

**THE EFFECT OF SOCIALLY RESPONSIBLE INVESTMENT ON
FINANCIAL PERFORMANCE OF NON-FINANCIAL FIRMS
LISTED AT NAIROBI SECURITIES EXCHANGE**

BY

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**A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL
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DECLARATION

This research project report is my original work and to the best of my knowledge has not been submitted for the award of a degree in any other university.

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This research project report has been submitted for the award of degree of master of business administration with my approval as the University Supervisor.

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DEDICATION

This work is a tribute to my beloved family with special wishes of heavenly blessings in their entire life.

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To this end, I praise God for his abundant provisions. My appreciation to Dr. Zipporah Onsomu for advising and encouraging thereby making the accomplishment of this work possible. I am glad that UoN gave me this chance to do my MBA. Lastly, I acknowledge my family members and friends for social and material support.

TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENTS	iv
LIST OF TABLES	viii
LIST OF FIGURES	ix
ABBREVIATIONS AND ACRONYMS	x
ABSTRACT	xi
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Socially Responsible Investment	2
1.1.2 Financial Performance	3
1.1.3 Socially Responsible Investment and Financial Performance	4
1.1.4 Non-Financial Firms Listed at Nairobi Securities Exchange.....	5
1.2 Research Problem	6
1.3 Research Objective	7
1.4 Value of the Study	8
CHAPTER TWO: LITERATURE REVIEW	9
2.1 Introduction.....	9
2.2 Theoretical Review	9
2.2.1 Modern Portfolio Theory	9
2.2.2 Legitimacy Theory.....	10
2.2.3 Institutional Theory.....	11
2.3 Determinants of Financial Performance	12
2.3.1 Socially Responsible Investments.....	12
2.3.2 Size of the Firm.....	13
2.4 Empirical Literature Review	14
2.5 Summary of Literature Review and Research Gap.....	17
2.6 Conceptual Framework.....	18
CHAPTER THREE: RESEARCH METHODOLOGY	19
3.1 Introduction.....	19
3.2 Research Design.....	19

3.3 Target Population.....	19
3.4 Data Collection	20
3.5 Reliability and Validity Test.....	20
3.6 Diagnostic Tests.....	21
3.7 Data Analysis	21
3.6.1Operationalization of Study Variables.....	22
3.6.2 Test of Significance	24
CHAPTER FOUR: DATA ANALYSIS, DISCUSSION AND FINDINGS.....	25
4.1 Introduction.....	25
4.2 Response Rate of the Study	25
4.3 Reliability and Validity Test.....	25
4.3.1 Reliability Test.....	25
4.3.2 Validity Test	26
4.4 Descriptive Statistics.....	27
4.4.1 Demographics	27
4.4.2 Adoption of SRI.....	29
4.5 Socially Responsible Investment and Financial Performance	32
4.5.1 Diagnostic Tests.....	32
4.6 Correlation Analysis	34
4.6 Regression Analysis.....	35
4.6.1 Model Summary	35
4.6.2 Analysis of Variance.....	36
4.6.3 Regression Coefficients	36
4.7 Discussion of Findings.....	38
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS.....	41
5.1 Introduction.....	41
5.2 Summary of Findings.....	41
5.3 Conclusion of the Study.....	43
5.4 Recommendations of the Study	44
5.5 Limitations of the Study.....	44
5.6 Suggestions for Further Studies	45
REFERENCES	46

Appendix I: Questionnaire.....	51
Appendix II: Raw Data.....	53
Appendix III: Listed Non-Financial Firms in Kenya.....	54

LIST OF TABLES

Table 4.1: Reliability Statistics	26
Table 4.2: Reliability Statistics for the Independent Variables	26
Table 4.3: KMO and Bartlett's Test.....	27
Table 4.4: Demographics	28
Table 4.5: Negative Screening	30
Table 4.6: Norm Based Screening	31
Table 4.7: Positive Screening.....	31
Table 4.8: Normality Test	32
Table 4.9: Multicollinearity Test	32
Table 4.10: Heteroscedasticity Test.....	33
Table 4.11: Autocorrelation Test	33
Table 4.12: Linearity Test.....	33
Table 4.13: Correlation Matrix	34
Table 4.14: Model Summary	35
Table 4.15: Analysis of Variance.....	36
Table 4.16: Regression Coefficients	37

LIST OF FIGURES

Figure 2.1: Conceptual Framework.....	19
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ABBREVIATIONS AND ACRONYMS

CSR	Corporate Social Responsibility
NSE	Nairobi Securities Exchange
OLS	Ordinary Least Squares
ROA	Return on Assets
SPSS	Statistical Package for Social Scientists
SRI	Socially Responsible Investment
USA	United States of America

ABSTRACT

The study intended to establish the effect of socially responsible investment on financial performance of non-financial firms listed at the Nairobi securities exchange, Kenya. The study used a descriptive cross sectional survey approach. The targeted population comprised of non-financial firms listed in Kenya. They were thirty-nine (39) in number as at 31st December 2019. The study employed primary and secondary data. The collection of primary data was done using a structured questionnaire. Multiple regression analysis was then employed to determine how socially responsible investment affects financial performance. It was found out that the non-financial firms adopted SRI practices in their investment decision making. Correlation analysis established that negative screening, norm based screening, positive screening and return on assets have strong positive and significant correlation. ($r = .647, .689,$ and $.771$) respectively with $p < 0.05$ in all the correlations. Size of the firm and return on assets having a moderately positive and significant correlation given by $r = .560$ ($p < 0.05$). The implication is that improved consideration of negative screening, norm based screening, positive screening lead to improved return on assets. Increased firm size equally leads to increased return on assets. Regression analysis established that $R = 0.792$ implying that SRI and financial performance of listed non-financial firms are positively related. The adjusted R^2 of 0.577 meant that 57.7% of variations in financial performance was caused by variations in norm based screening, negative screening, positive screening and size of the firm. This implied that there were other factors representing 42.3% that affect financial performance of the listed non-financial firms other than those included in the model under this study. The overall p-value with F statistic of 12.587 indicated an existent of a significant relationship between SRI and financial performance with $p = 0.000$ ($p < 0.05$). The implication was that norm based screening, negative screening, positive screening and size of the firm reliably predicted financial performance of listed non-financial firms at the NSE. The conclusion of the study was that negative screening, norm based screening, positive screening positively and significantly correlates with return on assets. It was also concluded that size of the firm positively affected return on assets positively and that there was a positive relationship between SRI and financial performance of listed non-financial firms listed at NSE, Kenya. The recommendation of the study was that managers of both the listed and the non-listed companies should modify their corporate strategies accordingly owing to the fact that, the findings indicate that SRI affect financial performance of firms. The recommendation is that the managers be up to date on issues regarding SRI and the related concepts.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Hoon, Park and Ghauri (2013) define socially responsible investment as investment activities that facilitate achievement of financial goals of a firm as well as being committed to the interest of the society and environmental health. Such investments promote how firms perform not only on the basis of environment and social indicators but also economically (Brzeszczyński & McIntosh, 2014). The focus was on environmental, and social and governance factor that helps to address not only healthy corporate behaviour, but equally enables the safety of capital for improved financial performance. Blankenberg and Gottschalk (2018) posit that organizations can achieve social and environmental sustainability without sacrificing returns. Arefeen and Shimada (2019) also found socially responsible funds to be more resilient to market uncertainty hence stable and certain financial performance.

The study was grounded on modern portfolio, legitimacy and institutional theory. Modern portfolio theory is the key theory. The theory emphasizes that socially responsible investments should exhibit high returns with low risks due to exclusion of some firms and assets considered to be risky in different specific aspects through screening (Barnett & Salomon, 2006). The implication is that socially responsible investments are likely to outperform the traditional portfolios. Legitimacy theory posits that companies strive to be legitimate by complying with country, industry and other institutional guidelines including social and environmental norms that forms the basis socially responsible investments (Mousa & Hassan, 2015). According to Brammer, Jackson and Matten (2012), institutional theory gives an approach through which one

can understand how businesses relate to the existing institutions including existing governance mechanisms set on the basis of achieving sustainability in investments.

There are thirty-nine (39) non-financial firms listed at the Nairobi securities as at December 2019 (Nairobi Securities Exchange, 2019). They have the requirement to remain sustainable economically, socially and environmentally in terms of performance. It is coupled with the need to disclose environmental and social activities in line with corporate governance compliance. The contextual concern is that these category of firms are mostly involved in manufacturing and related services that significantly affect the environment and may compromise their existence is an aspect of responsibility is not incorporated.

1.1.1 Socially Responsible Investment

Ibrahim, Awan and Khan (2018) define socially responsible investment as an investment strategy focusing on positive social and environmental returns over and above the normal monetary benefits. It makes the companies to be beneficial environmentally and socially as well as achieving improved financial performance. Ortas, Moneva and Salvador (2012) posit that socially responsible investments are not only interested in money returns but as well the welfare of the environment and the society at large. This is achieved through the investment screening process to ensure that the investments activities are socially and environmentally-friendly. It includes environmental, social and governance that emerges importantly to measure how sustainable a firm is overtime.

According to Tripathi and Bhandari (2014), SRI evaluates how companies perform as well as their forecasted performance. Environmentally, companies benchmark on

extent of reduction of toxic waste discharge and waste management while socially, it is about how the company deals with stakeholders and employee ergonomics. The issue of governance however deals with the way the board is structured and mechanisms to make those in charge of governance accountable. SRI therefore integrates the performance of firms socially and environmentally apart from the traditional focus on profits when making decisions to invest (Calvo, Ivorra & Liern, 2015). There are a number of SRI strategies including negative, positive and norm-based screening as well as engagement, integration, collaborative initiatives and combining of strategies (Goy&Schwarzer, 2013). The study however focuses on negative screening, norm-based screening and positive screening. They are also widely applicable by firms in different regions globally for comparative purposes.

1.1.2 Financial Performance

It is an indication of effective use of resource capability for maximization of profits and sustainable wealth generation to shareholders (Naz, Ijaz& Naqvi, 2016). Financial performance also means the state of financial health of firms overtime including high profit generation and asset performance. It enables businesses to facilitate generation of high revenues, be profitable and healthy in terms of net asset position. According to Burkhardt and Wheeler (2018), a company is considered financially healthy when it is in a position to generate high sales volume, make profits, manage its expenses in a sustainable way and maintain a healthy asset and cash flow position overtime. Maria, Moya and Muñoz (2017) posit that companies that act responsibly exhibit high systematic risks associated with high potential returns through incorporation of responsible actions within the normal business and investment decisions.

According to Fatihudin, Jusni and Mochklas (2018), financial performance of a firm can be measured on the basis of capital adequacy ratio, liquidity, leverage, solvency, and profitability. Wamiori, Sakwa & Namusonge (2016) on the other hand stated that financial performance is measured using liquidity ratios, profitability ratios, gross income, profit before interest and tax and the asset valuation. The study will adopt the use of return of assets (ROA). Unlike the other measures, ROA provides information on effectiveness of the firm in converting the invested money into net income, which concerns many investors and provides information on economic sustainability of the investments.

1.1.3 Socially Responsible Investment and Financial Performance

SRI incorporates performance environmentally, socially and governance-based criteria when making decisions to invest. This facilitates sustainability of the company operations over time through legitimacy achievement. The implication however does not mean that the company forego the primary goal of making profits (Busch, Bauer & Orlitzky, 2016). The focus is on how the investment decisions of the company affect the environment positively or negatively, especially when analyzing financial performance at the end of the year. Iraya (2018) argued that the focus of SRI answers the question as to whether investments' financial returns are sacrificed or not.

Derwall, Koedijk and Ter Horst (2011) noted that financial performance depends on what values drive company operations and the stakeholders. The implication is that SRI lead to improved financial performance because such firms are rarely socially and environmentally damaged when such types of risks arise. Murithi and Mbogo (2016) found out that increased spending on social responsibility significantly affect profitability of firms. Iraya and Oyenje (2013) however found that socially

responsible investments and financial performance are positively correlated among firms listed in Kenya. The relationship is however insignificant. SRI however combines the aspect of social, environmental and economic responsibility while undertaking investment activities. Environmental and socially-related risks when not managed effectively would significantly compromise corporate going concern and its relationship with stakeholders.

1.1.4 Non-Financial Firms Listed at Nairobi Securities Exchange

NSE dates back to 1954 and it has membership at the African Stock Association. It is important in improving the economic performance of the nation by providing listed companies with a platform for raising long capital. The market therefore provides investors with the opportunity to put into good use, the available surplus cash. To accommodate the essence of sustainability, it is in the process of increasingly making available a variety of socially and environmentally-friendly investment vehicles. Nairobi securities exchange has eleven (11) segments out of which non-financial firms constitutes eight (8) segments.

The total number of listed firms is sixty-three (63) of which thirty-nine (39) are non-financial firms as at December, 2019 (NSE, 2019). Non-financial firms are those that produce or offer goods and services that are not financial services hence they get involved in physical production of goods that has an impact on the physical environment. Most of these firms have high dependence on imported raw materials and provide costly transport and logistics services that directly affect the price of the end product. The implication is that without adopting activities that are socially and environmentally-friendly, such firms would face quite a number of compliance issues

as well as social illegitimacy from the stakeholders in the face of growing green investment activism.

1.2 Research Problem

SRI enables firms to become environmentally and socially viable without compromising economic performance while at the same time being governed properly. Companies in this case adopt strategies to be efficient in energy usage and management of waste as well as being socially responsible. This would help to reduce cost of operation and improve stakeholder relationship leading to improved financial performance (Latinovic & Obradovic, 2013). Socially responsible investment is deemed to positively affect financial performance by improving financial resilience of firms. There are however other arguments that socially responsible investments are not financially rewarding with other scholars of the view that whether a company adopts socially responsible investment or not does not matter (Goy & Schwarzer, 2013). The mixed outcomes inform the need to ascertain how SRI relates to financial performance.

Non-financial firms involve in manufacturing and related services that consume huge volumes of environmental-related materials. These significantly affect the environment and may compromise their existence if an aspect of responsibility is not incorporated. Such firms therefore need to control practices such as how to utilize energy, manage and recycle wastes, employee safety management and merchantability of products (Iraya & Oyenje, 2013). This creates the emphasis for social responsibility approach to investments to help reduce any conflicting situations with stakeholders. There is equally intense government regulation and the need for these firms to observe social responsibility in their investment activities.

Latinovic and Obradovic (2013) conducted a study in Poland and established that socially responsible investments maximize value to shareholders though they mostly underperform conventional investments. In another study in France, Ameur and Senanedsch (2014) found that SRI are less risky hence perform financially better due to reduced risk premium. Blankenberg and Gottschalk (2018) in a study in USA however established that there is non-significant contrast between the performance of sustainable and conventional portfolios implying no correlation between SRI and financial performance. Arefeen and Shimada (2020) found out that there is resilience among funds that observe social responsibility such that observing SRI in investment enables firms to withstand tough economic terrains as established in USA. Locally, Iraya (2018) established that social responsibility has a positively insignificant correlation with financial performance. Kamwara, Rita and Mbogo (2016) asserted that being socially responsible significantly affect profit making. The studies present the reality that Kenya is comparatively unique both economically, politically, socially and culturally making the corporate investment environment to be different from other countries implying that mixed results could be affirmed by the current study. This research therefore addresses the research gaps above by providing answers to the question. ‘What is the effect of socially responsible investment on financial performance of non-financial firms listed in Kenya?’

1.3 Research Objective

To establish the effect of socially responsible investment on financial performance of non-financial firms listed at the NSE, Kenya.

1.4 Value of the Study

It offers significant input in theory, practice and formulation of policies. Theoretically, it presents findings on how SRI relate to financial performance that can help form the basis for further studies on related concepts. Further insights would be presented for research by analyzing the demographic aspect of the firms and the respondents. This would help build related literature for more research in future.

Regarding practice, corporate managers would learn more on the significance of ensuring that the activities of their companies incorporate environmental, social and governance considerations. The study would also help identify the areas in which the non-financial firms can be involved in and which other activities can be carried out to maximize profits. The study results would be co-opted by managers of firms in other sectors in enhancing social and environmental performance which in the long run maximizes economic rewards.

Lastly, the study would be of value with regard to policy formulation. SRI targets the welfare of the community without compromising financial performance. The government would therefore utilize the findings to formulate policies that would ensure that the firms make sustainable development over and above what the law obliges them to do by being socially responsible in their investment activities. The study would hence challenge the legislators and environmentalists and the government at large to introduce new rules, design new regulatory agencies and strengthen existing departments so as to promote social responsibility in line with the investment programs.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This involved presentation of theories regarding socially responsible investments and financial performance. Equally, it summarized studies done by other authors regarding the concepts under study. It ends by summarizing the relationship between the variables in a conceptual framework and identification of the gaps in past studies reviewed.

2.2 Theoretical Review

The concepts under discussion were grounded in Modern Portfolio Theory, Legitimacy Theory and Institutional Theory.

2.2.1 Modern Portfolio Theory

It was advanced by Markowitz (1952). It explains how the expected returns of a portfolio can be maximized bearing in mind the risk-return trade-off scenario by selecting an optimal portfolio. The emphasis is the need to diversify the assets or investments that one intends to include in the portfolio. It calls for rationality among investors when selecting the assets that form an investment portfolio. Omisore, Yusuf and Christopher (2012) posit that investors must not consider assets individually but as a portfolio, bearing in mind that the more diversified a portfolio is, the lower the possible risks. Capelle-Blancard and Monjon (2011) assert that an increasing number of companies involved in investments are considering assets that are socially and environmentally-friendly to form their portfolio.

In its application, the theory emphasizes on the need to create a socially responsible portfolio through the adoption of different aspects of screening (Jedynak, 2017). The implication is that SRI-based portfolios perform better than conventionally-constructed portfolio. Jo, Saha, Sharma and Wright (2010) posit that the use of SRI helps to grow how the portfolios perform and subsequently the financial performance of the firms. The theory faces criticisms from scholars who doubt its viability. Their argument is that the model is not realistic and lacks insights regarding personal issues, the environment and socio-cultural perspectives of modern-day investment. The theory equally seems inadequate in explaining market behaviors during a financial crisis (Lo & Mackinlay, 2010). The theory is also criticized on the basis of usage of outdated information to estimate asset and market behavioral patterns (Fabozzi, Gupta & Markowitz, 2002).

2.2.2 Legitimacy Theory

It was advanced by Brown and Deegan (1998). It is based on assumption that firms continuously try to operate within approved norms and customs of their communities of operation. It means that the desirability of a firm's activity is linked to systems that are constructed by the societal guidelines, value system, beliefs, and definitions. Firms must therefore undertake their businesses as per the environmental value system. According to Dyduch and Krasodomska (2017), external stakeholders require firms to act in a way that would make them enjoy recognition as transparent with respect to compliance with social and environmental issues. This means that organizations are considered legitimate through being responsible socially and environmentally.

The emphasis of the theory is that firms should ensure that the perception of the society is positive towards them and this can be achieved through operation within acceptable rules and regulations to be legitimate. The rules are set by the dynamic ethical environment within which the firms operate (Deegan & Unerman, 2011). The test of legitimacy is the extent of corporate disclosure on matters that are socially and environmentally of concern with respect to the activities of the firm. The theory is however criticized by its abstractness that makes it difficult in the discovery of the approach that firms employ to socially and environmentally disclose their operations (Burlea & Popa, 2013).

2.2.3 Institutional Theory

It was advanced by Meyer and Rowan (1977). It examines how the behaviors of companies are socially shaped by existing guidelines, norms, procedures and policies. DiMaggio and Powell (1991) opined that environmental factors have an influence on how a firm operates irrespective of the structure of the market. The environmental variables therefore form the institutional frameworks that influence the activities and operations of the company. The theory focus on institutional factors such as corporate values, formal and informal groupings, limiting factors and forecasts including environmental, governance and social regulations (Crossland & Hambrick, 2011).

The theory is used in identifying the roles various institutions play in regulating the behavior of firms especially environmental and corporate governance regulations that surrounds SRI. Greenwood, Hinings and Whetten (2014) however criticizes the theory by stating that it substitutes its original focus by making emphasis on firms rather than the institutional frameworks that underpins the theory. This implies that the theory

may not create adequate insight on the firms SRI strategies and instead focus on the institutions that are not the basis of the study.

2.3 Determinants of Financial Performance

A higher financial performance of the company is a reflection on how effective and efficient they are in the use of the enterprises resources and its contribution to the macro economy. The developed plans and operations are geared towards facilitating success of financial performance objectives. There are a number of determinants as stated:

2.3.1 Socially Responsible Investments

These are investments that incorporate performance of the firm on variables that are socially and environmentally measurable. They also focus on the extent to which those in company management govern the operations to achieve sustainability and hence make their organizations stable in the long run (Berry & Junkus, 2012). The implication is that such organization integrates value systems and the concerns of the society in their investments to help reap more financial returns in the long run through enhanced stakeholder relationship and legitimacy realization.

Huang, Lin and Chen (2016) posit that the public, securities exchange council, investors, financial analysts, and other stakeholders demand SRI. The commonly used approaches in SRI include negative screening, norm based screening and positive screening. Vanwalleghem (2013) stated that SRI allows consumers to enhance congruence between decisions they make as they invest and their individual value attachments. Negative screening, norm based screening and positive screening helps to drastically minimize large stocks to categories of shares regarded morally or

ethically desirable to investors who are socially responsible. This in essence is deemed to improve financial performance since the choice is made on an optimum basis. Advocates of SRI opine that by discriminatively making investments in enterprises displaying high corporate social performance (CSP), SRI minimize these companies' cost of capital thereby enabling enterprises enhance their financial performance (Ghoul, Guedhami, Kwok & Mishra, 2011).

2.3.2 Size of the Firm

Smaller firms require small capital outlay as compared with large firms which require large capital outlay. Apart from the capital outlay, small firms usually employ small number of workers while large firms employ large number of workers (Ogunleye, Adeyemi & Asamu, 2018). It is also explained on the basis of how much the company produces, the number of workers employed, how much it sales and how much fixed capital it has. Oyelade (2019) posit that the size of an organization helps them to have an edge over their competitors as it determines the extent to which they perform through economies of scale-related factors.

Size of companies can be in terms of market capitalization which represents the cumulative value of a company or stock (Jaya & Sundar, 2012). Market capitalization is a reflection of the current value and the total number of shares thus depicting the size and this provides visible market value of a company. Gaur and Gupta (2011) large enterprises are deemed to have a higher valuation and achieve better performance than the smaller ones.

2.4 Empirical Literature Review

Latinovic and Obradovic (2013) assessed how selecting equity assets can incorporate sustainability into the investment strategy and analysis. The study undertook a content review of existing literature based on the belief that when investments are socially responsible, their performances are better than those that do not observe social and environmental responsibility. It reached a conclusion that when companies are socially responsible, they become value additional to the equity holders. This implies a further conclusion that socially responsible investment equities underperform conventional ones.

Ameur and Senanedsch (2014) conducted an analysis of how socially responsible firms perform. The study asymmetrically applied BEKK-GARCH model to estimatorisks that are unique to a particular firm or product with respect to how they vary overtime. It was contextualized in USA, Europe, and Asia Pacific. The study used week to week data of between January 2004 to November 2013. The study found out that companies that observe SRI exhibit lower risk premium than the ordinary investments.

Blankenberg and Gottschalk (2018) sought to answer the question as to whether incorporating social responsibility in equity investments makes a company competitively superior. The study compared sustainability of equity investments overtime. Sharpe ratio was used because it simplifies quantification, observes absolute risk and helped to rank criteria. For comparison purposes, the researchers developed two sets of groupings of investments with each having twenty (20) companies during 2002-2016. In one grouping, investments that incorporate social responsibility were considered while the other grouping had traditional investments. It was concluded that

when investments incorporate social responsibility, they exhibit high returns as compared to the traditional ones.

The study by Okere, Imeokparia, Ogunlowore and Isiaka (2018) investigated how CSR affect the decisions made by companies concerning investments. The study was contextualized on manufacturing sector in Nigeria. Panel methodology was employed by the study. Secondary data collection targeted the period 2008-2015 from 15 out of 64 firms in the manufacturing sector. The sample approach was discretionary with descriptive approach being employed. To establish how the variables under study are related, a correlational method was employed. The Hausman test was then conducted to help in the determination of the appropriateness of the model. The conclusion was that CSR positively and significantly relate to investment-related activities carried out by the firms.

Chang-Soo Kim (2019) examined the extent to which investments that incorporate social responsibility perform better than the traditional ones. The approach involved examining data from similar studies to analyze the trend. It was descriptive in nature using secondary data. The collection of data involved gathering relevant information from on-line sources that was employed through the use of Google Scholar. The study reached a conclusion of no significant difference in how investments that have incorporated social responsibility perform as compared to the traditional ones.

Tseng et al (2019) examined how sustainability of an investment relate to its sensitiveness socially, geographically and good management of the related activities of the investing company. The study adopted analytical fuzzy DEMATEL method. It was established that sustainability in investments is achieved when firms incorporate

social, environmental and good governance issues in the management of the investments. It was also established that the need for transparent and observation of best board practices equally ensure sustainable investments. The conclusion was that sustainable ESG investments lead to a better performance.

Arefeen and Shimada (2020) investigated how resilient socially responsible funds are in comparison with the traditional ones. It was contextualized in Japan where the listed funds were studied in the course of the two economic shocks (the U.S. election and Brexit) in 2016. Event study methodology was adopted in this study using ordinary least square (OLS). Secondary data was used from 62 socially responsible funds as per Japan Sustainable Investment Forum classification, and then performed a random selection of 35 socially responsible funds. In data analysis, the study adopted OLS. Compared to conventional funds, the study found out that there is high intensity resilience among SRI as compared to the traditional investments.

Kamwara, Rita and Mbogo (2016) conducted an examination on the extent to which financial performance is influenced by spending on CSR. Description methodology was adopted in this study. The study targeted 49 listed companies from the total number of 63 companies. Data collection was from existing financial statements. The analysis and processing of data was conducted using SPSS. It was established that increased spending on CSR by companies lead to increased profitability. The conclusion was therefore that being socially responsible enables companies to improve profit generation and to sustain their competitive advantage.

The study by Iraya and Oyenje (2013) conducted an assessment on how CSR practices relate to performance of companies financially. The context of the study was Nairobi

Securities Exchange, Kenya with a focus on listed manufacturing, construction and allied sector. The methodology adopted was correlation descriptive survey in nature. The study targeted all listed manufacturing, construction and allied sector of the Nairobi Securities Exchange. Complete secondary data was collected from 10 companies out of the 14 in the sector. The data was collected from financial statements that had undergone through auditing for the period 2007 – 2011. To help in the determination of how the variables relate, multiple regression model was used. It was found out that CSR, efficient manufacturing and intensive capital engagement relate to return on assets. The study therefore concluded that CSR positively affect how firms perform financially.

In another study, Iraya (2018) established how SRI affect the extent to which mutual funds perform in Kenya. The study targeted one hundred and fourteen (114) funds with licenses to operate in Kenya. The methodology adopted was descriptive survey in nature. It was found out that SRI and performance significantly relate to each other, hence the justification of the incorporation of social and environmental screening by fund managers.

2.5 Summary of Literature Review and Research Gap

Studies reviewed exhibit contextual, conceptual and methodological gaps. Contextual gap exists in cases where studies are done in different countries, regions or focuses on sectors different from the focus of the current study. In most cases, the studies are done in other countries. Conceptual gaps on the other hand exists when different studies give different perspectives and also the variables under study are different. Different studies focus on different aspects or strategies of SRI. Finally,

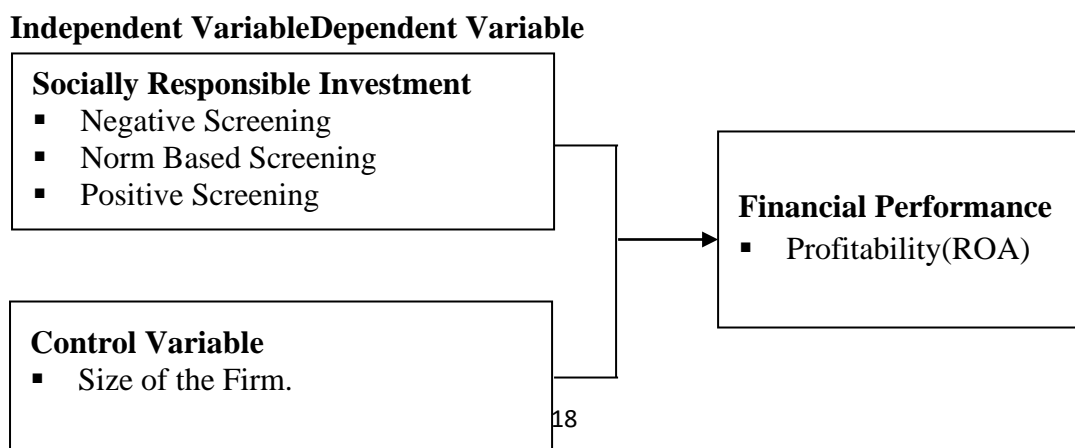
methodological gap arises in situations where the reviewed studies adopt different research methodology from the current study.

The studies conducted in other countries portray significant contextual gaps as the studies can be replicated in Kenya. This would be on the basis that the economic and investment environment in developed countries where most of the studies have been undertaken are significantly different from the Kenyan context. Equally, the conflicting results creates a perfect conceptual basis to undertake the study to further affirm some of the findings or to establish new insights that would drive the need for further studies. Conceptually, most of the reviewed literature in Kenya focuses on corporate social responsibility, which may not directly address the interest of direct economic viability from the concept of return on investment and profitability.

2.6 Conceptual Framework

The aim of the research was to explore how socially responsible investments affect financial performance of listed non-financial firms in Kenya. Socially responsible investment formed the IV while financial performance was DV and measured using profitability. The control variable was size of the firm. The essence of how the variables relate is as captured in Figure 2.1.

Figure 2.1: Conceptual Framework



Source: Researcher (2020)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section presents a discussion the research methodology, target population, data to be used. It further gives an explanation on how data was collected and analysis done.

3.2 Research Design

The study employed a descriptive cross sectional survey design. It was an observational study which focused on data from a population at a particular time (Wang & Cheng, 2020). It determined what numbers of individuals are under a condition and if there is a variation in how frequent it occurs as portrayed in the group that is being studied. According to Kumar (2011), this design considers the use of either the whole population or a sample as a source of the needed information. The assumption is that the data used in this study gives an explanation of happenings in a timely manner. The cross sectional studies assisted to ascertain the linkage between the constructs at a given time (Cooper & Schindler, 2006). The design enabled the analysis, interpretation and reporting of research outcomes with high level of exactness.

3.3 Target Population

There are sixty-three (63) firms listed at the NSE as at December 2019 (NSE, 2019). The targeted population comprised of non-financial firms listed in Kenya. They were thirty-nine (39) in number and they fall under various sectors (NSE, 2019).

3.4 Data Collection

The study employed both primary and secondary data. The former was gathered using a structured questionnaire that had two parts; Section A contains general information about the company while section B covered socially responsible investment. The administration of the questionnaire was done through e-mails due to the challenges of covid-19. In data collection, the main correspondent in this study were the Finance Manager because they were deemed to be informed about application of social responsibility in financial decision making as used by the companies. This means that the number of respondents were thirty-nine (39).

The primary data was collected regarding SRI practices for the study period of five years. Existing publications on finances of the enterprises from NSE annual report targeting profitability performance were used as secondary sources. The secondary data was collected for the study period covering the years, 2015 – 2019. It took duration of one month to get the data.

3.5 Reliability and Validity Test

Reliability looks at the extent to which the instrument used for research produces results that are consistent on consecutive uses (Mugenda & Mugenda, 2003). Cronbach's alpha coefficient was used to establish whether the values fall under the required range of between 0 and 1 (Mugenda & Mugenda, 2003). Nunnally (1978) advocates for desirable values to those not less than 0.7 as Sekaran (2000) points out to minimum 0.5 and maximum 0.8 as appropriate for internal consistency. This study used values of 0.6 and above as a cut-off point for the items.

Validity is concerned with the research tool providing an exact estimation on what it is designed for (Cooper & Schindler, 2006). The questionnaire to be used satisfied face and content validity since it was developed through a review of literature in consultation with academic experts. To test the validity of the data, KMO and p-values for Bartlett's Test of Sphericity was evaluated with significance being at a level less than 0.05.

3.6 Diagnostic Tests

Regression analysis requires data that is normally distributed, linear and lacks multicollinearity. To test for normality Shapiro-wilk Test was used whereby values below 0.05 suggested lack of normal distribution in the data. Multicollinearity was then evaluated using Variance Inflation Factors. The accepted maximum value of VIF was 10. Heteroscedasticity and homoscedasticity was then assessed with the Koenker test considering values above 0.05. Linearity test on the other hand was then done with acceptable values that should be higher than 0.05 to indicate a linear relationship. Finally, autocorrelation was tested through the use of Durbin-Watson test. In this test, statistics of around two (2) was an indication of lack of serial correlation.

3.7 Data Analysis

Using SPSS, composite scores were used to reduce the three indicators of SRI strategies to one value of X to run on the SPSS. The study then employed multiple regression analysis to determine how socially responsible investment affects financial performance. In this study, the following regression model was used:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y = Financial Performance

a = Constant

β_1, β_2 and β_3 = Coefficient of Independent variables

β_4 = Coefficient of Control Variable

X₁ = Positive Screening

X₂ = Negative Screening

X₃ = Norm Based Screening

X₄ = Size of the Firm

ε = Error term.

3.6.1 Operationalization of Study Variables

The variables for this study included socially responsible investment being IV and financial performance represented DV. The operationalization is given in Table 3.1:

Table 3.1: Operationalization of Study Variables

Variable	Operational Definition	Scale	Questionnaire	Supporting Literature
Dependent Variables Financial Performance	<ul style="list-style-type: none"> ▪ ROA 	Ratio	▪ Appendix II Data Collection Sheet	Naz and Naqvi (2016) Burkhardt and Wheeler (2018),
Independent Variables				
Negative Screening	<ul style="list-style-type: none"> ▪ Manufacture of Hazardous Substances. ▪ Animal Exploitation. ▪ Dangerous Emissions. 	Ordinal	PART B Question 1 – 9	Goy and Schwarzer (2013)
Norm Based Screening	<ul style="list-style-type: none"> ▪ Minimum Wage Convention. ▪ Discrimination of Employees. ▪ Freedom of Association. 			
Positive Screening	<ul style="list-style-type: none"> ▪ Corporate Governance. ▪ Environmental Management System. ▪ Products and Services. 			
Control Variable				
Size of the Firm	<ul style="list-style-type: none"> ▪ Total Assets 	Ratio	▪ Appendix II Data Collection Sheet	Ogunleye, Adeyemi and Asamu (2018)

Source: Research Data (2020)

3.6.2 Test of Significance

The t-test and F-test was employed determining of how significant the constructs are study. The F-test was employed in ascertaining whether the regression model that have been fitted to the data set best fits the population of study and is hence suitable. The t-test on the other hand was used as a test of statistical significance of the link between the constructs dealt with.

CHAPTER FOUR

DATA ANALYSIS, DISCUSSION AND FINDINGS

4.1 Introduction

This part is concerned with data analysis and discussion of findings based on the research objective. The chapter comprise of three parts whereby the first part focused on preliminary research findings with a detailed analysis of the extent to which the data collected was normal, reliable and valid. The second part comprised of descriptive analysis, diagnostic statistics, correlational and regression analysis using the regression model. The last part was a summary of the finding that helped to form the basis of the conclusions reached.

4.2 Response Rate of the Study

Research data of primary nature was obtained from thirty-five (35) companies. This represented 90% of the expected respondents. Considering that all the sub sectors of the non-financial and both genders were represented in the study, there was no issue of misrepresentation. The response rate was therefore regarded as representative and adequate.

4.3 Reliability and Validity Test

4.3.1 Reliability Test

Cronbach's alpha coefficient was used to establish whether the variables fall within the required range of between 0 and 1 (Mugenda & Mugenda, 2012). This study used values of 0.5 and above as a cut-off point for reliability of items. The justification is based on the study by Sekaran (2000) who pointed out that values between 0.5 and 0.8 are appropriate for internal consistency. The preliminary analysis carried out revealed that Cronbach's Alphas for all the variables used in this study were between 0.5 and

0.8. It was thus concluded that the scale was very reliable. The result was given in Table 4.1 and 4.2:

Table 4.1: Reliability Statistics

Cronbach's Alpha Based on Standardized		
Cronbach's Alpha	Items	N of Items
.521	.510	9

Table 4.2: Reliability Statistics for the Independent Variables

Variables	Cronbach's Alpha	Remarks
Negative Screening	0.509	Reliable
Norm Based Screening	0.485	Not Reliable
Positive Screening	0.507	Reliable

Source: Research Data (2020)

The alpha coefficient of negative screening and positive screening are reliable since they are between 0.5 and 0.8. Norm based screening however had alpha coefficient of 0.485 hence not reliable. The overall alpha coefficient of 0.510 is between 0.5 and 0.8 implying that there was reliability of the data gathered.

4.3.2 Validity Test

The questionnaire used satisfies face and content validity since it was developed through a review of literature in consultation with academic experts. The experts consisted of two doctors of philosophy holders in finance as supervisor and moderator and reviewed by a team of experts during the presentation of the proposal at the Department of Finance and Accounting. The questionnaire was therefore adequately adjusted for purposes of making it possible for use in data collection. Further, KMO and p-values for Bartlett's Test of Sphericity were generated to test validity. The result is given in the Table 4.3:

Table 4.3: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.765
	Approx. Chi-Square	58.820
Bartlett's Test of Sphericity	Df	36
	Sig.	.010

Source: Research Data (2020)

Table 4.3 indicate that the variables had KMO measures were way above the threshold of 0.65. The p-value in Bartlett's test of Sphericity was also found to be less than the significance level of 0.05. This confirmed data validity.

4.4 Descriptive Statistics

This section involved analysis of demographic data and the degree to which the enterprises have adopted SRI.

4.4.1 Demographics

The study considered gender of the respondents, department, sector of the company and the question as to whether the respondents knew about SRI as part of the demographic information. The analysis is as given in Table 4.4. It indicates that 51.4% of the informants were male while 48.6% were female. The results show that the non-financial companies observes the gender rule as required by the Kenyan constitution since the response rate was almost balanced in terms of gender. This also improved the reliability of the information. It also indicated that majority of the respondents were from production and operations department represented by 42.9% while the finance department were represented by 37.1% with the least being the other departments at 20% of the respondents.

Table 4.4: Demographics

Gender of the Respondents	Frequency	Percent	Valid Percent
Male	18	51.4	51.4
Female	17	48.6	48.6
Total	35	100.0	100.0
Department			
Finance	13	37.1	37.1
Productions and Operations	15	42.9	42.9
Others	7	20.0	20.0
Total	35	100.0	100.0
Sector of the Company			
Agriculture	5	14.3	14.3
Automobile & Accessories	5	14.3	14.3
Commercial and Services	5	14.3	14.3
Construction and Allied	8	22.9	22.9
Energy and Petroleum	5	14.3	14.3
Manufacturing and Allied	3	8.6	8.6
Telecommunication	3	8.6	8.6
Real Estate Inv. Trust	1	2.9	2.9
Total	35	100.0	100.0
Ever Heard of SRI			
Yes	21	60.0	60.0
No	14	40.0	40.0
Total	35	100.0	100.0

Source: Research Data (2020)

Regarding sector of the company, the study found out that agricultural, automobile and accessories, commercial and services and energy and petrol represented 14.3% of the respondents. Construction and allied had the highest representation at 22.9% while manufacturing and allied and telecom each had 8.6%. Real estate investment trust had 2.9% representation. The implications of the finding indicate data was collected from all the sectors representing non-financial companies making it easy to generalize the outcomes. The study also indicated that 60% of the informants had heard about SRI while 40% had not. To improve the reliability of their response, a brief explanation was mailed to them and most of them later agreed to the fact that their companies practice some of the practices.

4.4.2 Adoption of SRI

The informants indicated the whether they concurred that their companies had adopted SRI in investment decision making. The respondents were based on a scale of 1 to 5 where 1 =Very low, 2=Low, 3=Moderate, 4=High, 5= Extremely high. The SRI practices under study included negative screening, norm based screening and positive screening as analyzed in proceeding tables.

Table 4.5 indicate that the listed non-financial companies practiced negative screening moderately with an overall mean of 3.9333. Specifically, the companies have put in place mechanisms to avoid emission of dangerous gases from the manufacturing and production activities of the company to a higher extent with a mean of 4.0571 (SD=.68354) while ensuring that company activities and operations do not exploit the rights of animals and avoidance of engagement in corrupt government-related deals were practiced moderately each having a mean of 3.9143 (SD=1.12122) and 3.8286 (SD=.92309) respectively. The higher standard deviation indicates wide variations in the views of the respondents on the subject matter while a lower one indicates a high level of agreement among the participants on the subject matter. This is provided in Table 4.5:

Table 4.5: Negative Screening

Practices	N	Mean	Std. Deviation
There are mechanisms in place to avoid emission of dangerous gases from the manufacturing and production activities of the company.	35	4.0571	.68354
The company ensures that its activities and operations do not exploit the rights of animals.	35	3.9143	1.12122
The company does not engage in corrupt government-related deals.	35	3.8286	.92309
Average Mean		3.9333	

Source: Research Data (2020)

Regarding norm based screening, Table 4.6 indicate that the companies adopted norm based screening practices moderately with an average mean of 3.7905. The findings established that the companies have put in place mechanisms to ensure that no workplace discrimination exists in the company and that procedures exist to ensure commitment to customers, suppliers and shareholders is upheld moderately with a mean of 3.9429 (SD=.96841) and 3.9429 (SD=.80231) respectively. The companies also ensure respect for human rights with a moderate mean of 3.4957 (SD=.95090). The standard deviations imply variations in the responses on each sub variable. A higher standard deviation indicates a higher variation in responses. This is provided in Table 4.6:

Table 4.6: Norm Based Screening

Practices	N	Mean	Std. Deviation
The company ensures there is respect for human rights.	35	3.4857	.95090
There are mechanisms to ensure that no workplace discrimination exists in the company.	35	3.9429	.96841
There are procedures in place to ensure commitment to customers, suppliers and shareholders is upheld.	35	3.9429	.80231
Average Mean		3.7905	

Source: Research Data (2020)

Finally, it was realized that the companies enforced positive screening practices at a moderate level with an average mean of 3.9048. It was established that the company adopts codes of best industry practices and they have an environmental management system in place each with an average mean of 3.9714 (SD=.78537) and 3.9429 (SD=.83817) respectively. The companies have also put in place procedures to ensure that the company's goods can be recycled and they have an eco-design with a moderate mean of 3.8 (SD=.79705).

Table 4.7: Positive Screening

Practices	N	Mean	Std. Deviation
The company adopts codes of best industry practices.	35	3.9429	.83817
There are procedures to ensure that the company's goods can be recycled and they have an eco-design.	35	3.8000	.79705
The company has an environmental management system in place.	35	3.9714	.78537
Average Mean		3.9048	

Source: Research Data (2020)

The standard deviations imply variations in the responses on each sub variable. A higher standard deviation indicates a higher variation in responses.

4.5 Socially Responsible Investment and Financial Performance

4.5.1 Diagnostic Tests

Before analyzing the data diagnostic tests were done. Kolmogorov-Smirnov and Shapiro-Wilk tests were conducted to confirm whether the data was normally distributed. In this test, Tabachnick and Fidell (2001) suggest that values below 0.05 mean that there is no normal distribution of data. The result show that there was normal distribution of data because the Shapiro wilk values for the construct ranged from 0.051 to 0.079. The display of this outcome is in Table 4.8:

Table 4.8: Normality Test

Variable	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Negative Screening	.175	35	.008	.866	35	.051
Norm Based Screening	.165	35	.109	.935	35	.079
Positive Screening	.154	35	.000	.924	35	.068

a. Lilliefors Significance Correction

Multicollinearity was evaluated using Variance Inflation Factors. The accepted maximum value of VIF was 10. Table 4.9 indicate that there was no multicollinearity ($1 > VIF < 10$, tolerance values > 0.20).

Table 4.9: Multicollinearity Test

Variables	Tolerance	VIF
Negative Screening	.410	2.436
Norm Based Screening	.243	4.110
Positive Screening	.250	4.002

Source: Research Data (2020)

Heteroscedasticity tested using the Koenker test with accepted value being above 0.05. Heteroscedasticity is the variability of the variance of IV all through a given data (Ghasemi & Zahediasl, 2012). From the outcome presented in Table 4.10, the p value was above 0.05 thus the data was not heteroscedastic.

Table 4.10: Heteroscedasticity Test

Model	Koenker Test	
	LM	Sig.
Socially Responsible Investment and Financial Performance	1.580	0.209

Source: Research Data (2020)

Autocorrelation was tested through the use of Durbin-Watson test. The analysis is as given in Table 4.11. A comparison of the Durbin-Watson test statistics $d = 1.776$ against values obtained from the tables at 0.05 level of significance show that there was no autocorrelation. The value was found to fall between the required values of $1.5 < d < 2.5$.

Table 4.11: Autocorrelation Test

Model	Durbin Watson Test
Socially Responsible Investment and Financial Performance	1.776

Source: Research Data (2020)

Finally, linearity test was done with acceptable values that should be greater than 0.05 to indicate a linear relationship. The analysis as given in Table 4.12 shows a significant linear association between the variables under study.

Table 4.12: Linearity Test

	Deviation from	Significance
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Variables	Linearity	Level
Return on Assets and Negative Screening	.821	.000
Return on Assets and Norm Based Screening	.895	.000
Return on Assets and Positive Screening	.295	.000
Return on Assets and Total Assets	.639	.063

Source: Research Data (2020)

4.6 Correlation Analysis

The researcher computed Pearson bivariate correlation to examine how the constructs correlate. The observation is made in Table 4.13:

Table 4.13: Correlation Matrix

		Negative Screening	Norm Based Screening	Positive Screening	Return on Assets	Firm Size
Negative Screening	Pearson Correlation	1				
	Sig. (2- tailed)					
	N	35				
Norm Based Screening	Pearson Correlation	.743**	1			
	Sig. (2- tailed)					
	N	35	35			
Positive Screening	Pearson Correlation	.735**	.853**	1		
	Sig. (2- tailed)	.000	.000			
	N	35	35	35		
Return on Assets	Pearson Correlation	.647**	.689**	.771**	1	
	Sig. (2- tailed)	.000	.000	.000		
	N	35	35	35	35	
Size of the Firm	Pearson Correlation	.627**	.507**	.545**	.560**	1
	Sig. (2- tailed)	.000	.002	.001	.000	
	N	35	35	35	35	35

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

Source: Research Data (2020)

Table 4.13 indicate that negative screening, norm based screening, positive screening and return on assets have strong positive and significant correlation. ($r = .647, .689,$ and $.771$) respectively with $p < 0.05$ in all the correlations. Size of the firm and return on assets having a moderately positive and significant correlation given by $r = .560$ ($p < 0.05$). The implication is that improved consideration of negative screening, norm based screening, positive screening lead to improved return on assets. Increased firm size equally leads to increased return on assets.

4.6 Regression Analysis

The study then employed multiple regression analysis to investigate how socially responsible investment affects financial performance. The analysis was given in the form of model summary, analysis of variance and regression coefficients.

4.6.1 Model Summary

From the model summary in Table 4.14, $R = 0.792$ implying a positive relationship between SRI and financial performance of listed non-financial firms listed at NSE, Kenya. The adjusted R^2 of 0.577 mean that 57.7% of variations in financial performance is caused by variations in norm based screening, negative screening, positive screening and size of the firm. The implication is that there are other factors representing 42.3% that affect financial performance of the listed non-financial firms other than those included in the model under this study. The analysis is as given in Table 4.14.

Table 4.14: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.792 ^a	.627	.577	10.99527

a. Predictors: (Constant), Total Assets, Norm Based Screening, Negative Screening, Positive Screening

b. Dependent Variable: Return on Assets

4.6.2 Analysis of Variance

Table 4.15 gives the overall p-value indicating a significant association between SRI and financial performance at 0.000 ($p < 0.05$). The F statistic was 12.587 and significant at $p = 0.000$ ($p < 0.05$). This implies that norm based screening, negative screening, positive screening and size of the firm reliably predict financial performance of listed non-financial firms at the NSE. Therefore, the model was suitable for estimating the association between norm based screening, negative screening, positive screening, size of the firm and financial performance of listed non-financial firms at the NSE. The analysis is given in Table 4.15:

Table 4.15: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	6086.978	4	1521.745	12.587	.000 ^b
Residual	3626.882	30	120.896		
Total	9713.860	34			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), Total Assets, Norm Based Screening, Negative Screening, Positive Screening

Source: Research Data (2020)

4.6.3 Regression Coefficients

Table 4.16 indicates individual links between the various IVs with financial performance of listed non-financial firms in Kenya and their coefficient betas. The findings indicate that positive screening have a positive and significant effect on financial performance given by $\beta = .576$; $p < 0.05$. The implication is that improved implementation of positive screening practices significantly affect financial

performance of the listed non-financial firms. The findings also indicate that negative screening, norm based screening and size of the firm positively influence financial performance of the listed non-financial firms in Kenya given by $\beta=.077$, $\beta =.054$ and $\beta=.171$ respectively. The effect of these variables are however not significant being $p>0.05$. The analysis is indicated in Table 4.16:

Table 4.16: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
(Constant)	-31.628	5.314		-5.952	.000
Positive Screening	7.064	2.765	.576	2.555	.016
Negative Screening	.860	2.123	.077	.405	.688
Norm Based Screening	.751	3.175	.054	.236	.815
Size of the Firm	.964	.819	.171	1.177	.248

a. Dependent Variable: Return on Assets

Source: Research Data (2020)

Based on the outcome, the regression model would be as follows:

$$Y = -31.628 + 576X_1 + 077X_2 + 054X_3 + 171X_4 + \varepsilon$$

Where:

Y = Financial Performance

a = Constant

β_1, β_2 and β_3 = Coefficient of Independent variables

β_4 = Coefficient of Control Variable

X_1 = Positive Screening

X_2 = Negative Screening

X_3 = Norm Based Screening

X_4 = Size of the Firm

ε = Error term.

4.7 Discussion of Findings

Regarding the extent to which the firms have adopted the SRI practices, the study found out that the listed non-financial companies practiced negative screening moderately with an overall mean of 3.9333. Specifically, the companies have put in place mechanisms to avoid emission of dangerous gases from the manufacturing and production activities of the company to a higher extent with a mean of 4.0571 (SD=.68354) while ensuring that company activities and operations do not exploit the rights of animals and avoidance of engagement in corrupt government-related deals were practiced at a moderate level each having a mean of 3.9143 (SD=1.12122) and 3.8286 (SD=.92309) respectively. The higher standard deviation indicates wide variations in the views of the respondents on the subject matter while a lower one indicates a high level of agreement among the respondents on the subject matter.

The study also found out that the listed non-financial firms adopted norm based screening practices moderately with an average mean of 3.7905. The companies have put in place mechanisms to ensure that no workplace discrimination exists in the company and that procedures exist to ensure commitment to customers, suppliers and shareholders is upheld to a moderate extent with a mean of 3.9429 (SD=.96841) and 3.9429 (SD=.80231) respectively. The companies also ensure respect for human rights with a moderate mean of 3.4957 (SD=.95090). The standard deviations imply variations in the responses on each sub variable. A higher standard deviation indicates a higher variation in responses.

Finally, the companies were also found to enforce positive screening practices at a moderate level with an average mean of 3.9048. It was established that the companies adopted codes of best industry practices and they have an environmental management

system in place each with an average mean of 3.9714 (SD=.78537) and 3.9429 (SD=.83817) respectively. The companies have also put in place procedures to ensure that the company's goods can be recycled and they have an eco-design with a moderate mean of 3.8 (SD=.79705). The findings regarding adoption of SRI are consistent with the study by Blankenberg and Gottschalk (2018) who used an experimental group of companies that adopted SRI and concluded that when investments incorporate social responsibility, they exhibit high returns as compared to the traditional ones.

Correlation analysis established that negative screening, norm based screening, positive screening and return on assets have strong positive and significant correlation. ($r = .647, .689, \text{ and } .771$) respectively with $p < 0.05$ in all the correlations. Size of the firm and return on assets having a moderately positive and significant correlation given by $r = .560$ ($p < 0.05$). The implication is that improved consideration of negative screening, norm based screening, positive screening lead to improved return on assets. Increased firm size equally leads to increased return on assets. The findings concur with those of Iraya (2018) who found out that SRI and performance significantly relate to each other, hence the justification of the incorporation of social and environmental screening by fund managers. The findings are however inconsistent with the findings by Latinovic and Obradovic (2013) who indicated that socially responsible investment equities underperform conventional ones.

The regression analysis established that $R = 0.792$ implying a positive relationship between SRI and financial performance of listed non-financial firms listed at NSE, Kenya. The adjusted R^2 of 0.577 meant that 57.7% of variations in financial

performance was caused by variations in norm based screening, negative screening, positive screening and size of the firm. This implied that there were other factors representing 42.3% other than those included in the model under this study. The Analysis of Variance is established the overall p-value indicating a significant relationship between financial risks and financial performance at 0.000 ($p < 0.05$). This implies that norm based screening, negative screening, positive screening and size of the firm reliably predict financial performance of listed non-financial firms at the NSE. The findings are consistent with those of Blankenberg and Gottschalk (2018) who established that when investments incorporate social responsibility, they exhibit high returns as compared to the traditional ones. The conclusion of the study is also consistent with the findings of Kamwara, Rita and Mbogo (2016) who established that being socially responsible enables companies to improve profit generation and to sustain their competitive advantage.

Finally, the regression coefficients established that positive screening positively affect financial performance of listed non-financial firms in Kenya given by $\beta = .576$; $p < 0.05$. The implication is that improved implementation of positive screening practices significantly affect financial performance of the listed non-financial firms in Kenya. The findings also indicate that negative screening, norm based screening and size of the firm positively influence financial performance of the listed non-financial firms in Kenya given by $\beta = .077$, $\beta = .054$ and $\beta = .171$ respectively. The effect of these variables are however not significant being $p > 0.05$.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The section outlines result of the study done and also draws conclusions and propositions to be adopted. It also outlines the challenges encountered and the makes provisions for the development of future studies in related areas.

5.2 Summary of Findings

The observation made was that the non-financial firms adopted SRI in their investment decision making. It was established that the listed non-financial companies practiced negative screening to a moderate extent. Specifically, the companies were found to have put in place mechanisms to avoid emission of dangerous gases from the manufacturing and production activities of the company to a higher extent while ensuring that company activities and operations do not exploit the rights of animals and avoidance of engagement in corrupt government-related deals were practiced at a moderate level. The study also found out that the listed non-financial firms adopted norm based screening practices to a moderate extent. The companies therefore have put in place mechanisms to ensure that no workplace discrimination exists in the company and that procedures exist to ensure commitment to customers, suppliers and shareholders is upheld to a moderate extent. The companies also ensured respect for human rights with a moderate extent. Finally, the companies were also found to enforce positive screening practices at a moderate level. It was established that the companies adopted codes of best industry practices and they have an environmental management system in place. The companies have also put in place procedures to

ensure that the company's goods can be recycled and they have an eco-design with a moderate mean.

Correlation analysis established that negative screening, norm based screening, positive screening and return on assets have strong positive and significant correlation. ($r = .647, .689, \text{ and } .771$) respectively with $p < 0.05$ in all the correlations. Size of the firm and return on assets having a moderately positive and significant correlation given by $r = .560$ ($p < 0.05$). The implication is that improved consideration of negative screening, norm based screening, positive screening lead to improved return on assets. Increased firm size equally leads to increased return on assets.

Regression analysis established that $R = 0.792$ implying a positive link between SRI and financial performance of listed non-financial firms listed at NSE, Kenya. The adjusted R^2 of 0.577 meant that 57.7% of variations in financial performance was caused by variations in norm based screening, negative screening, positive screening and size of the firm. This implied that there were other factors representing 42.3% that affect financial performance other than those included in the model under this study. The Analysis of Variance has established the overall p-value indicating a significant association between SRI and financial performance at 0.000 ($p < 0.05$). The F statistics was 12.587 and significant at 0.000 ($p < 0.05$). This implies that norm based screening, negative screening, positive screening and size of the firm reliably predict financial performance of listed non-financial firms at the NSE. Therefore, implying that the model is appropriate in estimating the link between norm based screening, negative screening, positive screening, size of the firm and financial performance of listed non-financial firms at the NSE.

Finally, the regression coefficients established that positive screening have a positive and significant effect on financial performance given by $\beta=.576$; $p<0.05$. The implication is that improved implementation of positive screening practices significantly affect financial performance. The findings also indicate that negative screening, norm based screening and size of the firm positively influence financial performance given by $\beta=.077$, $\beta =.054$ and $\beta=.171$ respectively. The effect of these constructs are however not significant being $p>0.05$. The implication was that negative screening, norm based screening and size of the firm did not significantly influence financial performance.

5.3 Conclusion of the Study

The study concluded that negative screening, norm based screening, positive screening positively and significantly correlates with return on assets as a measure of financial performance. The implication was that when negative screening, norm based screening, positive screening activities are increasingly incorporated in the process of investment decision making, financial performance improves in a significant way through improved return on assets. The study also concluded that size of the firm positively affected return on assets positively.

The study equally reached a conclusion that SRI positively and significantly relate with financial performance of listed non-financial firms listed at NSE, Kenya. Further conclusion was that 57.7% of variations in financial performance was caused by variations in norm based screening, negative screening, positive screening and size of the firm. This implied that there were other factors representing 42.3% that affect financial performance of the listed non-financial firms other than those included in the model under this study. Further, the implication was that improved consideration of

SRI in investment decision making by the firms lead to improved return on assets as an antecedent of financial performance.

5.4 Recommendations of the Study

Based on the findings and conclusions, a number of recommendations were made regarding the current study. The paper examined how SRI affects financial performance of NSE listed enterprises. The study recommends that managers of both the listed and the non-listed companies should modify their corporate strategies accordingly owing to the fact that, the findings indicate that SRI affect financial performance of firms. The recommendation is that the managers be up to date on issues regarding SRI and the related concepts.

The study also recommends that industries should intensify expenditure on SRI-related activities with respect to screening as it will result in high financial performance. Companies should also look into monetary allocation for SRI in their budget to realize financial performance improvements. There has also been increasing call for companies to adopt green financing. Based on the study findings, managers of the various companies need to make emphasis on the need to allocate resources to support SRI programs. This includes putting in place mechanisms to avoid emission of dangerous gases from the manufacturing and production activities of the company.

5.5 Limitations of the Study

One aspect of this is that the scope of the study was limited to only the listed non-financial firms in Kenya. The sample was therefore possibly small and could not represent different sectors of the economy that are financial-related. The findings may have therefore been different if all the companies would be studied. Another limitation was based on the period studied from 2015 to 2019. This time period would

be considerably minimal for proper observation of the constructs, future research should include an extended study period.

Secondly, the yearly data is what could be obtained. SRI being a new and dynamic area would be more reliable if regular information would be reliably gathered even on a monthly basis. The use of monthly data would be more accurate and reliable on carrying out the relevant empirical study. Finally, this research used only quantitative method to identify the relationship between the variables. Perhaps, the inclusion of qualitative aspect would have offered more elaborated non-financial risk management issues.

5.6 Suggestions for Further Studies

Similar studies can be executed in other industries and enterprises, to assess if their results may bear semblance to these ones. Equally, only non-financial NSE comprised companies NSE were dealt with. Considerations should also be made to cater for a wider group of enterprises falling within the sector even though not comprised in NSE.

It is also necessary to check on control constructs for further studies. Future studies may also need to explore the causality effects with emphasis on whether there is sustainable correlation between SRI and financial performance.

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APPENDIX I: QUESTIONNAIRE

QUESTIONNAIRE No:

Date:...../...../2020

(Information provided will be highly confidential)

PART A: BACKGROUND INFORMATION

NOTE:Please tick appropriately or fill additional information in the space provided.

1. Gender
 - a. Male
 - b. Female
2. Which year was the company established?
3. Indicate your Department:
 - a. Finance
 - b. Production and Operations
 - c. Others
4. Indicate the sector of the company (Tick Appropriately)
 - a. Agriculture
 - b. Automobiles and Accessories
 - c. Commercials and Services
 - d. Construction and Allied
 - e. Energy and Petroleum
 - f. Manufacturing and Allied
 - g. Telecommunication
 - h. Real Estate Investment Trust
5. Have you heard of Socially Responsible Investments?
 - a. Yes
 - b. No

PART B: ADOPTION OF SOCIALLY RESPONSIBLE INVESTMENT MEASURES

The following are the socially responsible investment measures. Using a scale of 1 to 5 where 1 =Very low, 2=Low, 3=Moderate, 4=High, 5= Extremely high, please indicate what extend your company has adopted each of them when undertaking investments.		What is the extent of adoption?				
		Very Low	Low	Moderate	High	Extremely High
	Socially Responsible Investment Measures	1	2	3	4	5
A	Negative Screening					

1	There are mechanisms in place to avoid emission of dangerous gases from the manufacturing and production activities of the company.					
2	The company ensures that its activities and operations do not exploit the rights of animals.					
3	The company does not engage in corrupt government-related deals.					
B	Norm Based Screening					
4	The company ensures there is respect for human rights.					
5	There are mechanisms to ensure that no workplace discrimination exists in the company.					
6	There are procedures in place to ensure commitment to customers, suppliers and shareholders is upheld.					
C	Positive Screening					
7	The company adopts codes of best industry practices.					
8	There are procedures to ensure that the company's goods can be recycled and they have an eco-design.					
9	The company has an environmental management system in place.					

APPENDIX II: RAW DATA

Compan y	Negative Screening	Norm Based Screening	Positive Screening	Return on Assets	Size of the Firm
1	3.67	4	4	8.43	5.92
2	3.55	3.6	3.67	7.36	5.68
3	1	2	2	-2.03	0.41
4	1	2	1	-0.32	0.91
5	4.33	4	4.33	8.11	5.75
6	1	2	1	-23.62	0.14
7	1	1	1	-23.41	0.91
8	2	2	2	-9.57	0.07
9	4	3	3	6.42	6.15
10	1	2	2	-5.85	0.14
11	5	4.33	4	11.76	6.99
12	1	1	1	-18.67	8.3
13	1	2	2	-2.98	6.52
14	2	3.67	2	0.21	7.2
15	4.67	2	3	3.24	7.03
16	1	1	2	-8.8	7.5
17	4	3.33	5	7.54	7.6
18	2.33	3.33	3.33	3.24	6.44
19	3.67	1	1	-7.27	6.68
20	2.67	4.3	5	15.25	7.43
21	4	3	2.3	2.02	8.56
22	5	4.8	5.34	22.25	8.28
23	4.67	4	3.33	0.53	8.45
24	4.33	4.67	4	6.32	7.44
25	4.67	4	4	5.57	6.28
26	3.67	3.67	4	2.94	6.26
27	3.33	3.33	4	4.2	7.18
28	4	4	4	8.22	6.5
29	5	4.67	4.33	11.71	7.75
30	3.33	3.67	4	1.16	1.09
31	3.33	4.33	4	6.53	7.9
32	1	1	1	-63.67	0.06
33	2	3	4.33	5.25	6.9
34	5	3.67	5.44	48.99	8.14
35	5	4	3.67	4.24	9.57

Source: Research Data (2020)

APPENDIX III: LISTED NON-FINANCIAL FIRMS IN KENYA

- 1 Eaagads
- 2 Kakuzi
- 3 Kapchorua Tea Company
- 4 The Limuru Tea Company
- 5 Sasini
- 6 Williamson Tea Kenya
- 7 Car & General (K)
- 8 Deacons E.A
- 9 Eveready East Africa
- 10 Express Kenya
- 11 Kenya Airways
- 12 Longhorn Publishers
- 13 Nairobi Business Ventures
- 14 Nation Media Group
- 15 Sameer Africa
- 16 Standard Group
- 17 TPS Eastern Africa
- 18 Uchumi Supermarket
- 19 WPP Scangroup
- 20 ARM Cement
- 21 Bamburi Cement
- 22 Crown Paints Kenya
- 23 E.A. Cables
- 24 E.A. Portland Cement Company
- 25 KenGen Company
- 26 Kenya Power & Lighting
- 27 Total Kenya
- 28 Umeme
- 29 B.O.C Kenya
- 30 British American Tobacco Kenya
- 31 Carbacid Investments
- 32 East African Breweries
- 33 Flame Tree Group Holdings
- 34 Kenya Orchards
- 35 Mumias Sugar Company
- 36 Unga Group
- 37 Safaricom
- 38 StanLib Fahari I-Reit
- 39 New Gold ETF

Source: NSE (2019)