EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF SMES IN KENYA

BY

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DECLARATION

I do hereby declare that this is my original work and has not been handed over to any institution of higher learning for examination.

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This research project has been submitted with our approval as the university supervisors

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DEDICATION

My special appreciation to my family members for their immeasurable support towards my academic journey. I dedicate this to my wife and daughter for supporting, encouraging, loving and influencing my countless steps that I made in this journey. Special gratitude to friends and colleagues who stood by me throughout my study.

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ABSTRACT

The dynamic business environment has triggered the corporate social responsibility among Small and Medium enterprises (SMEs). SMEs have fundamental role in economic progress. Despite the immense cornerstone of SMEs in the economic prosperity, it has received minimal attention from the researchers. Therefore, the gaps in research motivated the researcher to analyze the effect of corporate social responsibility on the financial performance in Kenya. The study utilized descriptive research design to blueprint the existing association. Moreover, it created holistic platform for the analysis of top 100 SMEs for the year 2014-2019. The research utilized the diagnostic tests such as; linearity, autocorrelation and multicollinearity to ensure the data adhered to standard and fit for the far-reaching findings. As a consequence, the descriptive analysis of CSR, SME's size and the sector, it denounced a standard deviation of 0.6385, 0.75611 and 0.780 respectively. Moreover, the multiple correlation coefficient was figured at 0.726. This portray the measure of goodness of fit of the regression model thus 72.6% means a perfect positive linear relationship. The R-Square resulted in 0.527. As a result, this postulates that 52.7% of the deviations in the regressed variable are driven by size, sector and corporate social responsibility. Adjusted R Square is at 51.2%. From the results computed, it emphasize that if the predictor variables such as CSR, Size and Sector are maintained constant, the financial performance (ROA) autonomous value was pegged at 0.221. Additionally, a unitary growth of CSR translates to 54.5% substantial reduction in ROA ($r=-0.545$; $p=0.000<0.05$). As a consequence, an addition of one unit to the SME' size reflects 6.1% insignificant expansion of ROA ($r=0.061$; $p=0.197>0.05$). On the other side, an increment of single unit of SME' sector causes 3% insubstantial increase in ROA ($r=0.030$, $p=0.474>0.05$). The significance test was computed and concluded on the research test of less than 0.05 as coined by T-Test and F-Test. The research advocated for a comparative research between the SMEs implementing CSR and those who did not factored in. The research concluded on the pivotal steps undertaken by SMEs through the incorporation of CSR.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Corporate social responsibility has progress tremendously due to proliferation and global needs for Corporate Accountability to the internal and external personnel. The major milestone has been associated with first-rate growth and development. The overall mandate is maximization of shareholders' wealth through creation of serene business environment that is responsible (Wangari, 2014). Corporate Social Responsibility has grown exponentially from being a philanthropic activity to a voluntary integrated social responsibility. Currently, SMES in Kenya have utilized CSR as a blueprint for the positioning and as an engine to the performance and growth of their firms. The study delved into CSR effect on the financial performance of SMEs in Kenya. Grounded on the previous literature review, there has been contracting information on the effects of the CSR.

Some researchers stated positive inter-connection in the midst of corporate social responsibility and financial performance while others stated negative correlation. The research focused on the large firms and particularly SMEs. According to Caroll (1991) CSR entails four-model that is: economical, legal, philanthropic, and ethical responsibility. Friedman (1970) advocated for social responsibility and cautioned against fraud and theft in the name of CSR. The rules of business game must be followed to the latter.

Corporate Social Responsibility is gaining momentum in every SME (Jamali & Mirshak, 2007). It has gained competitive advantage and reputation and has been used as a strategic initiative. Harvard Business Review (2011) stated that Corporate Social Responsibility is a Social accountability in the contemporary Business World. It extends the collaboration and engagement to social, ecological, and economical accountability.

Part of the theories underpinning this research is principal-agent theory (agency theory) directing the focus of the organization on its mandates, jurisdiction and the objective. Slack resource theory helps in elaborating utilization of non-substitutable and limited resources to realize the defined company goals, while stakeholder theory illustrates the need to create wealth for stakeholders, and social contract theory relates to mutual coexistence and morality in the operation of the business. The theories enhance organizational reputation and loyalty while reaping maximum benefits and wealth from the business (Zengin, 2010).

1.1.1 Corporate Social Responsibility

It is imperative to opine that Corporate Social Responsibility is the epicenter of the organization. It involves the organizational cardinal rules that promote social coexistence. This is achievable through firm's response to emergencies, economic rejuvenations and moral considerations (Davis, 1973). The tenet of CSR is the social contract to external community. The sovereign role is to promote responsible and morally dependable coexistence. The preeminent principles guiding CSR are Sustainability, Accountability, and Transparency Crowther (2004).

Most SMEs in Kenya have engaged in CSR and have gained preferential treatment from their communities. The main activities that have manifested through CSR include building social amenities such as dispensaries, toilets, and marketplaces. Furthermore, drilling boreholes and funding community projects has been some of the key achievements. The scholarship to students from the needy backgrounds is one of the progressive milestones by SMEs. Despite the enormous benefits associated with it, CSR activities should be transparent to limit theft, fraud and siphoning of funds Crowther (2004).

CSR has been under tremendous research to give measurable parameters under different spheres. Previous research has been inconclusive Waddock & Graves (1997). The predominant objective of CSR is to gain competitive advantage and gain value for shareholders' Wealth. Wood (2010) advocated the use of socially generated reports, environmentally related reports and annual reports that promoted CSR. Soana (2009) opined that content analysis reports, surveys and reputational measures are paramount in measuring Corporate Social Responsibility. Some researchers have used Corporate Social Performance. This research has maximized the expenditure on Corporate Social Responsibility to quantitatively measure it.

1.1.2 Financial Performance

The steady state and financial soundness is the pointer of going concern among firms. Financial performance is a blueprint for the set objectives. According to Business Dictionary (2011) financial performance entails supremacy in cost and accuracy. Furthermore, it is a broad-ranging and progressive way of measuring attainment of set objectives and standards. It helps in mitigating economic and financial risks. The two premier financial performance measurements are based on accounting and market perspective.

The fundamental test of financial performance includes lucrativeness through profitability, financial health by liquidity and financial stability through solvency. Efficiency and repayment capacity are also used in measuring financial performance (Wood, 2010). The uppermost objective of measuring financial performance is to help in formulating long term plans, setting targets, measuring actual performance, and taking corrective measures in case of variances.

Financial performance has been paramount since time immemorial as a subjective method of evaluation of attainment of intention. It promotes reliability and assurance. Moreover, it reflects effectiveness, productivity and efficiency through asset utilization, generation of profit and promoting financial soundness. The dominant profitability measures are; ROA, ROE and ROI Wangari (2017). This Research Utilized Return on Investment to measure financial performance.

1.1.3 Corporate Social Responsibility and Financial Performance

The linkage joining Corporate Social Responsibility versus Financial performance has been subjected to more research. It has undergone tremendous focus. However, it has been inconclusive. Consequently. CSR as well as Financial Performance are predominant analysis in corporate boardroom. The active participation in community welfare has been associated positively, neutrally, negatively.

Corporate Social Responsibility is a supreme engine in reinforcing financial performance. Waddock & Grant (1994) concluded that CSR moves correspondingly in the same direction with the financial performance. CSR enhances competitive advantage by paying significant interest to workers and staffs. Hammond & Slocum (1996) stated that CSR promotes firms 'superior social responsibility. Moreover, its supplements corporate reputation and maintain successful operations to unforeseeable future. The company gets goodwill and can survive during difficulties through a well-designed survival and sustainable strategies. Kim & Kim (2014) concluded that CSR has positively corresponds to financial performance. CSR creates value, reduces cost, uphold unique abilities, and promote competition.

Some researchers establish a neutral ground on CSR and financial performance. McWilliams & Siegel (2000) studied 524 firms for a period of 6years. The far-reaching results were neutral relation. CSR and financial performance work independently of each other. Therefore, the innovative and creative ways of CSR to foster the well-being of the community does not replicate the inferences on the financial performance in any way.

Friedman (1970) promoted the priority need of purposeful profit making while upholding legal and ethical decency. Wright & Ferries (1997) examined 116 companies over a period of 10years. CSR negatively affected the prices. It guided and influenced the managerial decisions and strategies. It illustrated the mastery of deceits and manipulation. CSR promoted exemplary image despite shortcoming of unethical practices.

1.1.4 SMEs in Kenya

The Kenyan economy is driven by Small and Medium Enterprises. It is a leading job creation sector and accounting for 80% of enterprises (GoK, 2012). SMEs are vibrant infrastructural development and are the highest generator of GDP. SMEs play a premier role in realization of Vision 2030 (GoK, 2020). SMEs have different definitions globally; in Kenya it refers to small enterprises with a turnover of 500,000-5,000,000 per annum and has 49-99 employees. Micro Enterprises employees less than 49 people and the annual turnover is less than 500,000 (GoK, 2012).

The impact created by SMEs is of great significance. SMEs have been source of government revenue, promotes industrialization, accelerate economic growth, foreign exchange earner and nurtures innovation, among others. Kenya has mapped out strategies aiming to benefit through globalization, proliferation, and integration (GoK, 2020). Vision 2030 acknowledges the paramount role of the informal sectors. SMEs are development blueprints and yardstick to transforming and industrializing the country.

SMEs have accelerated the economic growth. However, there is high mortality rate of SMEs within five years after inception Ochanda (2014). The collapse of SMEs has been associated with unfair competition from well-developed and large companies. The unfavorable external factors have caused stagnation in growth of SMEs. Large companies capitalized on their well-established infrastructure and Corporate Social Responsibility. SMEs with minimum resources succumb easily.

In a nutshell, inadequate financing and rapid technological advancement leaves SMEs with obsolete products. New laws and regulation from national and county government has hindered the growth of SMEs. SMEs can adopt CSR as a competitive strategy. The good working relationship between external environment and SMEs creates an enabling environment for their prosperity. Ethical issues in production and environmental consideration are fundamental aspects of CSR (Tantalo, Caroli & Tanevenhoven, 2012).

SMEs can engage in environmental protection, waste and garbage collection, training, and empowerment of the community. It creates extremely fruitful results. CSR stimulates growth and ensures functional stability. CSR creates competitive market, enhances reputation, and reinforces public confidence (Murillo & Lozano 2006). Furthermore, it is a catalyst for innovation and creativity.

1.2 Research Problem

The corporate social responsibility in connection to financial performance are key for the extensive investigation due to their correlational characteristics. The capability to generate excellent financial performance depends on corporate social responsibility. The business strives to upgrade their buoyancy using wide-spectrum of strategies. Subsequently, CSR builds the organizations' systems leading to financial performance. The Corporate governance discharges crucial duties through monitoring and evaluation of the performance. As a consequence, the appropriate and suitable CSR minimizes the investors' risk, and increases financial performance (Ngatno & Youlianto, 2021).

Locally, Liech (2011) studied the inter-relationship amid the corporate social governance and financial performance. As a result, the research's findings indicated the strongly and positive association. Furthermore, research undertaken by Sharon (2014) indicated that corporate social responsibility was critical in the financial performance. The modern business-driven world has successfully innovated Corporate Social Responsibility as a blueprint for prosperity. CSR is deliberate strategy crafted and designed by the organizations. CSR has propelled significantly and gain immense attention by large and small businesses, public and private sectors hence becoming the area of attention. Mwangi (2011) researched on the relationship between CSR and financial performance of Companies quoted in NSE, the research concluded that CSR has positive significant on the financial performance. CSR is considered as a vibrant strategy beyond legal regulation, technical requirements and economic persuasion. Chege (2014) focused on the impacts of CSR on the profitability of commercial banks in Kenya. The research concluded that CSR has significant positive influence on profitability.

Mwangi and Jerotich (2013) researched on the relationships of CSR practices versus financial performance with special contextual scrutiny of manufacturing firms. The focus was aforementioned firms listed in Nairobi Stock exchange. In addition, the research concluded on insignificant positive relations between CSR practices and financial performance. Wangari (2014) on the impact of Corporate Social Responsibility on financial performance indicated a positive relation. The deliberation of this as a strategy for competitive advantage has gain powerful momentum. CSR volunteered actions to assist the communities has increased business reputations and considerations. Several donors have started injecting money to support CSR. It is progressively becoming a positioning tool in a very competitive market (Moranga, 2014). The integration has promoted benchmarking, brainstorming and continuous sharing of innovative ideas to suit the current market. CSR has become a pillar and yardstick that reinforce the Research and Development. It has systematically attracted the attention of customers and the firms continue to enjoy profits (Liech, 2011).

The emerging trends in the contemporary commercial world resulting from globalization and proliferation have improved both ethical concerns and legal consciousness. There is a demand to increase awareness due to radical changes that are inevitable in the ultra-modern trades. SMEs have lived to see CSR has a backbone of business decorum and progress. For instance, the focus on waste management has reclaimed green environment. Several actions associated with CSR have intensified the need competition, vibrant development and accelerated economic growth. It has improved operational efficiency, effectiveness, and productivity through an established good reputation. The goodwill is an important asset in business environment and can be gained through CSR.

Globally, Ghelli (2013) researched on CSR and the financial performance. More precisely the experimentation assessed 500 manufacturing firms and the findings indicated negative and insignificant association amid CSR and the financial performance. Waddock & Graves (1994) concluded on positive interconnection amid CSR and financial performance of firms. Kim & Kim (2014) reinforced the findings through established positive relation on the research. However, grounded on past postulations from other scholar coining neutral effect (McWilliams & Siegel, 2000) hence stirring more controversies and mixed outcome. On the other hand, (Wright & Ferries, 1997) research on CSR and financial performance registered a negative interrelation. This conflicting and inconclusive finding has demanded for more research to fill the gap. The contextual, conceptual and methodological gaps need to be addressed. The research sought to answer the question, what is the impact of Corporate Social Responsibility of financial performance of SMEs in Kenya?

1.3 Research objective

The objective of the study was to explore the effect of Corporate Social Responsibility on the financial performance of SMEs in Kenya.

1.4 Significance of the Study

The research will be magnificent value to SMEs in Kenya as it will boost extensive insights, in-depth knowledge and yardsticks of Corporate Social Responsibility, and how it influences financial performance of the company.

The results pinpointed in this assessment will provoke extensive generation of information. The management of SMEs to upgrade their Corporate Social Responsibility and encourage proper planning, management, and control to suit business decorum. The inference will aid in culmination and denouncement of CSR hallmarks. Furthermore, it aids in recognizing that managing Corporate Social Responsibility efficiently and optimally can be done so as to sustain business operations even during difficult times. SMEs can come up with mechanisms and plans that improve financial performance and make the business to be more competitive.

The government will utilize the findings in formulation of economic recovery policies, SMEs financing, trainings, and budget Allocation. Furthermore, the government will use it to tap talents, innovations, and preparation of business incubations hubs. It will be helpful in developing trainings and financing that supports SMEs.

The Kenya Parliament and Senate will use this research undertaking in formulating of laws, regulations and policy guiding resource allocation to the SMEs. The findings will provide critical knowledge for more consideration to Corporate Social Responsibility and the influence on the financial health of the organizations.

Global and local entrepreneurs will use it to spearhead their views on the Corporate Social Responsibility. Entrepreneurs will use in promoting creativity, innovation and continuous improvement to meet technological rapid changes. It will act as a tool and reference to reinforce the application of donors and grants to support Corporate Social Responsibility and SMEs.

The county government and national government will use the study to encourage employment and economic growth. It will help in fostering Corporate Social Responsibility and SMEs. Furthermore, it helps in discoveries, new knowledge creation and disseminations of latest development. Moreover, it creates economic vitality through technological advancement, commercialization, and Product Research and Development.

The public community will benefit through sophistication of Corporate Social Responsibility and expertise utilized in improving the standards of living, quality life, human rights, and environmental protection. It is a cardinal method of training and aiding the community.

Finally, it will enhance university reference bank of knowledge. The academicians will get worthwhile analytical skills, practical in-depth knowledge, and systematic Corporate Social Responsibility knowledge. The findings will reinforce understanding, widen and deepen knowhow among academic community, students, researchers, and scholars through utilization of empirical data on Corporate Social Responsibility that will form the tenet of their discourse while bridging the gaps which has been unattended for longevity.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

It is imperative to contend that this section is the key lifeblood of the investigation. Therefore, it encompassed past studies focused on similar field. The research presented literature and theoretical framework as well as empirical evidence. The four theories that underpin the study are agency theory, slack theory, stakeholder theory and social contract theory. Thereafter, undertakes and present summarized literature reviewed.

2.2 Theoretical Framework

CSR has undergone tremendous development. It became a great area of focus with different researchers promoting it as a philanthropic activity while others stated categorically as social responsibility. The incorporated theories include principal-agency theory to address conflict of interest while slack theory elaborates the predominant utilization of non-substitutable and limited resources for purposeful realization of designed organization's objectives. Stakeholder theory acknowledges the necessity of wealth creation while social contract theory is cognizant of organization's respect and loyalty to realize maximum wealth.

2.2.1 Principal-Agent Theory

Jensen & Meckling (1976) proposition of agency theory correlated and associated with conflicting interest. It made a reference to existence of mutual binding agreement between the owners and the agent. The agent should always pursue the interest of the owner and purposefully discharge the mandates and jurisdiction as per the engagement. Mc Colgan (2011) illustrated the harmonious working relation between agent and principal. Further, presented that purview of interest varies from each organization. The authorized personnel (agents) like directors and managers must provide holistic roadmap towards realization of the principal's interest.

Conflicting interest arises based on the two assumptions put forward that people are self-centered and egoistic acting on their own behalf (both principal and agent). Subsequently, asymmetric information whereby agent is exposed to more relevant and accurate information can easily exploit the principal (Adams, 1996). The deviation from the principal's interest and pursuance of agent interest amounts to agent cost which is shouldered by the principal. Great autonomy of agent due to principal's lack of indispensable expertise and time can lead to conflict of interest.

Corporate governance has periodically provided harmonious way towards realization of win-win situation in the midst of agent and the principal (Gerard, 2004). The agent is hired by the principal to make informed decision that promotes wealth creation. The inherent risk borne through poor decision making is lonely borne by the principal. The alignment of the principal-agent interest to achieve companies' goal prudentially is a roadmap for beneficial engagement. The principal should provide incentives and motivate the agent to cast down moral hazards. Corporate Governance has brought sanity and promoted conducive working environment between the principal and the agent. It provides clear framework and stipulates guiding mechanisms while working towards value creation as designed by the principal (Zabihollah, 2007).

2.2.2 Slack Theory

The theory cements CSR through elaborate and logical ways. Caroll (1991) stated that CSR is a problem solver with the fundamental purpose of solving economic, legal, ethical, and philanthropic myriads of problems. It is an initiative of payback towards societal development. Slack Resource theory reinforces the need for financial resources in realization of CSR. The prudential engagement in CSR demands for financial resources to spearhead predefined activities as dedicated by the company. The ability of the company to adjust and adapt to both internal and external pressure is based on slack resources (Bourgeois, 1981).

The periodic improvement of financial performance avails resources to enhance and undertake CSR (Waddock & Graves, 1997). Slack resources availability can be in form of communication, employees, or environment. It is a yardstick that resolves conflicts and prevents organizational fragmentation, cushions and minimizes cost. According to March & Simon (1958), the company like living organisms strives and struggle to survive in adverse tumult. Slack resources improve the survival tactics and provide a pillar towards staying afloat in foreseeable future.

Tan & Peng (2003) promoted that the pool of slack resources inform of employees and unused capacity can be adequately utilized to realize organizational desired out-turn. The allocation of resources to boost performance of CSR creates value addition and societal development (Zhong, 2011). It is a vital cornerstone that enhances the usage of organizational resources to achieve predefined goals while promoting Corporate Social responsibility.

2.2.3 Social Contract Theory

The theory is historical in nature and stipulates the relation governing the society. It states that rules and laws provide clear framework towards mutual co-existence. According to Pollock (2007), social contract promotes morality in business undertakings, protect from physical assaults, prevent offensive characters, and promote beneficial activities to others. The theory promotes reciprocity.

It is a century philosophy defining the legitimacy of authority. The society has authority and power to demand industries to provide serene and conducive coexistence as well as positively impact on society. Donaldson & Dunfeen (1999) further developed the theory as a guideline to firms. The firms cannot operate in isolation and must realign their fundamental principles and targets to suit societal expectation. The predominant aim is efficiency, deep connection, interdependence, cooperation and symbiotic relationship between firms and society.

2.2.4 Stakeholder Theory

The theory stresses the interdependent interconnection co-joining the business and the stakeholders. Freeman (1984) elaborates that firms have obligatory responsibility to the stakeholders. The intertwined relationship promotes conducive ecosystems. The companies and institution are affixed to the stakeholders. The purpose of the firm is creation of wealth. Wealth creation is a fundamental purpose and outcome that is champion through reasonable consideration to stakeholders. This is only realistic and logical through informed decision making regarding either those who affect or get affected.

The theory assimilates corporate accountability and transparency for purposeful wealth creation. The network of relations stipulating connections of broad-spectrum stakeholders, paints a picture of a system. In a nutshell, shareholders, government, communities, political class, suppliers, employees, customers among others form a system that is paramount for co-existence and complementarity. Corporate Social Responsibility provides an avenue for purposeful consideration on decisions affecting the group. The increment of shareholders wealth while considering the group affected in the entire systems is a great strategy in Corporate Social Responsibility (Mallian, 2004).

2.3 Determinants of SMEs' Financial performance

The firms have different perspectives on the implementation of CSR. However, the major factors affecting the execution of Corporate Social Responsibility are; Sector and Company-size. These factors stipulate the CSR activities that a firm can plan, coordinate, execute and follow-up to ensure the intended objective is achieved.

2.3.1 Corporate Social Responsibility

It is worthy to state that continuous improvement and adjustment to the fast-paced commercial set-up is key for any firm to remain buoyant. As a consequence, Corporate Social Responsibility fundamental aim is to provide reciprocity in coexistence between firms and society while at the same time maximizing shareholders' wealth. CSR promotes ethical and legal process that enhances interdependence. It strengthens competitive advantage and intensifies long term profit. CSR acts as a marketing tool to disseminate information to a wide range people (Wangari, 2012). It also intends to increase future cash flows. CSR increases shareholders' wealth through enhancement of revenue generation, cost saving and reduction of risk exposure. Therefore, it helps in improving financial performance, increasing profit, reducing expenditures, and helping companies in avoiding regulations conflicts, taxes, and fine hence reduced risk.

2.3.2 Company-Size

The company-size is paramount in financial performance. Profitability of any company depends on the size. Large companies are more effective and efficient in accessing the wider market. It employs resources in a prudential manner and derives competitive advantage while establishing stronger foundation for futuristic endeavors. Majority of large companies engages in CSR due to the availability of resources. The stable structures and opportunistic nature of large companies increases their supremacy in CSR. Furthermore, they are able to detect and take advantage of prevailing circumstances to increase shareholders' wealth while blossoming due to economies of scales.

2.3.3 Sector

The different sectors make up an economy. The agricultural and manufacturing sectors have been emphasized since time immemorial. The particular sectors have different natures of business operation. This is due to competition and stipulated regulations. The laws of demand and supply dictate the sales revenue of the business. Different sectors have distinct and unique internal and external pressure influencing CSR and financial performance. Ghelli (2013) opined that internal and external pressure exerted on firms should be same in every sector. Wangari (2014) stated that distinct firms come up to solve environment concerns, social needs, financial matters and stakeholders' needs.

2.4 Empirical Evidence

The previous studies conducted internationally, regionally and locally gave varying conclusion. The summary has been analyzed below while trying to fill the existing research gap so as to provide holistic references for future studies.

2.4.1 Global Studies

Marc, Frank, Schmidt & Rynes (2003) examined the relation in the midst of CSR versus financial performance. The area utilized meta-analysis and found out that CSR and financial performance is positively associated. Oskar (2012) did the arithmetic computations of the relation concerning Corporate Social Responsibility and financial performance in Poland. The research concluded that the business undertaking CSR can pay dividend easily even in financial crisis. Theofanis (2010) opined that CSR correspondingly and positively inferred on financial performance significantly.

Moreover, the research was done in Greek Companies using the content method of analysis.

Australian Treasury (2009) conducted research on the relation amid corporate governance versus financial performance. As a consequence, the examination concluded that CSR is paramount in financial performance of Australian Security Exchange. Corporate Social Responsibility enhances Research and Development, Entrepreneurial thinking, disruptive innovation, and developmental programs and equity market. It is a yardstick towards solid financial performance.

2.4.2 Regional Studies

Okwee (2011) researched on the influenced of CSR on financial performance in Lango Sub Region (Uganda). The focus size was 63 SMEs. It was established that risk and corporate social responsibility have negative correlation. However, Corporate Governance and financial performance was concluded to have statistical and positive correlation. Corporate Social responsibility eliminates a myriad of problems emanating from societal difference. The CSR promotes economic empowerment, legal obedience, ethical practices and philanthropic support to foster company prosperity.

Enobakhari (2010) researched on corporate governance and financial performance. Contextually, the examination pivotal area was banking sector of Nigeria. The research placed emphasize on paramount role played by board of directors. The research highlighted a myriad of problems devilling the high performing companies. Corporate Governance can eliminate fraud, inside trade, and conflicting interest through full disclosure of Corporate Social Responsibility Reports for periodic analysis and accountability. The great failure of financial giants Enron and Worldcom in 2001 and 2002 respectively is an eye opener for futuristic projection and management by objective (Wangari, 2014).

2.4.3 Local Research

Local researchers have also undertaken in-depth analysis. Matengo (2008) researched on the relation between corporate social responsibility and financial performance of banking sector in Kenya. The research concluded that CSR reduces exposure to risk through prudential handling of societal needs. Liech (2011) focused on corporate research practices and the financial performance of local airline companies. Consequently, the researcher established positive relationship. Wafula (2012) stipulated that corporate social responsibility is a voluntary activity and incorporates societal needs in pursued of their profitability. The research demonstrated proficient business strategy in form of CSR. Furthermore, it advocated for business growth through CSR resulting from alignment of objective to fit market demand as well as community demands. Okwoma (2012) used longitudinal research method and utilized Return on Asset and Return on Equity. The research findings indicated that ROA and ROE are positively correlated with CSR. Corporate Social Responsibility is paramount in financial performance. Moranga (2014) did research on effect of corporate governance on the financial performance and focused on Nairobi County. The finding indicated CEO duality with lack of separation of power. Proper decision making and prudential management of funds were affected due to inseparable functions of CEO and manager.

2.5 Conceptual framework

This schematic flowchart delineates the relation between regressed and regrressor variables. Subsequently, the explained variable work-out in this investigation was the performance of SMEs measured by Return on Assets. The independent variables are CSR activities, Size and Sector of the SMEs.

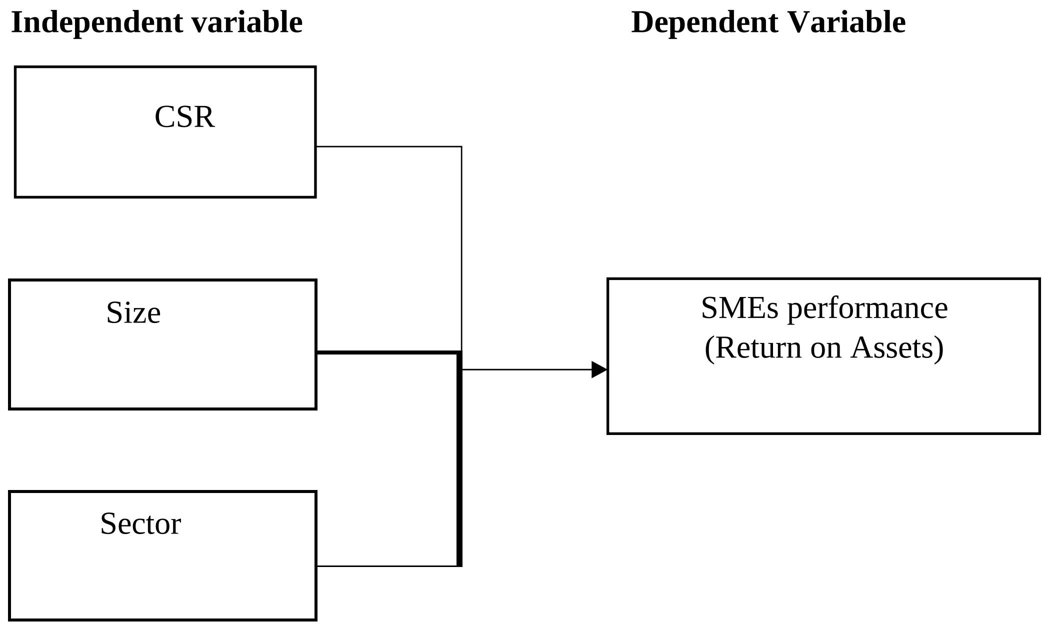

Figure 1: Conceptual Framework

Source: Author, 2022

2.6 Summary of Literature Review

Corporate social responsibility has attracted many researchers globally, regionally and locally. The researchers came up with positive, negative and neutral conclusion. It is paramount to research on CSR due to great emphasize put forward by the researchers. The divergent findings and recommendation by the preceding researchers dwelt so much on organizations, banks, companies and banks. This has left SMEs with minimal consideration hence mandated the researcher to undertake this research.

Theoretical literature minimal consideration on SMEs in Kenya is a key indicator that there is a supreme need to bridge the gap. The theories that reinforce this study include agency theory which elaborates the need to solve conflicting interest and pursue mandates and jurisdiction of business. It provides holistic compass for business development. Slack Theory provides an initiative towards societal development and realignment of both business and societal demands. It ensures prudential allocation of resources and boost performance of the SMEs.

Societal Contract Theory is an historical theory that advocates for mutual relation between the SMEs and society. It provides relation between business and society at the same time enhances symbiotic and reciprocity. Stakeholder Theory set forth efficient deep connection, interdependence and cooperation between firms and society. It states the obligatory responsibility to the stakeholder while promoting corporate accountability, transparency and prudential reporting. Despite the previous research put forward that focused on environmental, financial and societal performance of organization, negligible consideration has been developed on SMEs in Kenya. Furthermore, the research on the big organizations and banks cannot be justified and generalized to suit SMEs. It is therefore prudent to bridge the research gap.

Table 2.1: Summary of Literature Review

Author	Focus Study	Methodology	Findings	Knowledge Gap	Focus of the Current Study
Wangari (2014)	Effects of CSR on financial performance of Enterprises in Kenya	The researcher utilized descriptive survey research design. Data was collected through secondary sources.	CSR has positive effect on financial performance	CSR and profitability of SMEs.	CSR relation with financial performance of SMEs
Moranga (2014)	Effect of (CG) Corporate Governance on financial performance of small and medium enterprises in Nairobi County, Kenya	The researcher maximized descriptive research design while using primary and secondary data collection.	The study delineated that there is a significant strong correlation between the SMEs financial performance and corporate governance in Nairobi County	CSR and Return on Assets	CSR and SMEs' financial performance in Kenya

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

The tenets of exhaustive outcome are pegged on this chapter. It is key hallmark for dependable and diligent solution. As a result, it summarizes research design, targeted population, data collection and data analysis. It provided a blueprint and roadmap for execution of the effect of corporate social responsibility on the financial performance of SMEs in Kenya.

3.2 Research Design

The research utilized descriptive research design. Burns & Groves (2003) described research design as a layout that provide platform with negligible inference and constraints. Cooper & Schindler (2003) highlighted that descriptive research explains what findings entails. Kothari (2004) stated this design is a problem solver. The research concentrated on CSR and financial performance.

3.3 Population

The population entailed group of individuals, set of people, events, objects that possess similarities in observable traits (Mugenda, 2003). Furthermore, the researcher optimized published financial statement and chairman's notes. The top 100 SMEs considered through census survey running from 2014-2019 as shown in the appendix. The ranking by the KPMG & Nation Group's (Business, 2020) was based on profitability and growth.

3.4 Data Collection

The researcher objectively obtained raw data from secondary sources which include Return on Assets, aggregate expenditure on CSR, turnover and total assets. More specifically, the data was generated from published financial statement and chairman notes. As a result, secondary data is paramount in arriving at logical and insightful findings.

3.5 Diagnostic Test

The researcher carried out several test to achieve relevant, valid, and reliable data. The major areas that were worked out on include testing of accuracy by usage of linearity test, autocorrelations, and the statistical measures in relations to predicted and explanatory variables.

3.6 Data Analysis

The data passed through the process of reviewing, editing, coding, classifying and interpretation through SPSS analysis. The process enhanced efficiency and effectiveness analysis. The presentation through charts, tables and graphs was very supportive.

3.6.1 Analytical model

The schematic linear model offer roadmap relating to interrelationship. Resnik (2003) propounded the usage of empirical model to extent diligent knowledge and conclusive inferences. The model disposed linear regression of variables under consideration. The analytical techniques elaborated the relationship. The study utilized multiple methods of analysis including regression. Data analysis utilized SPSS whereby CSR is independent variable while financial performance is dependent variable.

$ROA=\alpha +\beta_1X_1+ \beta_2X_2 +\beta_3X_3 + \varepsilon$

ROA = Measure of Financial Performance

α = Constant amount (SMEs earning zero amount expenditure on CSR activities)

X_1 =CSR (Aggregate CSR expenditures against Net Profits

X_2 = Size (Turnover against total assets)

X_3 = Sector (Averages of Dummy variables where; 1. Manufacturing, 2. Trading and 3. Service)

$\beta 1$, $\beta 2$, $\beta 3$= Coefficients of the various independent variables

ε = Error term

3.6.2 Test of significance

The regression is paramount in this study. Linear regression displayed existing relation co-joining CSR and financial performance. It is important to accentuate that the data analysis was done through SPSS and the coefficient of determination (R^2) was key. Furthermore, Pearson coefficient of correlation (R), Z-values, T-values and F-values was paramount in statistical and inferential findings.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter gives the empirical analysis of data to enhance the research findings. The study utilized the secondary information to enhance the research analysis. The data was collected, reviewed, coded, classified and summarized. The Inferential and descriptive statistics were considered and prioritized.

4.2 Descriptive Statistics

The study sort to explore the effect of CSR on the financial performance of SMEs (Return on Assets). The discussion and summary of the data are illustrated in table. From the findings below, with N being 100, Aggregate expenditure on CSR posted a lowest figure of 0.010 and a greatest of 1.9800. The average and SD were 0.593002 and 0.6385 respectively. This portrays a minimal variance when average is compared with SD. Correspondingly, the size registered a minimal figure of 0.0094 and highest value of 5.5420. It also posted an average of 1.65933 and SD of 0.75611. It is worthy to exemplify that the dataset explained the crucial traits of SMEs size. Consequently, the sector which comprised of Manufacturing, Trading and Service referred here as Dummy Variable had its Minimum and maximum to be 1and 3 respectively. This variable registered a mean of 1.91 and a SD of 0.780. As a consequence, the Return on assets (ROA) which was the predicted variable registered a minimal figure of -0.9800 with a corresponding maximum of 2.3100. It also posted an average of 0.057055 whereas a SD of 0.45875 in that scenario nailing the traits of dataset as well as variability.

Table 4.1 Descriptive Statistics

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
ROA (Y)	100	-.9800	2.3100	.057055	.4587511
CSR	100	.0010	1.9800	.593002	.6385301
SIZE	100	.0094	5.5420	1.659331	.7561152
Sector	100	1	3	1.91	.780
Valid N (listwise)	100				

Source: Researcher 2022

4.3 Correlation

This is supreme for approximation of position, magnitude in addition to the direction. Correlation is the epicenter in the analysis of association among the variables. Moreover, it gives major concentration on the magnitude and the direction amidst the variables of the study. In addition, it assesses the magnitude, trend and the direction of variables. The correlation is critical in the generation of in-depth knowledge of the findings. It optimized the Pearson correlation to empirically conclude on the research results.

Table 4.2 Correlation Analysis

		ROA (Y)	CSR	SIZE	Sector
	Pearson Correlation	1	-.717**	-.220*	.096
ROA (Y)	Sig. (2-tailed)		.000	.028	.342
	N	100	100	100	100
	Pearson Correlation	-.717**	1	.427**	-.052
CSR	Sig. (2-tailed)	.000		.000	.610
	N	100	100	100	100
	Pearson Correlation	-.220*	.427**	1	.060
SIZE	Sig. (2-tailed)	.028	.000		.552
	N	100	100	100	100
	Pearson Correlation	.096	-.052	.060	1
Sector	Sig. (2-tailed)	.342	.610	.552	
	N	100	100	100	100

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

*. Correlation is significant at the 0.05 level (2-tailed).

The above findings show the relationship linking and existing in the midst of two variables. It stems from perfect positive correlation to strong negative correlation. The research employed the Pearson correlation to analyze the relationship the exhibited by predictor variables towards the dependent variables. Both size and CSR posted negative inter-correlation with each other. CSR posted a strong negative correlation towards the Return on Assets (ROA) -0.9510. The Pearson correlation stipulates the significance in addition to the decree of correlation connecting the explanatory variables (CSR, Size and Sector).

4.4 Diagnostic Test

The diagnostic tests were run to stipulate the existing association amid the variables. The Variance Inflation Factor, Kolmogorov-Smirnova and Durbin Watson were used. The prioritized test included the multicollinearity, autocorrelation and linearity.

4.4.1 Multicollinearity Test

The analytical testing of multicollinearity was the pillar of the research. Multicollinearity is correspondence to a specific state where the dataset post greatly correlated indepedent variables (Kothari, 2017). As a result, multicollinearity is a supreme in resolving the regression predicaments. In a nutshell, it calls for fixing and removing the intensely connected explanatory factors to aid seamless analysis. In this investigation, multicollinearity exploited the variance inflation factors (VIF) and Tolerance value extensively and comprehensively. Tolerance figure was pegged at 0.811. 0.811, and 0.989 hence below 2 postulating the absence of multicollinearity. A VIF was 1.232, 1.234 and 1.011 whereas the value beyond 10 depicts collinearity. In this investigation, the collinearity predicaments were not witnessed since all variables have a value of VIF well below 10.

Table 4.3 Multicollinearity

Model		Collinearity Statistics	
		Tolerance	**VIF**
1	(Constant)		
	CSR	.811	1.232
	SIZE	.811	1.234
	SECTOR	.989	1.011

a. Dependent Variable: ROA (Y)

4.4.2 Autocorrelation and Model Summary

The researchers performed the Durbin-Watson test to detect the autocorrelation. The value obtained was 1.979. This value is close to 2 thus suggesting a positive Autocorrelation. Furthermore, from the Model summary below, it is imperative to postulate that data adhered to the statistical demands and facilitated the continuity of the study.

Table 4.4 Model Summary[b]

Model	Durbin-Watson
1	**1.979**

a. Explanatory: (Constant), Sector, Size, CSR
b. Explained Variable (ROA)

4.4.3 Normality Test

Test for Normality was done through the use of both Kolmogorov-Smirnov and the Shapiro-Walk test. It is evident data was obtained from a normally distributed population since the significance values in both test was less than 0.05

Table 4.5 Tests of Normality

	Kolmogorov-Smirnov[a]			**Shapiro-Wilk**		
	Statistic	**Df**	**Sig.**	**Statistic**	**df**	**Sig.**
ROA (Y)	.168	100	.000	.874	100	.000
CSR	.273	100	.000	.807	100	.000
SIZE	.138	100	.000	.883	100	.000
Sector	.228	100	.000	.802	100	.000

a. Lilliefors Significance Correction

4.5 Regression Analysis

This computation techniques that is useful in the prediction and forecasting. The predictor and the predicted variable were empirically calculated to give meaningful results. The regressor variables were CSR, Size and Sector. The explanatory variable, ROA, was regressed against three dependent variables in form of Corporate Social Responsibility, Size of the firm and the sector. The regression obeyed the 5% significance level.

4.5.1 Analysis of Variance

The ANOVA regression model in table below indicates an F statistic of 35.585 and posted P-value of 0.000. In addition, the P-value registered value less than the Alpha value (P<.05), the projected model, therefore, is statistically significant in projecting the regressed variable. This well-captured and demonstrated good-fit. Subsequently, this implies that the explanatory variables (CSR, Size and the Sector) are significant predictors of ROA. Moreover, the sum square for regression and residual is 3 and 96 respectively. Nonetheless, regression as well as residual expressed the sum of squares of 10.970 and 9.865 respectively. Additionally, with the degree of freedom of 3, regression had a mean square of 3.657. On the other side, with 97 degrees of freedom, the Means Square computed resulted to 0.103. The significance value is less than P=0.05 hence stipulating the statistical significance of the model 0.000< P (0.05).

Table 4.6 ANOVA

Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
	Regression	10.970	3	3.657	35.585	.000[b]
1	Residual	9.865	96	.103		
	Total	20.835	99			

a. Explained Variable: ROA (Y)

b. Predictors: (Constant), Sector , CSR, SIZE

4.5.2 Model Summary

From the model summary below, multiple correlation coefficients is at 0.726. This shows the parameters of goodness of fit of the regression model thus 72.6% means a perfect positive linear relationship. The R-Square is at 0.527. This postulates that 52.7% of the deviations in the regressed variable are connected by size, sector and corporate social responsibility. Adjusted R Square is at 51.2%. This is a substantial R-Squared which delineats that the model is a good fit. Therefore, CSR, size and the sector expound the variation of Return on Asset by 52.7%. The remaining portion entails the factors that were not prioritized in the research.

Table 4.7 Model Summary

Regression Statistics	
Multiple R	0.726
R Square	0.527
Adjusted R Square	0.512
Standard Error	0.3205592
Durbin-Watson	1.979
Observations	100

a. Regressor: (Constant), Sector , CSR, SIZE

b. Dependent Variable: ROA (Y)

4.5.3 Coefficient of Determination

The research was computed to blueprint the level of association among the variables. It entails a complex procedure centered on the statistical computation of models for the meaningful data. The determinants are critical in explanation of variability from one factor to the other, while giving purposeful cause of association. The study strived to arrive at the good fit.

Table 4.8 Model Coefficients

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**	**95.0% Confidence Interval for B**		**Collinearity Statistics**	
		B	**Std. Error**	**Beta**			**Lower Bound**	**Upper Bound**	**Tolerance**	**VIF**
1	(Constant)	.221	.108		2.047	.043	.007	.435		
	CSR	-.545	.056	-.758	-9.724	.000	-.656	-.433	.811	1.232
	SIZE	.061	.047	.101	1.299	.197	-.032	.155	.811	1.234
	Sector	.030	.042	.051	.719	.474	-.053	.112	.989	1.011

a. Dependent Variable: ROA (Y)

From the extensive computation above, it posit that whenever all the predictor variables (CSR, Size and Sector) are kept constant, the return on asset autonomous figure was positive 0.221. In addition, the finding opined that in scenario where all factors are kept constant, an increase in one unit of CSR leads to decrement of ROA by 0.545 units. Additionally, an incremental of one unit of company size causes an improvement in the ROA by 0.061 when other factors are maintained constant. Furthermore, an increase in one unit of the sector of SMEs translates to an increase in ROA by 0.0300 units.

In addition, as tabulated comprehensively, this is evidently pinpointed that CSR under the 95% confidence level ($t=2.047$, $p=0.043$) hence posting negative link versus ROA. Consequently, sector ($T=719$ and $P=0.474$) recorded a positive impact on the ROA (financial performance) of the SMEs in Kenya. As a consequence, size of the SMEs ($t=1.299$, $P=0.197$) gave a positive interconnection. Therefore, the size of SMEs was inversely correlated with the ROA (financial performance).

The findings can be summarized as;

$\mathbf{Y=\alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon}$

Hence; $\mathbf{Y = 0.221 - 0.545X_1 + 0.061X_2 + 0.030\ X_3 + \varepsilon}$

In respect to the significance it is imperative to state that credible, dependable and exhaustive equation can be summarized as;

ROA = Metrics of Financial Performance

$\boldsymbol{\alpha}$ = Constant amount

$\mathbf{X_1}$ =CSR ($r=-0.545$; $p=0.000<0.05$) hence significant for conclusive elaboration.

$\mathbf{X_2}$ = Size ($r=0.061$; $p=0.197>0.05$) therefore insignificant for exhaustive conclusion.

$\mathbf{X_3}$ = Sector ($r=0.030$, $p=0.474>0.05$) correspondingly not substantial for credible inference. $\boldsymbol{\beta 1, \beta 2, \beta 3 =}$ Coefficients of the various independent variables

$\mathcal{E}$ = Error term

$$\mathbf{Y = 0.221 - 0.545X_1 + \mathcal{E}}$$

The regression formula is useful in forecasting.

4.6 Discussing the Research Findings

The predictor variable was the CSR, size and the sector of SMEs. The financial performance was operationalized using ROA. CSR was measured through the division of aggregate expenditures on CSR against the net profits of the company. The firm size was operationalized using total turnover against the total assets. The sectors were categorized to manufacturing, trading and service by the help of dummy variable.

The analytical developed posit an autonomous figure of 0.221 when everything remains unchanged. Consequently, an increment of one unit of CSR translates to a substantial decrease in ROA by 0.545 units when the other factors are maintained constant. In addition, an increase in one unit of company size causes an insignificant decrease of ROA by 0.061 if all the factors are kept constant. Furthermore, an insignificant increase in one unit of the sector reflects an increase in ROA by 0.030 units when all factors are maintained constant. This can be summarized in the multiple linear regression as;

$$\mathbf{Y = 0.221 - 0.545X_1 + \mathcal{E}}$$

For the equation above, Y is the explained variable that is well-articulated by ROA. The values indicated by X_1, $X_{2,}$ and X_3 were CSR, size and sector of SMEs respectively. The study optimized the Pearson correlation and concluded on the positive correlation amid the ROA verse the CSR and Sector. Nonetheless, the SMEs size was inversely associated with ROA.

From the results above, it emphasize that if the predictor variables such as CSR, Size and Sector are maintained constant, the financial performance (ROA) autonomous value was pegged at 0.221. Additionally, a unitary growth of CSR translates to 54.5% substantial reduction in ROA (r=-0.545; p=0.000<0.05). As a consequence, an addition of one unit to the SME' size reflects 6.1% insignificant expansion of ROA (r=0.061; p=0.197>0.05). On the other side, an increment of single unit of SME' sector causes 3% insubstantial increase in ROA (r=0.030, p=0.474>0.05).

The model summary posits that the coefficient of association stood at 72.6% showing the perfect and positive goodness of best fit. R squared was demonstrated by 52.7% postulating that all the experimental variables used in the assessment were adequate. Hence, CSR, size and sector accounted for the 52.7% of regressor variables that correspondingly influenced ROA. At 95% significance level, CSR, size and sector of the SMEs registered (t=-9.724, p=0.000), (t=-1.299, p=0.197) and (t=0.719 and p=0.474) respectively. The outcome detailed that the CSR, size and sector for 52.7% of the entire regressor variables affecting financial performance (ROA) of SMEs.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter enhances the research inferences. It is the cornerstone towards the summary, conclusion as well as the recommendations that need to be addressed. The chapter is pivotal in addressing the shortcomings and the areas that demand for greater analysis. The shortcomings enable the future scholars to eliminate them by utilizing several other avenues to make conclusive analysis. The findings are supreme for decision making. Moreover, the research can guide the formulation of policies, implementation, and achievement of companies' purpose at the same time generating value for the shareholders.

5.2 Summary of the Findings

The research strived to explore the effects of corporate social responsibility on the performance of SMEs. The assessment was informed by the crucial mandate of SMEs in the economic development. It has been ranked as the area with greatest potential globally (World Bank, 2019). The explanatory variables were CSR, size and the sector of SMEs. It supreme to instantiate that the data collected were analyzed using SPSS. Moreover, descriptive as well as inferential statistics enhanced the comprehension.

Correlation analysis posted a negative association for SME's Size and CSR versus the ROA. Nonetheless, SME' sector recorded a positive association. The autonomous value that was kept constant relating to ROA was 0.221. Subsequently, the outcome stipulated that a unitary increment in the CSR results to a decrement in the ROA by 0.25% which is substantial. A unitary addition of one unit of SME' size translated to increase of ROA by 6.1% even though insignificant. Furthermore, a unitary growth of one unit of the SME' sector reflects an increase in ROA by 3% despite its insignificance.

The businesses have a stake in CSR promoting financial performance (Matanga, 2014). Consequently, besides CSR playing significant mandate in enhancing the well-being of external environment the findings declaim that it used immense amount of the SME's resources hence making it unprofitable (r=-0.545; p=0.000<0.05). The outcome stirs more debate by contradicting Theofanis (2010) advocacy for rigorous CSR. It is objective to state that balancing the business interest versus shareholder's expectation is the chief mantle of the organization.

The outcome on SME's size unveiled r=0.061; p=0.197>0.05. As a consequence, it expounded on the insignificance of SME's size for exhaustive conclusion of financial performance. It simply postulates that increasing the size of a firm register non-substantial positive advancement on the financial performance. Hence, ROA receives inconsequential impact through extensive and greater increase in the firm-size. This inference discredits Tantalo (2012) position that continuous transformation and increment on size may not translate to direct enhancement of the ROA. Nevertheless, Wafula (2012) postulates that, continuous advancement in size is replicated on the subsequent increment on financial performance.

The sectorial analysis maximized dummy variable to illustrate that; whereas 1 represented manufacturing while 2 explained trading and 3 delineated about Service sector. The inference was well-captured via r=0.030, p=0.474>0.05 hence, correspondingly not substantial for credible inference even after posting positive interconnection. Therefore, the notion posted by Otieno (2011) emphasizing supremacy of business sector was disclaimed in this analysis. In the scenario of SMEs, sector represent business context with no substantial effect on ROA. Consequently, this inference concurred with Oskar (2011) position that healthy competition of the business irrespective of their sector enhances candid profitability. Mwangi (2011) emphasized that sector is fundamental for profitability and advancement of the business.

5.3 Conclusion

The findings illustrated the conclusive results on the effects of CSR on the financial performance. Contextually, the examination's focal point were SMEs since this set-up has been left with paradoxical information. The findings concluded that CSR and sector of the SMEs have positive correlation with financial performance. However, the SME size posted a negative association with ROA. The data collected were classified and reviewed, thereafter, coded and analyzed by the optimization of SPSS.

The supremacy of analysis were well projected and expedited hence leading to dependable inferences. Regression analysis was supreme and intensively beneficial in the determination of association, magnitude and direction. CSR with ROA demonstrated a negative association on the 95% significance level that involved T-Test and P-Values ($t=-9.724$, $p=0.000$). The association between ROA and the size of SMEs portrayed a movement in similar direction ($t=-1.299$, $p=0.197$). Finally, the linkage between the sector of SMEs and the (financial performance) ROA ($t=0.719$ and $p=0.474$) was positive notwithstanding its significant.

The research findings concluded that CSR, size and sector of SMEs affects the performance, in consequence offered dependable solutions. The experimentation was in agreement with the outcome of Ochanda (2014) that CSR is crucial in the performance of SMEs. Matengo (2008) insinuated that business undertakings are protected if they are interrelated with the community through CSR hence disagreeing with prevailing analysis. The examination sought to analyze extensively the effect of CSR on the financial performance of SMEs. In consequence, the researcher was motivated by immense scale of conceptual, contextual and methodological loopholes. Moreover, the previous scholars predominantly concentrated on the CSR and performance of large firms with minimal concerns to SMEs.

In a nutshell, proponents calling for immense expenses on CSR among large companies needs to factor in different development stages of the business (Mwangi, 2013). Inferences from this study show how CSR depletes the financial performance of SMEs. This is contrary to expectation that it triggers maximization of shareholder's wealth. Moreover, shifting focus from shareholders to external environment can amount to sustainable global economy in longevity. Nevertheless, CSR can undermine the business development hence leading to substantial decline in the profitability.

5.4 Recommendation

The research findings illustrate the negative interaction in the midst of ROA verse the CSR and the sector of SMEs. The research recommends optimum utilization of resources to generate value for the shareholders. Moreover, the researcher advocates for engagement of SMEs in minimal CSR to increase their financial performance. CSR reflects highly in reputable organization that is concern with the environmental welfare and external stakeholders. However, keen consideration should be vested on investment on projects with large-scale returns. Therefore, the study emphasized for the visionary transformation of SMEs to promote the generation of revenues.

The researcher recommends special attention to the SMEs size to give holistic views on the special role played in the profitability. SMEs are the fortitude of the economic development under proper utilization of resources. Moreover, they are the leaders in the commercial prosperity of the firms, tapping unutilized resources and gearing innovation. Therefore, the governments, both the national and county can enact policies that provide holistic growth-prospect to the SMEs.

Grounded on the inferences of this experimentation, the assessment calls for building of trust among the clients through quality communication and timely relay of information. Correspondingly, the investment on projects with positive returns safeguards the going concern of SMEs. Moreover, SMEs should engage in long-term sustainable mantles and promote maximization and efficiency of human capital, assets and SME’s resources. In addition, the SMEs should formulate policies to guide their expenditure with chief mandate and focal point pegged on shareholder’s interest.

5.5 Limitation

The study concentrated on the SMEs ranked in Kenya and have been operational for the last five years. The researcher wanted to have enough data for the study. The data was narrowed to SMEs while there are wide-array of players in economic market. The study analyzed three predictor variables such as firm size, CSR and sector of the SMEs. Nevertheless, there are more predictor variables that need to be analyzed.

Moreover, the research relied on secondary data for analysis and conclusion. The secondary data has many short-coming especially in regards to the historic information that may not warrant prospective results useful for the prediction. However, the pattern and trend for the last five year is sufficient for the prediction. The secondary data depends on the integrity and accountability of financial managers.

The researcher advocates for the prudent, accurate, accountability and proper maintenance of books of account to help the scholars arrive at reliable outcomes.

5.6 Suggestions for Further Research

Extensive assessment wrap-up by expounding the areas for derivation of comprehensive knowledge. The researcher suggest for more in-depth analysis of SMEs performance, CSR and the introduction of macroeconomic factors to give comprehensive details. The analysis will aid in the provision of detailed outcome that adds to knowledge-search and research findings. Further research is paramount in the holistic development of knowledge and critical analysis of transformation and evolution of SMEs. The research suggest for thorough analysis of SMEs and the economic growth.

In summary, the research advocates for the research regarding the corporate governance, policies and taxation in the SMEs environment and their influence of profitability of SMEs.

A comparative analysis between top SMEs and top large firms should be undertaken to draw a line between the variance of CSR among SMEs and large firms. The study will be an eye-opener for policy formulation, forecasting and utilization of companies' resources.

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APPENDICES

Appendix I: List of Top 100 SMEs in Kenya

1	GeneralCargo Services LTD
2	VivoActive Wear
3	DiamondProperty Merchants LTD
4	Mandhir Construction LTD
5	Trueblaq Limited
6	Nywele Creatives
7	SynerMedica (Kenya) LTD
8	OrangePharma Limited
9	Questworks Limited
10	HajiMotors Limited
11	SoftwareTechnologies LTD
12	FloorDécor Kenya Limited
13	GracefulRestaurant
14	FayazBakers LTD
15	Nationwide Electrical Industries LTD
16	Babs Security Services LTD
17	RuralDistributors Limited
18	Executive Healthcare Solution Limited
19	EcoSteel Africa Limited
20	ISpyAfrica Limited
21	Username Investment Limited
22	RsaKenya Limited
23	Bluekey Seidor (k) LTD
24	Victoria Courts Trading LTD
25	Polyphase Systems LTD
26	Bella Safaris LTD
27	Exon Investment LTD
28	Octagon Pension Services LTD
29	Prafulchandra & Brothers LTD
30	Isolutions Associates Limited
31	DesignPartnership LTD

32	MachinesTechnologies (2006) LTD
33	PoluconServices (k) LTD
34	PathcareKenya Limited
35	HotelWaterbuck Limited
36	Bilashaka Flowers Limited
37	NaturalWorld Kenya Safaris LTD
38	RupPharm LTD
39	Chequered Flag LTD
40	UniqueOffers LTD
41	MyspaceProperties (Kenya) LTD
42	KomalConstruction Co. LTD
43	MetcoLimited
44	Ufanisi Freighters (k) LTD
45	EliteOffset LTD
46	Goodman Agency Limited
47	MojoProductions Limited
48	YogiCorp (EA) LTD
49	NovelTechnologies EA LTD
50	NorthStar Cooling System LTD
51	Premier Industries LTD
52	ElidaTours & Safaris LTD
53	United(EA) Warehouses LTD
54	RileyFalcon Security Services LTD
55	TheScott Travel Group Limited
56	Parshva LTD
57	NovaIndustries LTD
58	ZimeleAsset Management
59	TanduAlarms Systems LTD
60	EconomicIndustries LTD
61	The Makini School LTD
62	SimbaTechnology Limited
63	Tikoo A CO. LTD
64	Mic Global Risks Insurance Brokers

	LTD
65	Super-Broom Services LTD
66	ExpressCompany LTD
67	RealAutoSpares Limited
68	MagnumEngineering & General LTD
69	ValleyHospital LTD
70	Palmhouse Dairies LTD
71	Jamii Autocare
72	TDFGroup Limited
73	R WorldEnterprise LTD
74	PowerGovernors Limited
75	SidewaysTours & Car Hire
76	De Ruiter East Africa LTD
77	Bagda'sAuto Spare LTD
78	Belva Digital LTD
79	Bimas Kenya LTD
80	Varsani Brakelinings LTD
81	Kaeser Compressors LTD
82	DigitalCity LTD
83	Coast Farmcare Agrovet LTD
84	AgomaGroup LTD
85	OfficeDynamics LTD
86	Citrolam Contractors LTD
87	MasterFabricators LTD
88	TravelCare Limited
89	Classic Mouldings LTD
90	FarmalGeneral Merchants LTD
91	IndexModern Living
92	EuroconTiles Products Limited
93	Newline LTD
94	LekhaTrading Company LTD
95	IdealManufacturing Company Limited
96	MarooPolymers Limited

97	EastAfrica Tea Trade Association
98	CoastalImage Technologies LTD
99	ComputerPride Limited
100	ViscarIndustrial Capacity Limited

Appendix II: Data Collection Instrument

ROA	CSR	SIZE	Sector
-0.2200	1.2200	2.1000	1
-0.6300	1.6300	1.8700	1
-0.2700	1.2700	2.1500	2
1.5900	0.5900	1.7500	3
0.0600	0.9400	2.3300	1
0.0200	0.9800	2.3600	1
-0.1800	1.1800	1.7100	3
0.1900	0.8100	2.3200	3
-0.5300	1.5300	2.8000	1
-0.8500	1.8500	2.0300	2
0.0700	0.9300	2.1800	3
-0.2500	1.2500	1.9700	3
0.3000	0.7000	2.2900	2
-0.3800	1.3800	1.9800	3
-0.5700	1.5700	1.6300	1
-0.6600	1.6600	2.5100	3
-0.2200	1.2200	1.5500	1
-0.9200	1.9200	2.0700	3
-0.2000	1.2000	2.0300	1
-0.4500	1.4500	1.7600	2
-0.5700	1.5700	1.9100	3
-0.1000	1.1000	1.6700	1
-0.9800	1.9800	2.3000	1
-0.5800	1.5800	2.1700	2
0.0700	0.9300	1.8800	2
-0.5700	1.5700	1.7800	2
-0.1800	1.1800	1.8300	2
0.1200	0.8800	1.6400	1
-0.3900	1.3900	1.4800	1
-0.8100	1.8100	2.1100	1
-0.1500	1.1500	2.0000	1
-0.3400	1.3400	2.1000	1
-0.4300	1.4300	1.8700	1
0.0200	0.9800	2.1500	2
-0.6900	1.6900	1.7500	2
0.0400	0.9700	2.3300	2
-0.2200	1.2200	2.3600	3
-0.3400	1.3400	1.7100	2
0.1400	0.8700	2.3200	2
-0.7500	1.7500	2.8000	2

-0.3500	1.3500	2.0300	3
2.3100	0.7000	2.1800	2
0.2922	0.0380	1.4344	2
0.3394	0.1185	1.1671	1
0.5290	0.0935	1.0005	3
0.2156	0.0492	0.6410	1
0.4303	0.0627	0.6052	2
0.0629	0.0196	0.6193	1
0.3763	0.1768	5.5420	2
0.1633	0.0865	1.8363	1
0.1552	0.0653	2.0820	1
0.1948	0.0115	2.0933	2
0.2524	0.0495	1.8439	2
0.4701	0.0255	1.7940	2
0.1799	0.1193	1.7159	2
0.4454	0.0462	1.7563	2
0.4588	0.0435	1.7780	2
0.1393	0.1261	1.6688	2
0.1742	0.1210	1.6227	2
0.1988	0.1153	1.4815	1
0.0884	0.3290	2.0453	2
0.3156	0.0852	2.0933	1
0.3571	0.0010	2.0604	1
0.4711	0.0089	1.8363	2
0.0315	0.0750	1.7978	2
0.1613	0.0995	1.4711	1
0.1735	0.1601	1.5700	1
0.1492	0.1582	1.6180	1
0.1881	0.1096	0.3360	1
0.0450	0.3005	0.2635	2
0.2892	0.3940	1.3638	2
0.2618	0.2063	1.6443	3
0.2500	0.0139	2.0152	3
0.4630	0.0101	2.0171	3
0.2500	0.0030	1.4335	3
0.2927	0.0686	1.1841	1
0.3814	0.0440	0.8433	1
0.6579	0.0257	0.8386	3
0.0341	0.1373	1.9361	2
0.0343	0.1175	1.8439	3
0.2103	0.0277	1.8740	3
0.0615	0.0899	1.8909	3

0.7345	0.0541	1.6180	2
0.2128	0.0313	1.5775	2
0.1552	0.0653	0.6090	2
0.1948	0.0115	0.1073	1
0.2524	0.0495	0.4612	1
0.4701	0.0255	0.2372	1
0.1799	0.1193	1.1116	3
0.2445	0.0462	0.4311	3
0.2459	0.0435	0.4057	2
0.1393	0.1261	1.1747	3
0.1742	0.1210	1.1276	1
0.1988	0.1153	1.0749	3
0.0884	0.3290	3.0665	2
0.3156	0.0852	0.7935	1
0.3571	0.0010	0.0094	2
0.2471	0.0089	0.0828	3
0.0700	0.0750	0.6993	2

Appendix III: Data Analysis

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA (Y)	100	-.9800	2.3100	.057055	.4587511
CSR	100	.0010	1.9800	.593002	.6385301
SIZE	100	.0094	5.5420	1.659331	.7561152
Sector	100	1	3	1.91	.780
Valid N (listwise)	100				

Correlation Analysis

Correlations					
		ROA (Y)	CSR	SIZE	Sector
ROA (Y)	Pearson Correlation	1	-.717**	-.220*	.096
	Sig. (2-tailed)		.000	.028	.342
	N	100	100	100	100
CSR	Pearson Correlation	-.717**	1	.427**	-.052
	Sig. (2-tailed)	.000		.000	.610
	N	100	100	100	100
SIZE	Pearson Correlation	-.220*	.427**	1	.060
	Sig. (2-tailed)	.028	.000		.552
	N	100	100	100	100
Sector	Pearson Correlation	.096	-.052	.060	1
	Sig. (2-tailed)	.342	.610	.552	
	N	100	100	100	100
**. Correlation is significant at the 0.01 level (2-tailed).					
*. Correlation is significant at the 0.05 level (2-tailed).					

Diagnostic Tests

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	CSR	.811	1.232
	SIZE	.811	1.234
	Sector	.989	1.011

Normality test

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
ROA (Y)	.168	100	.000	.874	100	.000
CSR	.273	100	.000	.807	100	.000
SIZE	.138	100	.000	.883	100	.000
Sector	.228	100	.000	.802	100	.000

a. Lilliefors Significance Correction

Autocorrelation test

Model	**Durbin-Watson**
1	**1.979**

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.970	3	3.657	35.585	.000[b]
	Residual	9.865	96	.103		
	Total	20.835	99			

a. Dependent Variable: ROA (Y)

b. Predictors: (Constant), Sector , CSR, SIZE

Coefficients[a] of Determination

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	.221	.108		2.047	.043	.007	.435		
	CSR	-.545	.056	-.758	-9.724	.000	-.656	-.433	.811	1.232
	SIZE	.061	.047	.101	1.299	.197	-.032	.155	.811	1.234
	Sector	.030	.042	.051	.719	.474	-.053	.112	.989	1.011

a. Dependent Variable: ROA (Y)