (92.9%) of the companies in sugar industry in western Kenya fulfilled their ethical responsibilities at least fairly well and therefore companies who have pursued the strategy should perform well. Regression tests show lack of significant effect on performance and therefore it can be concluded for the sugar companies in western Kenya there seems to be other factors which the companies need to adopt to improve their performance. The findings are contrary to those of [42] who suggested that responsible business practices towards primary stakeholders can be profitable and beneficial to Indian firms.

Respondents interviews on how their companies fulfilled their ethical responsibility had this to say; “Ethical activities are mainly achieved through considering the needs of gender/physically challenged, product quality considerations, through employee safety measures and training, embracing ethics in company activities, good waste disposal, provision of water boreholes for the communities around and enhanced complaint/arbitration initiatives.”

### Another respondent quoted said

“Ethical responsibilities include reduction of complain activities and anti corruption campaigns, carbon credit, strengthening of security services, fair pricing and prompt payments.”

### Legal Responsibilities

Fulfillment of legal responsibilities means that companies have a responsibility to comply to industry, government, sugar board requirements in their business operations. Company compliance with legal requirements is doing business by playing by the rules which enables companies to be less affected by consequences on non compliance like penalties, deregistration, legal courts battles eventually affecting their core business and subsequent performance. Any measure that enables a company not to side track could be interpreted to signify focus and progress. The respondents were asked to state the extent to which their company fulfilled their legal mandate. The results are presented in table 3 below.

### Table 3: Extent to which companies fulfill their legal responsibilities

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency (f)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not fulfillment at all</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Poorly fulfilled</td>
<td>5</td>
<td>6.9</td>
</tr>
<tr>
<td>Fairly well fulfilled</td>
<td>15</td>
<td>20.8</td>
</tr>
<tr>
<td>Highly fulfilled</td>
<td>52</td>
<td>72.3</td>
</tr>
<tr>
<td>Total</td>
<td>72</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The findings in Table 3 above shows clearly that out of 72 respondent managers who participated in the study, 52(72.3%) had their companies highly fulfilling the legal responsibility mandate, 15(20.8%) had their companies fulfilling their ethical responsibilities fairly well while 5(6.9%) indicated that their companies poorly fulfilled their ethical responsibilities. From the table findings no company
failed to at least fulfill their ethical responsibility at all. Implications to these findings show that (93.1%) of the companies fulfilled their ethical mandate well and therefore expected to have an improved performance. The expectation of an improved performance is partially supported in regression tests where fulfillment of legal activities have a slight significant effect on sales volume. The findings support partially [43] assertions that adopting the legal aspects of CSR related requirements leads to performance. The effect is stronger for companies operating in industries where institutional norms of CSR are higher. Further, CSR activities of companies have been found to be those that exceed compliance with respect to for example environmental or social regulations in order to create the perception or reality that these firms are advancing a social goal [1].

On how sugar companies fulfilled their ethical responsibilities respondents were quoted saying; “legal activities are manifested through industry, statutory and legal compliance, pursuit of anti poaching by laws with Government and forensic legal audit.”

Philanthropic Responsibilities

Philanthropic responsibilities indicate that companies’ direct their resources to support a worthy cause or address a societal need. Philanthropic actions and activities positively affect the environment, society, consumers, employees, communities, and other stakeholders. The respondents were asked to state the extent to which their company was engaged in philanthropic activities. The results were presented in table below.

Table 4: Extent to which companies fulfill their philanthropic responsibilities

<table>
<thead>
<tr>
<th>Frequency (f)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not fulfillment at all</td>
<td>0</td>
</tr>
<tr>
<td>Poorly fulfilled</td>
<td>6</td>
</tr>
<tr>
<td>Fairly well fulfilled</td>
<td>6</td>
</tr>
<tr>
<td>Highly fulfilled</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>72</td>
</tr>
</tbody>
</table>

The findings in Table above shows that out of 72 respondent managers who participated in the study, 60(83.4%) had highly fulfilled the philanthropic responsibilities, 6(8.3%) had their companies either fairly well fulfilled or poorly fulfilled philanthropic responsibilities. No company in sugar industry in western Kenya that did not fulfill their philanthropic mandate at all. This clearly shows or implies that (91.7%) of the companies fulfilled their philanthropic responsibilities well and this should have resulted to a positive impact on their efforts to support social causes. However, regression tests shows absence of statistically significant results on relationship between philanthropic responsibilities and any performance measure considered in this study.

While philanthropic activities have viewed negatively on short term basis by Wright, P et al. [19], there is evidence of their value in improvement of performance of companies [7] especially on a long run performance.

Response through interview on how philanthropic responsibility were fulfilled were quoted as "Philanthropic activities are manifested through construction of amenities like schools and medical facilities, donations to the needy, educational funds and bursaries, enhancing local talent through sporting activities like football clubs."

Another respondent said

“Philanthropic activities involved tree planting exercise and conducting of jigger eradication campaign.”

Hypothesis (H₀): There is no significant relationship between corporate social responsibility and performance of sugar companies

Corporate social responsibility (CSR) was operationalized in terms of economic, ethical, legal and philanthropic responsibilities. The results of ANOVA tests in which F-test was carried out using the Analysis of Variance (ANOVA) to determine whether there is a regression model

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon \]

where; \( X_1 \)- economic responsibilities, \( X_2 \)- ethical responsibilities, \( X_3 \)- legal responsibilities, \( X_4 \)- philanthropic responsibilities could reliably predict company performance. Linear regression F test results show the tabulated \( F_{0.05}(2,69)=3.07 \) is more than the computed F-value of 11.465 hence conclude that with 95% confidence CSR has explanatory power on sales volume.
From the table 4 above coefficient of determination ($R^2$) indicates that CSR can explain variances in company performance from 18% in sales volume, 16% in capacity utilization to 20.3% in profitability after tax and 13.8% on total turnover. Statistically reliable relationships were found between the relationships ($p$-values < 0.05). The results further show that for every unit change in fulfillment of philanthropic responsibilities, there is a 0.458 ($\beta$ value) unit change in profitability after tax when all other factors are held constant. Similarly the results show that for every unit change in fulfillment of legal responsibilities, there is a 0.437 ($\beta$ value) unit change in profitability after tax when all other factors are held constant.

Results show that though all the relationships are significant ($p$-values < 0.05), it is fulfillment of philanthropic responsibilities that contribute most to performance when performance is measured in terms of profitability ($\beta = 0.458$), closely followed by legal responsibilities at ($\beta = 0.437$). It can be concluded that corporate social responsibility has significant predictive influence on performance.

### From multiple regression analysis

<table>
<thead>
<tr>
<th>Predictors</th>
<th>$\beta$</th>
<th>Std. Error</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Social Responsibility ($X_1$)</td>
<td>0.823</td>
<td>0.191</td>
<td>4.313</td>
<td>0.007</td>
</tr>
</tbody>
</table>

**Dependent Variable:** Company performance

From the results of multiple regression analysis Since $t$ is 4.313 where $p$ value (0.007) are less than alpha 0.05, it could be concluded that coefficients of CSR are not equal to zero and therefore reject null hypothesis that CSR has no significant effect on sugar company performance. This study therefore agrees with previous studies whose findings indicate outright positive relationship between CSR and performance, while partially supporting studies by Mbalwa, P et al. [52]. Mbalwa, P et al. [52] findings concluded presence of weak relationship between corporate governance practices and performance of sugar manufacturing firms. The findings of [42] though done in a different context held a similar opinion to the findings of this study when they concluded responsible business practices to result in profitable and beneficial outcomes to Indian firms. The findings also support the findings of [11] that held a positive and statistically significant view that socially responsible corporate actions can be associated with bottom line benefits. The results of this study further agree with [43] findings that CSR related proposals leads to financial performance and that CSR is a resource with decreasing marginal returns partially supporting the findings this study. Stakeholder theory as advanced by [30] is instrumental to this study in identifying connections that exist between the corporate social responsibilities towards stakeholders groups and the achievement of corporate goals.
Conclusions and Recommendations

The study findings show that all the companies 72 (100%) fulfilled economic responsibilities in one way or another, 92.9% of the companies in sugar industry in western Kenya fulfilled their ethical responsibilities at least fairly well and that 93.1% of the companies fulfilled their ethical mandate. 91.7% of the companies fulfilled their philanthropic responsibilities well and this should have resulted the companies’ more effort to support social causes. The study findings indicated that corporate social responsibility has a predictive power in that it could explain variations in company performance. Ability to explain variations in company performance was realized through sales volume by 18% ($R^2 = 0.180$), capacity utilization by 16% ($R^2 = 0.160$) while profitability after tax by 20.3% ($R^2 = 0.203$).

Results also show legal and philanthropic responsibilities to present a higher contribution towards profitability ($\beta$ values 0.458 and 0.437 respectively) than CSR responsibilities. This implies that for every unit change in fulfillment of philanthropic responsibilities, there is a 0.458 ($\beta$ value) unit change in profitability after tax when all other factors are held constant. Similarly the results show that for every unit change in fulfillment of legal responsibilities, there is a 0.437 ($\beta$ value) unit change in profitability after tax when all other factors are held constant. Findings of CSR performance results show that though CSR activities have been viewed to contradict companies’ ultimate mandate of profit making and sidetracking organization core activities, statistical results from this study shows positive performance outcomes especially profitability. This may be attributed to positive company image and brand as a result of CSR activities.

CONCLUSIONS

The core business company goal is considered to be profitability and wealth maximization yet companies are adopting corporate social responsibility which is viewed in some studies as derailing pursuit of company objectives. This study concludes that adoption of corporate social responsibility (CSR) through philanthropic responsibilities has been realized in sugar companies resulting to cutting costs and boost sales with other significant benefits including improved reputation, stronger customer loyalty and motivated employees. The study found fulfillment of CSR mandate through legal responsibilities to have significant relationship to profitability and this could lead to conclusion that compliance to government, business regulators and industry requirements impacts positively by reduction of expenses associated with legal processes and penalties, poor image due bad publicity caused by lack of compliance eventually raising profitability margin and winning confidence from stakeholders. The study also concludes that though responsible business practices could result in profitable and beneficial outcomes, overstretched use of CSR as a strategy of enhancing performance could compromise the company financial gains.

Corporate social responsibility approach is more favourable by fulfillment of philanthropic responsibilities. It is further concluded that sugar companies wishing to increase their profitability need to engage in constant scanning macro environmental factors and align them to their choices of strategy to realize significant performance.

Recommendations

Corporate social responsibility has been controversially portrayed as diversionary tactic by companies keen on delivering on their mandate. It is this study recommendation that CSR need to be viewed as a marketing strategy due to its consciousness on society’s needs. However while core activities need to remain priority in the company’s operations and budgetary planning, CSR need to be adopted to help the company build a strong image and brand for society’s expectation and as marketing strategy to stakeholders.

Contribution to the Body of Knowledge

To determine the extent to which Corporate Social Responsibility affects performance of sugar companies in Western Kenya. Corporate social responsibility contribution towards performance ranges between 13.8% and 20.3%. This provides evidence of the pivotal role CSR plays in a company in determining company performance and subsequently provides support for stakeholder theory.

REFERENCES


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