EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN KENYA

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DECLARATION

I declare that this research project is my original work and has not been presented by any other person to a university or college for the award of degree, diploma or certificate.

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This research project has been submitted for the examination with my approval as the university supervisor.

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DEDICATION

I dedicate my project to my parents and my brothers and sister who encouraged and motivated me to achieve my goals. In addition, a special thanks to my supervisor Dr. Duncan Elly Ochieng who taught and guided me in this project. I thank the almighty God for giving me strength even in difficulty times i managed to complete this project. May God bless you all.

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ABSTRACT

Corporate Social Responsibility is a commitment, which involves organizations globally to contribute to the development of the economy of any country. CSR is done to improve the well-being of the communities around us. This study sought to find out the effects of corporate social responsibility on financial performance of manufacturing companies in Kenya. This descriptive and inferential statistics study was conducted by the use of secondary data. The data was collected using structured data collection instrument and analysis of the financial statements of manufacturing companies in Kenya. The study targeted 68 manufacturing companies in the Kenya association of manufacturers. The data was analyzed using multiple regression model. The study found out that there was a small significant direct relationship between corporate social responsibility and the financial performance of manufacturing companies in Kenya. The findings of the study showed that corporate social responsibility had little effect on the financial performance compared to the total assets, which had significant effect on financial performance. The study also showed that participation in Corporate Social Responsibility was on voluntary basis and it aimed at improving the social welfare of the community. The study concludes that many manufacturing companies in Kenya do participate in CSR activities and CSR has weak effect on the financial performance of the manufacturing companies. From the study, the key recommendations are that manufacturing companies in the Kenya association of manufacturers should engage in CSR activities because it will increases their customer base especially those regarded as small and medium size manufacturing companies. The study suggests further research to be carried out on the effects the corporate social responsibility on financial performance of manufacturing companies but in small and medium size companies in Kenya.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS AND ACRONYMS

ANOVA: Analysis of Variance

CSR: Corporate Social Responsibility

ISCT: Integrative Social Contracts Theory

KAM: Kenya Association of Manufacturers

KCB: Kenya Commercial Bank

NPM: Net Profit Margin

NGO: Non-Governmental Organization

NSE: Nairobi Security Exchange

SME: Small and Medium Size Enterprises

ROA: Return on Assets

ROE: Return on Equity

ROI: Return on Investments

SPSS: Statistical Package for the Social Science

VIF: Variance Inflation Factor

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The concept of corporate social responsibility (CSR) begun in the 1920s. However, because of the great depression and World War II, it failed to become an important topic in the world of business until the 1950s.During the year 1953,the first scholarly contribution made by Bowen (1953),proposed the definition of CSR as, "the obligation of business to pursue those policies, to make those decisions or to follow those lines of actions which are desirable in terms of the objectiveness and value of our society."Davis (1960)defined CSR as "businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest."

Corporate social responsibility views a firm as a group of stakeholders whose purpose should be to manage their interests, needs and viewpoints. Managers, as a result, are given the task of managing relations with stakeholders by maximizing the social welfare of all of the company's constituents. These constituents include shareholders who comprise of employees, customers, suppliers, and the communities in which they operate (Davis 1960). However, Sundaram and Inkpen (2004), posit that the "the task of establishing core values such as what a company stands for, and doing this in a manner that takes into account concerns across and within heterogeneous stakeholder groups imposes an unrealistic expectation of managers." This position had however been countered by Brickley, Smith and Zimmerman (2002), who argued that the process of creating shareholder wealth involves allocating resources to all constituencies that affect the process of shareholder value creation and this process should only proceed only to the point where the benefits from such expenditures do not exceed their additional costs.

Many organizations in Kenya such as the Kenya Commercial Bank (KCB), Equity Bank Group, Safaricom and the East African Breweries have formed foundations to help them implement their respective CSR programs which there main aim is to improve the welfare of the society, (Mwiyeria, 2014).

1.1.1 Corporate Social Responsibility

Over the years the concept of CSR has been defined by scholars to help give a clear meaning and purpose of the CSR initiative. According to Wood (1991), CSR is formed and defined using the three principles of social legitimacy (institution level), public responsibility (organisation level) and managerial discretion (individual level), which link the principles of the CSR to the domains which explains and define the CSR principle which include; economical, legal, ethical and discretionary.

Mc William and Seigel (2001), described CSR as "actions that appear to further some social good, beyond the interest of the firm and that which is required by law". Alternatively, according to Waddock and Graves (1997), defined CSR as "an action by the firm, which the firm chooses to take, that substantially affects an identifiable social stakeholder's welfare."

Companies can address social responsible issues in a more efficient and effective manner if the companies are allowed to do it in their way, in other words, to do it in a more voluntary basis and not by imposition of the government regulations(Grigoris and Ioannis, 2009). Regulatory approaches have several undesirable features that can be avoided by companies engaging in the CSR activities. Voluntary actions of organisations when engaging in CSR will follow a code of conduct and adhere to the ethics standard stipulated by the government for companies that want to engage in CSR activities on voluntary basis (Craig, 2002).

1.1.2 Financial Performance

Damodaran (2005) defined financial performance as measure of how well a firm uses its primary resource of business in order to generate income of the business. According to Thrun (2003), financial performance has been the key measure of success in many organisations in the world. The key prominent measure is the use of financial ratios in measuring the performance. Furthermore, Alexander (2010), indicated that ratios used over the years include; liquidity ratio which is known as current ratio, which indicate the company ability to pay the short term bills, solvency ratio, which indicate financial stability of company debt and equity, profitability ratio, which measure profits and cash flows, efficiency ratio, which measures the inventory turnover and receivable turnover of the company. Palepu, et al. (2000), explained that cash flow ratios can be used to answer the questions on company's performance since the company's debt obligations are met with cash.

Financial performance of companies can be measured by different ways and evaluated, like net income and sales (Dollinger, 1984), return on assets (ROA) and market to book value of the equity (Birley and Wiersema, 2002), return on investments (ROI), return on sales (ROS) and the combination between ROI and ROS (Pegels and Yang, 2000). Ochieng (2012) explained that analysis on financial performance would result in adequate lines of credit, unrestricted cash availability, debt maturity schedules with respect to financing requirements and the willingness to issue common equity.

1.1.3 Corporate Social Responsibility and Financial Performance

Orlitzky et al.(2003) identified the financial benefits CSR have which include enhanced brand image and reputation which consumers are often drawn to brands and companies with good reputations in CSR related issues. Furthermore, a company regarded as socially

responsible can also benefit from its reputation within the business community, by having increased ability to attract capital and trading partners. Scholtens (2008) explained that that good environmental and social performance will result in good financial performance due to the efficient use of resource and stakeholder commitment which is the reason that customers' loyalty increased, as they perceived the company as a member of the society. Eventually, sales increased leading to better returns.

According to Rajpu, Batra, Pathak (2012) study, explained that companies use CSR activities as a prevention strategy to protect them from corporate scandals, unpredicted risks and brand differentiation, which will enable the company, be competitive in the industry. Furthermore, the companies do relate the CSR activities and financial benefits they will get in terms of how many investors they will attract.

1.1.4 Manufacturing Companies in Kenya

The number of manufacturing companies in Kenya practising CSR is many compare to the number of service sector. The practise of CSR in Kenya has continued to grow in many manufacturing and service companies, which they have disclosed, and issue out the CSR report to the shareholders and further disclosed the amount in the annual financial statements (Gichana, 2004). Pohle and Hittner (2008), defines corporate social responsibility as the roles the manufacturing companies plays in serving many different stakeholders and particularly the society by doing something positive.

Kenya Association of Manufacturers (KAM) is a government organisation that acts as a representative organization of manufacturing companies in Kenya with members of 766 companies. In Kenya, many CSR activities are practised by the service sector more than the

manufacturing sector. Manufacturing companies in Kenya also seek to promote environmental protection and improving the social welfare of the communities around them but the service sector are viewed more socially responsible than manufacturing sector (Orawo, 2006).Furthermore, Orawo (2006) study showed that KAM influence on environmental policies and protection did support the manufacturing firms to practise CSR regardless of their financial capability. Ondiek and Odera (2012) described KAM membership structure which constitutes of 10 per cent of full process manufacturing and 40 percent of value-add manufacturing industries in Kenya of which some of the companies both manufacturing and value-add did practise CSR on a voluntary basis. Furthermore, Ondiek and Odera (2012) study, confirm that the membership at KAM has three categories according to their financial capability and service they offer. This include: **Ordinary Membership**; this are companies directly involved in processing, manufacturing or any other value addition activities, **Associate and Consultancy Membership**; this is extended to which manufacturing companies have direct interest in the expansion of industry either through the provision of services or other inputs.

1.2 Research Problem

The inception of the concept of CSR by Berle and Means (1932) in which CSR was seen as a tool to control the misuse of the corporate power in large organisations and redirect them to social good. Traditional CSR that developed from these ideologies was perceived as a "luxury good" that only large manufacturing companies should engaged in CSR(Spence, 2003). Johnson and Greening (1999), defined CSR as a financial strategy of firms to expand their market by engaging the society through the CSR activities. Furthermore, Johnson and Greening (1999), explained that small, medium and large manufacturing enterprises play a significant role in CSR practises. There effect on CSR has continued to be ignored because

the manufacturers' are regarded, as callous companies hence cannot engage in CSR activities. Recent studies have continued to challenge the traditional CSR point of view and it is demonstrated by how much traditional CSR concept may not be a business threat and cost burden to the manufacturers' rather it should be an opportunity to gain competitive advantage (Sweeney,2007).

Brammer and Millington (2006), found out that the difference between the SME's and large organisations in respect to CSR activities participations, is that the large firms are more socially responsible because they do have large resource and operation scales compared to the smaller firms which have capital constrains. Other scholar studies have disagreed with that and stating that there is no measure to rate how responsible companies are in engaging in CSR. In addition, other characteristics like government regulation may actually motivate the smaller firms to behave socially responsible (Meznar and Nigh ,1995).According to Perrini et al (2006), manufacturers' do engage in CSR activities in an informal manner termed as "sunken CSR". Sunken CSR was not identifiable due to the inapplicability of the CSR theory and the traditional business ethics approaches according to Gross (1991) Jenkins (2004),and Spence (2001).The above view was reconciled by Udayasankar (2007) stating that small and very large firms are equally motivated to participate in the CSR activities, although the set of motivation due differ completely.

More studies have been done on the CSR effect on financial performance of manufacturers' here in Kenya. Some of the common studies are; Gichana (2004) established that larger companies did practise CSR activities and did list CSR as one of the organisation core values by including CSR in the future plan of the organisation. Muita (2012)study did find that the factors that influences most of the state corporation to institutionalize CSR was government

legislation, ethical investment drive, bargaining power of the large customers, forces from multi-stakeholders initiatives, civil societies and forces from local, national and international media for corporations to incorporate CSR programs and operations. Munyoki (2013) also did a study on the relationship between CSR practises and market share among the supermarkets in Kisumu city and the study results revealed there was a direct relationship between the amount spent on CSR and the market share each supermarket had. Mwiyeria (2014) on her study on an investigation of how CSR affects organisation performance did find out that various CSR activities will help build company reputation and give the company competitive edge.

The above studies have availed evidence that corporate social responsibility and financial performance have been studied although the studies are in a different setting from manufacturing companies in KAM. This means that their study findings cannot be generalized to apply in manufacturing companies in KAM. The study attempts to resolve the following research question.. What are the effects of CSR activities that will have an impact on the financial performance of the manufacturing enterprises?

1.3 Research Objectives

To establish the effects of corporate social responsibilities on financial performance of manufacturing companies in Kenya.

1.4 Value of the Study

The study will enable the small and medium manufacturing enterprises to understand the concept of the CSR activities and their effect on its financial performance in order for them to be competitive and to take advantage of the benefits associated with the CSR activities.

Small and medium manufacturing enterprises that do practise CSR typically will have an easier experience when dealing with the governmentregulators.CSR activities will be able to build a good public relations between the company and the general public.CSR can be used as a tool for shaping the consumer perception about the company through their activities of the CSR. Moreover, CSR can be used as a tool for branding and advertising the company in the public who are also the consumers.

The company CSR activities will also promote positive work environment for the employees and opportunity to build your employees. When the employees and the management feel they are working for a company that has a true conscience, the employees will tend to be more enthusiastic and engage in their jobs. This will help build a community and teamwork that brings everyone together and leads to employees being more productive.

This study, through the initiative of CSR by the manufacturers' will help improve the environment and sustainability of the natural resources. Through CSR programs, communities will benefit from the awareness of environmental concern and learn about conservation of the environment through the CSR programs.

In addition, this study will also help the small and medium manufacturing enterprises to evaluate the effects of the CSR activities on their financial performance and also establish if there is a correlation between the CSR amount spend and the financial performance. Moreover, it will help them monitor and budget the required amount needed to be spent on the CSR activities.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides an insight about the chosen theories for the paper. Theoretical framework and empirical reviews of the concepts of CSR and financial performance will be defined in details. There are several theories and arguments proposed by the researchers and scholars addressing the effects of CRS activities of small and medium manufacturing enterprises in Kenya.

2.2 Theoretical Review

Numerous definitions of CSR have been proposed and often no clear definition is given, making theoretical development and measurement difficult for both academicians and practitioners.

The analysis of CSR is still embryonic, thus theoretical frameworks will focus on the themes of CSR practises and financial performance of manufacturing companies .Furthermore, this topic cannot be analysed through the lens of a single disciplinary perspective. Thus, it appears that CSR and its effects on financial performance is fertile ground for theory development and empirical analysis.

2.2.1 Stakeholders Theory

This theory was propagated by Freeman (2010), which state that instead of starting with the business first then looking for what the ethical requirement is, the stakeholders theory will start looking at the world first before the business. According to the theory, it propagates that manufacturing and service companies should be socially responsible for all their stakeholders,

failure to which, can result to the stakeholders to take actions and seek to find the legitimate claims and rights against the company actions. Stakeholder's theory affirms that those lives that are touched by the corporations hold a right and obligation to participate in directing the company. A simple example by Freeman (1984), when a factory produces industrial waste, a CSR perspective attaches a responsibility directly to factory owners to dispose the waste safely. This theory also support companies should be used as a vehicle for coordinating stakeholders interest instead of maximizing the shareholders wealth.

Stake holders theory focus on the stakeholder of the company which include the suppliers, employees, community, customers, shareholders and other person who contribute to the company directly or indirectly. Stakeholders of manufacturing companies want to see the company participate in CSR programs while shareholders of manufacturing companies would want the company to improve financially so that the CSR activities may continue to take place. Stakeholder theory implies that it can be beneficial for the manufacturing companies to engage in certain CSR activities that non-financial stakeholders perceive to be important, because, absent this, these groups might withdraw their support for the firm hence affect the financial performance of the manufacturing companies (Donaldson and Preston, 1995).

2.2.2 Triple Bottom Line Theory

This theory was developed by Elkington (1997) which did expand the traditional reporting and accounting framework to take into account the social, environmental, financial and economical performance of companies. The concept triple bottom line was first mentioned by Spreckley (1981), in his book which he argued that companies should measure and report on social, environmental and financial performance. According to Elkington (1997), the effects of reporting of CSR activities of manufacturing companies may demonstrate their

commitment to CRS activities through, top-level management involvement in; investments in CSR policies, voluntary set standards and participating in global initiatives.

The triple bottom line theory demands that a company responsibility will lie with the stakeholders rather than the shareholders regardless of the company size or structure. Triple bottom theory tries to encapsulate the three spheres of sustainability according to Elkington (1997), Edvardsson, Enquist, and Hay (2005).The three spheres are economical, social and environmental. Moreover the triple bottom line theory is also known as People, Planet and profit or the three P's which according to Marrewijk (2003),explained that the three P's include profit which is for the organisation financial performance while planet and people is for the CSR beneficiaries. For this reasons, the triple bottom line theory sets directions and principles to evaluate and report the financial performance and CSR achievements of manufacturing companies.

2.2.3 Integrative Social Contracts Theory

According to Donaldson and Dunfee (1994), integrative social contracts theory proposed that social contracts between companies in manufacturing and service industries and society exist. Garriga and Domenec (2004) further put this theory forward and stated that companies in manufacturing and service industries should integrate social demands because the companies will depend on the existence of their society. Integrative social contracts theory (ISCT) is a new concept in business ethics, which was heavily influenced by political philosophers like Rawls and Donaldson.

ISCT states there is a micro social contract that can occur between members of specific communities including companies, national economic organisation and industries in

11

improving the social welfare of the communities. Social contacts between the business and the society will have a direct relationship, meaning that the more business become social the more society gives back to the business, Donaldson and Dunfee (1994).This theory greatly focus on corporate social responsibility programs as a social contracts of business in manufacturing industries and the society. Therefore, the theory supports CSR programs as a tool that affects the financial performance of business and its ethical standards.

2.2.4 Managerial Theory

According to Secchi's (2007), managerial theory emphasizes on the effects corporate management decisions and policies in companies that practise CSR. According to the management theory, everything external to the companies is taken into account for in the organisation by the management. Managerial theories have three key sub groups which are; corporate social performance, social accountability and auditing reporting, social responsibility for multinationals.

Secchi's (2007), the managerial theories seek to measure the contribution the social variable makes to economic performance of companies. Furthermore, managerial theory puts the manager's actions and decisions to account especially when managers are making the decision of CSR activities. Managers are seen as agents of shareholders who want their wealth be maximized while also they want the interest of other stakeholders be satisfied.The theory of this group is focused on the detection and scanning of, and effects to, the social demands that achieve social legitimacy, greater social acceptance and performance of manufacturing companies.

2.3 Determinants of Financial Performance

The analysis of corporate financial performance has a special significance for the management, in their attempt to maintain the company's stability and to increase its market share. Effectiveness of company managers and resource efficiency affect directly the development of the state in which they operate, by obtaining positive financial results. The main objective of CSR in companies is to establish the key factors that determine corporate performance, in order to remove negative influences and to enhance those with positive impact on business.

2.3.1 Risk and Growth

Paesnell (1996) explained that the risk and growth are two other important factors influencing a firm's financial performance. Since market value is conditioned by the company's results, the level of risk exposure can cause changes in its market value. In particular, such risk increases the costs of financial distress, investments and decreases the tax benefits of debt. If firms could costless hedge, they would do so and would have higher value. Further, at the lower level of risk, they could support more debt, so that they would have a larger tax benefit from debt.

According to Levine (2005), economic growth is another component that helps to achieve a better position on the financial markets, because market value also takes into consideration expected future profits. High growth firms contribute to economic performance in several ways. Their wider effects on social and economic outcomes go beyond their own productivity, employment and innovation growth. High-growth firms generate spillovers in their regions, creating jobs over and above their direct effect on employment. They are also major innovators, and innovation drives growth.

2.3.2 Size of the Firm

Brief and Lawson (1992) argued that the size of the company has a direct relation to the company total assets which can have a positive or negative effect on financial performance. Larger firms can use this advantage to get some financial benefits in business compared to small companies. Large companies have easier access to the most important factors of production, including human resources and capital. In addition, large organizations often get cheaper funding compared to small companies.

In the presence of non-trivial fixed costs of raising external funds, large firms have cheaper access to outside financing institutions. Larger firms are more likely to diversify their financing sources. In addition, size may be a proxy for the probability of default, for it is sometimes contended that larger firms are more difficult to fail and liquidate, or, once the company finds itself in distress, for recovery rate. Size may also proxy for the volatility of firm assets, for small firms are more likely to be growing firms in rapidly developing and thus intrinsically volatile industries, (Leland, 1994).

2.3.3 Capital Structure of the Firm

In the classical theory, capital structure is irrelevant for measuring company performance, considering that in a perfectly competitive world performance is influenced only by real factors. Recent studies contradict this theory, arguing that capital structure play an important role in determining corporate performance. Kaplan and Johnson (1987), suggest that entities with higher profit rates will remain low leveraged because of their ability to finance their own sources. On the other hand, a high degree of leverage increases the risk of bankruptcy of companies. Total equity and debt levels are considered to significantly affect the company's financial performance.

Furthermore, Graham and John (1999) explained that companies would choose an optimal leverage ratio that will balance the trade-off between expected tax benefits of debt and distress costs. In the absence of fixed costs, the firm will find it optimal to lever up immediately and will subsequently increase its debt continuously as its fortunes improve to restore the optimal balance.

2.4 Empirical Review

Studies about CSR effects on the financial performance of enterprises and its relations include Margolis and Walsh's review (2003).they did conduct 127 studies and found that CSR has been used as a dependent variable and is influenced by the financial performance. In 22 out of 127 studies researches, 22 studies, 16 studies reported a positive relationship between financial performance and CSR. In 109 of 127 studies, CSR was treated as an independent variable able to influence the financial performance. Almost 54 studies out of 127 studies reported a positive relationship and only seven showed a negative relationship. The remaining studies out of the 127 studies, 28 found a non-significant relation and 20 reported mixed results. Margolis and Walsh (2003) suggested the relation and the effects between the CSR and financial performance should be analyzed in details in order to have a more complete vision of the topic.

Other studies done examines the relationship between the measure of CSR and measures of long term financial performance, by using accounting or financial measures of profitability. These studies explored the relationship between social responsibility and accounting based performance measures, which also produced mixed results. Wood (1991) located a positive correlation between social responsibility and accounting performance after controlling for the age of assets. Aupperle, Carroll, and Hatfield (1985) detected no significant relation between

CSP and a firm's risk adjusted return on assets. In contrast, Waddock and Graves (1997) found significant positive relationships between an index of CSR and performance measures, such as ROA and ROE.

Gichana (2004) did a study on corporate social responsibility practises by companies listed in the Nairobi securities exchange (NSE) and found that the firms did recognize the practises of CSR as one of the company values. From the finding of his study, CSR practises in companies listed in the NSE were found to be charitable. The CSR activities according to Gichana were characterized by donations like food stuff, building resources and education scholarships. He found that only 33.3% of the firms have a CSR programs strategy while 56.7% had informal CSR program strategy while the remaining 10% had no strategy. From the findings on his study, 37% of the companies listed in the NSE felt they owe the society something and CSR was a way of getting back to the society,10% of the companies listed in NSE did link CSR with advertising,7% of the companies did engage in CSR because of the government legislation while the remaining 47% of the companies listed agreed CSR as part of their core values.

Lorwood (2012) in his study about the relationship between CSR and financial performance of mobile telephony firms in Kenya did find a positive correlation between return on assets and the controls indicating that when the controls increase, so does the return on assets. This result in a positive relationship between returns on assets and the community, employees relations, environmental considerations and products characteristics.

Muiruri (2012) did a case study on the challenges of aligning corporate social responsibility to corporate strategy for Safaricom foundation. The main objective of this research was to

evaluate the challenges and to align CSR to corporate strategy in Safaricom Foundation. An interview guide was constructed and interviews conducted with strategists and foundation personnel who have utilized CSR and corporate strategy initiatives in Safaricom Foundation. Findings of the study established that Corporate Social Responsibility was found to be a fundamental part of corporate strategy. Globalization has not affected implementation of CSR strategy as it is a reflection of the company focus on its strategy and the stakeholder rather than global benchmarks.

Omwenga (2013) studied the management perception of corporate social responsibility at Kenya power and lighting company and found a positive perception of 87.5% of the managers that view responsible corporate behaviour by Kenya power and lighting company (KPLC) is in the interest of the shareholders with the mean on 4.43.The perception index for her study was above 0.72 and the mean ranking was above 3 which was moderate the highest perception index attained was 0.88 and the mean was 4.43 meaning that respondents did agree with the fact that Kenya power corporate governance enables the firms achieve financial goal while 4.1% of her respondents were indifferent and only 2 out of 49 respondents disagreed.

Amara (2013) did a study on the factors that influence choice of corporate social responsibility programs among commercial banks in Kenya. This study sought to determine the factors that influence choice of social corporate responsibility among commercial banks in Kenya. The study found out that majority of Commercial Banks is highly influenced by financial capability then followed by everybody is involved in social corporate responsibility, communication among stakeholders, technology level, market competition, company

objective, rating purposes by commercial banks association of Kenya, organizational structure and ethical consideration with order of significance.

Mwai (2013) conducted a study on the impact of the corporate social responsibility on the corporate financial performance in the corporate and Non Governmental Organisations (NGO) partnerships in Kenya. The Study addressed the question whether Corporate Social Responsibility can be linked to corporate financial performance of Corporate that engage in partnership with NGO. Using descriptive research design and inferential analysis, the study tested the sign of the relationship between Corporate Social Responsibility and Corporate financial performance in NGO-Corporate. The study found out a significant positive correlation between Corporate Social Responsibility and Cash Conversion Cycle. Additionally, the correlation result found a negative relationship between Corporate Social Responsibility and Leverage.

Muthami (2014) in a case study of Unilever Kenya of how CSR affects organisation study a case study of Unilever Kenya found out that Unilever Kenya was involved in environmental awareness to improve welfare of the communities. The study further revealed a positive relationship between the CSR activities and the financial effects. There was 5% to 8% increase in profits attributed to CSR, which is an indication that CSR activities affected the financial performance of the organisation. Moreover, the study did reveal that profits did not decrease by the activity of CSR in Unilever Kenya. Further, the study did reveal that corporate social responsibility did have a significant impact on the financial performance of Unilever Kenya by increase in sales volume, increase in demand for organisation products, increased organisation awareness and lead to more profitable sale through increased market share.

2.5 Summary of Literature Review

Majority of the studies did find a positive, negative and no correlation between the corporate social responsibility and the financial performance of the companies. This has raised more questions about the area of research of manufacturing companies listed in Kenya association of manufacturers, which was not represented in the studies.

In addition, even if differences in the studies are not statistically significant. In this study, specific dimensions of sustainability and positive results arise, indicating that some aspects of corporate social responsibility could also add shareholder value.It would be noted that few researches has been done in this area to address the effects of CSR activities on manufacturing enterprises in Kenya association of manufacturers. This calls for further research on this particular topic in order to give comprehensive study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter contains details regarding the procedure which was used to conduct the study are discussed. This section include the research design, population, sample design, data collection methods and data analysis.

3.2 Research Design

This study adopted a descriptive design. A descriptive study was undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in the research. Descriptive study was undertaken in order to explain the cause and effect of more than one variable in the study (Serkan 2003).Therefore, this had been the most suitable research design because it would enable the researcher to undertake intensive research and conclusion of the specific factors required on the study.

3.3 Target Population

A population of study refers to a total collection of elements that are of interest to the researchers and that they wish to investigate on a particular phenomenon and make inferences (Cooper and Schindler, 2003). On their part, Mugenda and Mugenda (2003) view population as a complete set of individuals', cases or objects with same observable characteristics.

The population of the study did consist of firms who were members of Kenya Association of Manufacturers (KAM). The total population of manufacturing companies in KAM is 689 companies. They are provided in appendix I according to their sectors of production.

3.4 Sample Design

The simple random sampling technique was used to select the sample of the study. The sample size was 68 manufacturing enterprises listed in the Kenya association of manufacturers. The sample was a set of individual manufacturing companies selected from the target population which represents the population of the study (Neuman 2000).The sample size of 10% of the target population was considered large enough so long as it allows for reliable data analysis by cross tabulation and provides a desired level of accuracy in the estimated target population. This allowed testing for significance of differences between the estimates (Kerlinger 1973).

3.5 Data Collection

This study used the secondary data, which was obtained from the annual financial statement of the firms, company's websites, annual company reports and Kenya association of manufactures reports. The study focused on total assets, net income and total equity, which helped in computing the ROE, which is key in measuring the performance of the companies under study. In addition, ROE and CSR information was obtained from the statement of financial position, statement of profit and loss for the year ended, strategic plans documents, industry association journals and annual budgets reports, which were available in company websites, annual reports, Kenya association of manufacturers' reports and data collection card (appendix II). The data covered a period of 4years (2010-2013) in order to give sufficient information for the study.

3.6 Data Analysis

In this study, the model was estimated and hypotheses tested by regression and correlation analyses. Multiple linear regression method was applied. The goal of the multiple regression

is to point out the relation between a dependent variable and the great deal of independent variable. With the help of the multiple regression it was possible to determine to what extent a part of the total variation of the dependent variable (ROE) was influenced by the variation of the independent variable.

Finally, regression assumptions was tested and controlled. Inference about the test was based on a significant level, which was obtained from the test. Thus, whenever the amount of the significant level is less than 5 percent was not accepted. The excel 2010 and statistical Package for social science (SPSS) was used to calculate the multi regression and correlation tests. The multiple regression analysis was explained on the table one, in which the equation was given by;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + E_i$$

Table 3.6 Multiple Regression Variable

Variables under study		Measured by	Objectives to achieve	Indicated by	Interpretation
Dependent	Financial Performance	ROE	Indicate how profit a manufacturing company is relative to its assets.	Y	Y is company financial performance under study of each company, which is representing ROA.
Independent	Company Size	Total Assets	Return on Assets	$\beta_1 X_1$	B$_1$is the Coefficient of size of the firm, which is variable X_2.
Independent	CSR amount	The CSR amount spend at a particular time period by manufacturing company		$\beta_2 X_2$	$\beta_2$id the coefficient of CSR amount spent by a manufacturing company which is variable X_4.
Constant Term				B$_0$	Is the control variable to test the relative

22

			impact of independent variable.
Error Term		I	Error term, which is the amount which equation may differ.

All the determinant of financial performance was factored in the model to determine the effects of CSR on financial performance of manufacturing companies in Kenya.

3.6.1 Test of Significance

The study used t-test and Analysis of Variance (ANOVA) model to test the significance of the study. Both models have the ability to find significance level with even a small sample and are simple to conduct and interpret. The level of statistical significance used in this study was 0.05 which means the confidence level to be used is 95% because it is statistically significant for this study.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter describes the analysis of the data followed by a discussion of the research findings. Data were analysed to establish the effects of CSR on financial performance of manufacturing companies in Kenya. The study provided two types of data analysis; namely descriptive analysis and correlation analysis.

4.2. Descriptive Statistics

This study sought to establish the effects of the corporate social responsibility on the financial performance of manufacturing companies in Kenya. A four -year period from 2010 to 2013 was selected for this study. The study concentrated on the manufacturing companies in Kenya as at 31st December of every year.

Table 4.2: Descriptive Statistics of CSR

Years	CSR 2010	CSR 2011	CSR 2012	CSR 2013
Mean	41466.04	43965.09	56967.41	62397.62
Standard Error	8144.45	8860.10	14810.47	15266.78
Median	21949.00	20782.00	22814.50	27010.50
Standard Deviation	56426.37	61384.58	102609.94	105771.38
Sample Variance	3183935328.81	3768066681.94	10528799972.07	11187584198.19
Kurtosis	3.39	5.41	17.91	15.75
Skewness	1.96	2.28	3.79	3.51
Range	236379.23	270555.48	609620.11	616579.46
Minimum	20.78	44.53	49.14	50.80
Maximum	236400.00	270600.00	609669.25	616630.26

Sum	1990369.87	2110324.28	2734435.50	2995085.78
Count	48	48	48	48
Confidence Level (95.0%)	16384.51	17824.22	29794.82	30712.81

The table 4.2 above presents results of the descriptive statistics of the overview of CSR by manufacturing companies in Kenya during the period under review. The results reveal that on the average the manufacturing companies that engaged in CSR activities during the period under review ranges from a low of 41466.04 in the year 2010 to a high of 62397.62 during the year 2013. This was depicted in the minimum and maximum level of 20.78 and 616579.46 respectively.

Table 4.3 Descriptive Statistics of the Variables

Variables	SIZE (TOTAL ASSETS)	CAPITAL STRUCTURE (TOTAL EQUITY)	GROWTH (NET INCOME)	FINANCIAL PERFORMANCE (ROE)
Mean	28906600.68	16372577.58	2733753.759	0.18356046
Standard Error	3065712.274	1676134.469	485353.2598	0.012425763
Median	6458993	4859238.5	732833	0.108511496
Standard Deviation	42479755.36	23225200.49	6725252.045	0.172176427
Sample Variance	1.80453E+15	5.3941E+14	4.5229E+13	0.029644722
Kurtosis	2.21877341	2.292124804	26.67992321	0.502960372
Skewness	1.718469432	1.720989538	4.848881811	1.174545627
Range	175585387	107662472	49850580	0.902492092
Minimum	4564	2022	-1890000	-0.102249483
Maximum	175589951	107664494	47960580	0.800242608

25

Sum	5550067331	3143534895	524880721.7	35.24360829
Count	192	192	192	192
Confidence Level (95.0%)	6047000.797	3306111.457	957340.8353	0.024509345

Generally, from the observations as seen in Table 4.3, relationship between CSR and financial performance has a minimum figure of -10.22%. This implies that manufacturing companies with the least ROE has an index of -10.22% while the maximum of 80.02% in the 4 years reviewed. The mean ROE is about 18.35% with standard deviation of approximately 17.21This means that the ROE can deviate from mean to both sides by 17.21%.

The descriptive analysis showed positive skewness (right skewed) for the entire variable which signifies the variables are substantial and the data are not symmetrical. Size and capitals structure on the other hand have kurtosis less than 3, which signifies platykurtic distribution around the mean of the variables. Growth had kurtosis greater than 3 signifying a leptokurtic distribution meaning the data collected is concentrated around the mean.

4.3 Diagnostic Statistics-Test for Collinearity

Table 4.4 a: Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	CSR, TOTAL_ASSETS, NET_INCOME, TOTAL_EQUITY[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: ROE

Table 4.4 a: Shows that all the independent variables and the dependent variable (ROE) have been entered during the collinearity test.

Table 4.4 b: Coefficients

Model		Collinearity Statistics	
		Tolerance	VIF
1	TOTAL_ASSETS	.042	23.693
	NET_INCOME	.500	2.000
	TOTAL_EQUITY	.036	27.916
	CSR	.897	1.115

a. Dependent Variable: ROE

Table 4.4 b: Shows the collinearity variance inflation factor (VIF) and tolerance level, which is the inverse of the VIF in the model, is used to analyze the magnitude of the multi collinearity. A VIF greater than 10 indicate that the multi collinearity is high..Total assets and total equity have 23.69 and 27.91 which is greater than 10.This indicate that total assets and total equity is highly collinear to the financial performance indicator (ROE).

Net income and CSR have VIF below 10, which indicate a low collinearity with the dependent variable ROE. Moreover the square root of the VIF indicates the how large or small the standard error of the predictor variable is in the model. Tolerance less than 0.2 or 0.1 indicate a high multicollinearity between the predictor variable and the dependent variable.

Total assets and total equity have tolerance of 0.042 and 0.036 which is below 0.1.This indicates that the variables are highly collinear with the dependent variable ROE. On the other hand, CSR and net income have tolerance of 0.897 and 0.500, which is below 0.1.this, indicates that CSR and net income have low collinearity.

Table 4.4 c: Collinearity Diagnostics

Model	Dimension	Eigen value	Condition Index	Variance Proportions				
				(Constant)	TOTAL_ASSETS	NET_INCOME	TOTAL_EQUITY	CSR
1	1	2.990	1.000	.04	.00	.03	.00	.00
	2	.998	1.731	.01	.00	.00	.00	.80
	3	.600	2.233	.60	.00	.28	.00	.03
	4	.399	2.737	.33	.02	.41	.01	.08
	5	.013	15.322	.02	.98	.28	.99	.09

a. Dependent Variable: ROE

Table 4.4 c: Shows the summary of the collinearity diagnostics. The condition index increases between the dimension one and five, which indicates problems with multi collinearity between the predictor variable and the dependent variable CSR. Likewise, eigenvalue value decrease between dimension one and five. High eigenvalue indicates that the predictive variable will have less multi collinearity problems with the dependent variable CSR.

4.4 Correlation Analysis

For the inferential analysis, the study used the Pearson correlation, the multiple data regression analysis and the t-test statistics. Correlation analysis was used to measure the degree of association between different variables under consideration. While the regression analysis was used to establish the impact between the corporate social responsibility variables

on financial performance, the t-test statistics was used to ascertain whether there is a significant difference in the corporate social responsibility and financial performance. The Chi-square statistics was also used to find out if a significant difference occurred in the financial performance of manufacturing companies with high and those with low CSR amount.

Table 4.4 Pearson's Correlation Coefficient Matrix

	CSR AMOUNT	*TOTAL ASSETS*	*ANNUAL NET INCOME*	*ROE (%)*
CSR AMOUNT	1			
SIZE(Total Assets)	0.50	1		
CAPITAL STRUCTURE (Total Equity)	0.45	0.97		
GROWTH (Annual Net Income)	0.10	0.52	1	
ROE (%)	-0.05	-0.10	0.42	1

From the correlation result for the study model in Table 4.3.1 above, total CSR amount of activities has a strong positive correlation with Size (total assets),capital structure (equity) and growth (net income) which is significant at 5%. This also implies that an increase in the size (total assets), capital structure (equity) and growth (net income) will lead to an increase in CSR activities and amount allocation (positive effect). ROE is financial performance dependent variable that recorded a negative correlation coefficient (r) with CSR amount, size (total assets) and capital structure (equity level).This implies that an increase in CSR amount, size (total assets) and capital structure will lead to a decrease in ROE except for growth (net income) which had negative correlation. However, the Corporate Social Responsibility is negative correlated at -0.05 for ROE. This indicates that manufacturing companies in Kenya

that engage in corporate social responsibility activities are likely not to perform better financially.

4.4 Regression Analysis

In this section, the study used the multi regression analysis to establish the effects of CSR on financial performance of manufacturing companies in Kenya. The multi regression model was used in the analysis.

Table 4.5 a: Regression Output

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0.09595181
R Square	0.00920675
Adjusted R Square	-0.0012778
Standard Error	0.1722864
Observations	192

Table 4.5a summaries the multi regression output. The coefficient of determination (R^2) indicates that about 0.92% of change in financial performance (ROE) was accounted for by the explanatory variables while the adjusted R-squared of -0.12% further justifies this effect.

Table 4.5 b: ANOVA

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	0.05212992	0.02606496	0.8781224	0.417250861
Residual	189	5.610012001	0.029682603		
Total	191	5.662141921			

The regression model used financial performance (Return of Equity) as the dependent variable while size (Total Assets), CSR amount as the independent variables. For the model,

the degrees of freedom was two while the F-values which are significant at 5% level indicate that the model do not suffer from specification bias. The F value is closer to 1.0, which means that the variation between the variables was significant.

Table 4.5 c: Regression Coefficients

	Intercept	CSR AMOUNT	TOTAL ASSETS
Coefficients	0.194680051	5.35622E-09	-3.9416E-10
Standard Error	0.015524929	1.70874E-07	3.39688E-10
t Stat	12.53983542	0.031346022	-1.160359425
P-value	1.21745E-26	0.975026665	0.247366118
Lower 95%	0.164055654	-3.31709E-07	-1.06423E-09
Upper 95%	0.225304448	3.42422E-07	2.75907E-10
Lower 95.0%	0.164055654	-3.31709E-07	-1.06423E-09
Upper 95.0%	0.225304448	3.42422E-07	2.75907E-10

Table 4.5c: shows that the CSR amount and size (total assets) have a greater p-value than 0.05, which indicate that both CSR and size (total assets) are not statistically significant in determining the dependent variable. This suggests that changes in the predictor variable would have little or no effect on the dependent variable.

The regression coefficients represent the mean change in the response variables for one unit of change in the predictor variable while holding other predictors in the model constant. The multi regression model above show that the coefficient of CSR amount (5.35) and total assets

(-3.94) which indicate that for every additional CSR and total assets increase or decrease will result in financial performance (ROE) change by that increase or decrease.

Table 4.6 T- Tests: Two Sample Assuming Unequal Variances

t-Test: Two-Sample Assuming Unequal Variances

	CSR AMOUNT	*TOTAL ASSETS*
Mean	51199.1793	28906600.68
Variance	7131351490	1.80453E+15
Observations	192	192
Hypothesized Mean Difference	0	
df	191	
t Stat	-9.412280707	
P(T<=t) one-tail	7.95033E-18	
t Critical one-tail	1.652870548	
P(T<=t) two-tail	1.59007E-17	
t Critical two-tail	1.972461946	

The result of the t-test indicated that the more CSR amount recorded a mean of 51199.17 while the total assets recorded a mean of 28906600.68. Conversely, the variance for the CSR and the total assets are 7131351490 and 1.80E respectively. Furthermore, t-statistic is less than the t-critical (one tail) and t-critical (two tail) which indicate that the variables have no effect on the financial performance, which means we cannot reject the null hypothesis.

Moreover, the p-value critical (one tail) and p-value critical (two tail) is greater than the 5% significance level which indicate that the level which the variables are statistically different and most likely reflects real difference in the manufacturing companies population in Kenya. Therefore, the study can conclude that there is significant difference between the CSR amount and size (total assets) in relation to the population of manufacturing companies in Kenya.

4.5 Discussion of Findings

The study attempted to examine the effects of CSR on financial performance of manufacturing companies in Kenya in which multi regression model was used to guide the study. The dependent variable was financial performance (ROE), independent variables being size (total assets) of manufacturing companies and CSR amount spent by manufacturing companies. Additionally, the controlling variables were growth (net income) and capital structure (total equity) was considered and represented in Appendix II. Under all the categories in KAM, 47 manufacturing companies were considered for the study. With the help of the variables, the CSR of the manufacturing companies were examined. A dichotomous procedure was followed to formulate the hypothesis of the study. Each manufacturing company was awarded a score of one if it appears that its CSR have no effect on the financial performance and zero otherwise. The descriptive analysis helped the study to describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable on the study. For the inferential analysis, the study used the collinearity test, Pearson correlation, the multiple regression analysis and the t-test statistics.

The study results of the descriptive statistics of the overview of CSR revealed that on the average the manufacturing companies in Kenya that engaged in CSR activities during the period under review (2010 to 2013) ranges from a low of -10.22% in the year 2008 to a high of 80.02% during the year 2013. Generally, from the 47 observations, effects of CSR on financial performance of manufacturing companies in Kenya have a minimum figure of -10.22%%. This implies that company with the least ROE has an index of -10.22%% while the maximum of 80.02%% was also disclosed in one of the 4 years reviewed. The mean ROE

is about 18.35%% with standard deviation of approximately 17.21%. This means that the ROE can deviate from mean to both sides by 17.21%.

The collinearity variance inflation factor (VIF) and tolerance level, which is the inverse of the VIF in the model, was used to analyze the magnitude of the multicollinearity. A VIF greater than 10 indicate that the multicollinearity is high.Total assets and total equity have 23.69 and 27.91 which is greater than 10.This indicate that total assets and total equity is highly collinear to the financial performance indicator (ROE).Net income and CSR had VIF below 10, which indicate a low collinearity with the dependent variable ROE. Tolerance less than 0.2 or 0.1 indicate a high multicollinearity between the predictor variable and the dependent variable. Total assets and total equity had tolerance of 0.042 and 0.036 which is below 0.1.This indicates that the variables are highly collinear with the dependent variable ROE.

On the other hand, CSR and net income have tolerance of 0.897 and 0.500, which is below 0.1.this, indicates that CSR and net income have low collinearity. The collinearity diagnostics showed condition index increases between the dimension one and five, which indicates problems with multicollinearity between the predictor variable and the dependent variable CSR. Likewise, eigenvalue value decrease between dimension one and five. High eigenvalue indicates that the predictive variable will have less multicollinearity problems with the dependent variable CSR.

From the correlation result for the study model in Table 4.3.1, size (total assets) and capital structure (total equity) have the strong positive correlation of .97 while CSR amount and financial performance have the weakest negative correlation of -0.05 which indicate that CSR amount spent by manufacturing companies in Kenya have no direct effect on financial

performance of manufacturing companies. This implies that how large the size of a Corporate leads to a positive effect on the Total cost of CSR activities. This also implies that an increase in the CSR amount by manufacturing companies will lead to no increase in financial performance. Size (total assets) and financial performance (ROE) is another financial variable that recorded a negative correlation coefficient (r) of -0.10, which means and increase in total assets of manufacturing companies in Kenya will lead to no increase in financial performance of the company. However, the corporate social responsibility is positively correlated at 0.50 for the size (total assets), 0.45 for capital structure (total equity) and 0.10 for the growth (net income) for the model. This further indicate a positive correlation that corporate social responsibility amount increase is likely to have an effect on the manufacturing companies size (total assets),capital structure (total equity) and growth (net income) to increase significantly hence direct relationship.

From the regression analysis, the F-values which are not statically significant at 5% level indicate that the model do suffer from specification bias. However, from the model, the coefficient of determination (R^2) indicates that about 0.920% of change in financial performance (ROE) was accounted by the explanatory variables while the adjusted R-squared of -0.12% further justifies this effect. Additionally, it was observed that the more corporate social responsibility activities have no effects on the manufacturing companies financial performance over the years studied.

From the t-test result, the CSR amount spent recorded a mean of 51199.17 while the size (total assets) recorded a mean of 28906600.68. However, the variance for the CSR amount and the size (total assets) are 7131351490 and 1.80E respectively. Furthermore, at two- tailed, the t- calculated of -9.412280707 is seen to be less than the t-tabulated of 1.972461946.

Therefore the study can conclude that there is a negative relation between CSR and financial performance of manufacturing companies in Kenya. Additionally it can be said that the increase in CSR amount spent will not necessarily lead to increase in financial performance of manufacturing companies in Kenya.

There are many theories that support Corporate Responsibility and one of them is the Stakeholder Theory. The theory emphasizes that organizations should not only be accountable to their shareholders but also they should balance the interests of their other stakeholders, who can significantly influence or be influenced by organizational activities and that an organization works to meet the environmental demands of multiple stakeholders such as employees and suppliers (Donaldson and Preston, 1995) . From the findings of the study, it supports the theory in that most of the manufacturing companies practise CSR for the benefit of the stakeholders rather than for improvement of financial performance.

Triple bottom line theory also supports the concept of Corporate Social responsibility. It factors values and criteria for measuring organizational success which include economic, environmental and social. The triple bottom line demands that a company's responsibility lies with stakeholders rather than shareholders. Accordingly, the business entity should be used as a vehicle for coordinating stakeholder interests, instead of maximizing shareholder profit. For these reasons, the manufacturing companies in Kenya have set direction and principle to evaluate and report companies' CSR achievements in the financial statements in which the study did find CSR disclosed on 47 manufacturing companies.

Managerial theory emphasizes on the effects corporate management decisions and policies in companies that practise CSR. The managerial theories seek to measure the contribution the

social variable makes to economic performance of companies (Secchi's (2007).From the study findings, social responsibility in practises in manufacturing companies did not have an effect on financial performance of the companieshence disagree with magererial theory.

Gichana (2004) on the other hand did a survey of corporate social responsibility practices by Kenyan Companies: A case for companies listed in the Nairobi Securities Exchange. In his study, his objective was to identify the CSR practices of firms listed on the NSE and to determine the factors that explain the kind of CSR practices. From the findings, CSR practices in Kenyan companies were found to be mostly generous and did not affect the financial performance of companies listed in the Nairobi securities exchange. This was also found on this study, which the CSR independent variable had no effect on financial performance (ROE) the dependent variable.

Lorwood (2012) in his study about the relationship between CSR and financial performance of mobile telephony firms in Kenya did find a positive correlation between return on assets and the controls indicating that when the controls increase, so does the return on assets. From the findings of the study, CSR amount of manufacturing companies had also positive correlation with the size (total assets),capital structure (total equity) and growth (net income) of manufacturing companies of which the correlation coefficient ranged between 0.97 for the highest and 0.05 for the lowest correlation coefficient.

The study findings did establish that CSR amount was not part of corporate strategy but rather was a social goal of the manufacturing companies, which disagrees with Muiruri (2012) study on the challenges of aligning corporate social responsibility to corporate strategy for Safaricom foundation. Findings of her study established that Corporate Social Responsibility

was found to be a fundamental part of corporate strategy with 89% of managers having the opinion that CSR funds to be provided in all company budget.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter, the findings of the study are summarized and discussed in relation to the study. Also in the chapter are the limitations, conclusion and recommendations used for policy and practice and suggestions for further research in the area of Corporate Social responsibility.

5.2 Summary of Findings

The study required to establish the effects of corporate social responsibility on financial performance of manufacturing companies in Kenya. The 47 manufacturing companies were considered. Secondary Data was collected from the corporate annual reports for the period and data collection sheet. The study employed descriptive design, which helped to describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable. Multiple regression model was used to find out whether there is a relationship between the variables to be measured and to find out if the relationship is significant or not.

This study focused on the potentially endogenous effect of CSR on financial performance of manufacturing companies in Kenya for a period of 4 years (2010-2013). The inter-relations were analysed using excel 2010 and statistical Package for Social Science (SPSS). First, the effect of CSR on financial performance (ROE) was examined. Second, the direction of the relationship was investigated. Third, the model accounts for size (total assets), which was allowed to endogenously affect both CSR and financial performance (ROE). Finally, the capital structure (total equity) and growth (net income) was taken into account in the model. The proposed model, suggested an easy and flexible way to investigate the above variables. It

provided the framework for investigation of the sign, the direction and the inter-relation of key variables related to CSR.

The variable was diagnosed using the test for collinearity. The collinearity variance inflation factor (VIF) and tolerance level, which is the inverse of the VIF in the model, was used to analyze the magnitude of the multi collinearity between the dependent and the independent variables. Size (total assets) and capital structure (total equity) was highly collinear to the dependent variable (ROE because it had VIF greater than 10 and tolerance level less than 0.1).Growth (net income) and CSR had VIF less than 10 and tolerance greater than 0.1 which signifies no collinearity between the CSR, net income and the dependent variable ROE.

Pearson Correlation and regression analysis was used to find whether there is a relationship between the Variables. However, the t-test statistics was used to establish if there is any effect CSR amount will affect the financial performance (ROE) of manufacturing companies in Kenya. The results of the finding were there no significant positive relationship between CSR and financial performance of manufacturing companies in Kenya. Therefore, the study can conclude that there is a negative relationship between CSR amount spent and manufacturing companies in Kenya.

The study also found out that manufacturing companies were using CSR to advertise the company and its products to the community. Furthermore, the manufacturing companies in Kenya use corporate social responsibility as a business strategy to improve profit or market growth, through increase in market share, increased product awareness and enhance market share. The size and capital structure of manufacturing companies in Kenya had significant effect on the financial performance compared to the CSR amount spent.

5.3 Conclusions

The study found out that the corporate social reasonability has no significant effect on the financial performance (ROE) of the manufacturing companies in Kenya. The study revealed that the other variables, size and capital structure, did have a significant effect on the financial performance of the manufacturing companies in Kenya. The study also established that through the CSR activities, the manufacturing company were able to enhance their reputation to the community and the government

With regard to the effects of CSR on financial performance of manufacturing companies in Kenya for the period starting 2010 to 2013, there was a significant negative effect on the Return of Equity conforming to Orlitzky et al, (2003) as well as the results of this study. Namely, the CSR has a positive influence on the size (total assets), capital structure (total equity) and growth (net income) of the manufacturing companies in Kenya. When a Corporate contributes to or feed back into the community with higher CSR amount, it will not necessarily improve its financial performance. Corporate Social responsibility refers to information about companies interactions with society. It is an important instrument in the dialogue between business and society. The study intended to examine the effects of CSR on financial performance of manufacturing companies in Kenya.

In Kenya, as per literature review, it was found that social responsibility amount manufacturing companies in Kenya received more importance and public perception about the company practising CSR was more adorable (Ondiek and Odera, 2012). Results suggest that stakeholders' theory is an explanation of CSR by Kenyan firms. With respect to the variables studied, CSR was found to have negative effect on the financial performance not

hence supporting the stakeholders' theory that stakeholders will have first priority before the shareholders.

The Kenya manufacturing companies, like in developed, Western countries, CSR shows a noteworthy importance in manufacturing companies. This shows that no matter the size of the manufacturing company, CSR was still important. Many manufacturing companies CSR obligations are to carry out charitable works, which implies that the wealthier the manufacturing company, the greater its social responsibility amount spent and in the other hand, small and medium manufacturing companies have set out to attract investors and use CSR as a tool to lure them. This result coincides with previous conclusions (Mwai, 2013).

The findings of this study agree with other previous studies that have been done on Corporate Social Responsibility. For example, the findings by Gichana (2004) on the survey of corporate social responsibility practices by Kenyan Companies: A case for companies listed in the Nairobi Securities Exchange and Lorwood (2012), in his study about the relationship between CSR and financial performance of mobile telephony firms in Kenya which established no direct relationship between the CSR amount spent and financial performance of companies.

In conclusion, corporate social responsibility has become part of the overall corporate strategy in manufacturing companies in Kenya. Many manufacturing companies in KAM have incorporated various stakeholders in the business ecosystem to ensure success and attainment of CSR objectives. The main areas of focus have been in providing the basic social amenities to the communities around the company. Companies are aligning their CSR strategies with their corporate strategy rather than focusing on the industry or global practices.

5.4 Policy Recommendations

Various recommendations can be made from this study. Firstly, manufacturing companies in KAM are more willing to disclose their CSR information if the government imposes stronger rules and regulations. This implies that the government should use regulations to push manufacturing companies to disclose their CSR information.

Secondly, small and medium size manufacturing companies, which have private and diverse ownership, are more reluctant to disclose CSR information than larger manufacturing companies especially the public companies. This means that efforts should be put to encourage small and medium size manufacturing companies to encourage them to be more socially responsible and disclose the information on their CSR activities.

Manufacturing companies in the KAM should engage in very many CSR activities as this increases their customer base especially those regarded as small manufacturing companies in terms of their assets and revenues, which was increase the amounts of profits hence the company's financial performance also improves. Moreover, CSR increases a firm's visibility and publicity. By engaging in CSR, firms are in a position to contribute largely to the community at large.

5.5 Limitations of the Study

During the research, various limitations may have affected the findings of this study. For instance, the study relied on secondary data sources. Secondary data can be unreliable if they were intended for other purposes like pleasing the shareholders and the government, which will lead to the manufacturing companies to modify their financials or give wrong

information to the researchers. This could be done in order to convince external stakeholders and shareholders that the manufacturing companies are performing well.

Determining how CSR and financial performances are connected is complicated by the lack of accord of measurement methodology as it relates to CSR. Subjective indicators are used during the data analysis process that is unclear exactly how these indicators measure are program to give the accurate results. Thus, information about CSR is open to questions about impression management and bias. Sometimes an organisation can over report or others under report

The sample for this study might have been small. Small samples have the drop-back of not being representative of the population reality. The sample of 68 manufacturing companies was not achieved because most of the manufacturing companies in Kenya especially the private manufacturing companies were unwilling to give there CSR information which contributed to the sample size not to be archived.

Further, the financial performances of the manufacturing companies in Kenya are influenced by other factors other than contributions to the CSR activities. Thus, establishing the relationship between the two variables CSR, size (total assets) and financial performance (ROE) could be flawed. The study tested the significance of the relationship established to alleviate the study.

5.6 Suggestions for Further Study

On or after the conceptual limitation realised, the study could have been conducted on other aspects of corporate social responsibility. Other aspects that could be studied in the future in

the same field include stakeholders perception of Corporate Social Responsibility, the relationship between corporate social responsibility and profitability and the link between CSR and strategy, case study on whether CSR is an outlet for corruption, where managers use funds for their personal gain in KAM. This could portray the past, concurrent and subsequent financial performance related to both CSR performance and profitability.

Further Studies could be carried out on the same topic, which may include studies on the effects the corporate social responsibility on financial performance of manufacturing companies but in small and medium size companies in Kenya. Supplementary studies could be done on effects of corporate Social Responsibility on listed company capital structure. This study could determine the effects CSR amount have on the debt and equity level.

About contextual limitation, the study in the future could be done on the executive discernment of corporate social responsibility in other parastatals that fall under the Ministry of industrialization like Kenya railway, Kengen, Kenya Transmission Company and Geothermal Development Company. The findings of these suggested studies compared to this one could bring to the fore areas that need attention and priority be placed on them as a matter of policy. The manufacturing companies can also learn from one another on how strategic planning on CSR is done and improve on their current plans.

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APPENDIX I: Manufacturing Companies in Kenya Association of Manufacturers

Sector	Members	Sample of 10%
Building mining and construction	22	2
Chemical allied and sector	74	7
Energy, electrical and electronic	40	4
Food and beverages	181	18
Leather and footwear	10	1
Metal and allied sector	75	7
Motor vehicle and accessories	40	4
Paper and board sector	69	7
Pharmaceuticals and medical equipment	23	2
Plactic and rubber	69	7
Fresh produce	4	1
Textile and apparels	63	6
Timber wood furniture	19	2
Total	689	68

APPENDIX II: Company Financial Performance (2010-2013)

YEARS	COMPANY CODE	CSR AMOUNT '000'	TOTAL ASSETS '000'	TOTAL EQUITY '000'	ANNUAL NET INCOME '000'	ROE (%)
2010	COMP 01	59,760	8,474,579	7,117,257	364,257	5.12%
2011		46,729	8,525,465	7,383,339	329,042	4.46%
2012		49,468	8,649,057	7,497,898	330,729	4.41%
2013		46,892	8,528,904	7,984,215	332,589	4.17%
2010	COMP 02	63,000	11,916,869	10,081,276	1,393,611	13.82%
2011		70,560	14,152,576	10,276,156	1,213,837	11.81%
2012		79,030	17,475,715	15,868,590	1,609,972	10.15%
2013		79,400	17,380,020	15,740,003	1,522,005	9.67%
2010	COMP 03	3,466	845,594	590,121	76,012	12.88%
2011		3,576	896,555	557,091	79,276	14.23%
2012		3,492	878,266	545,594	76,955	14.10%
2013		3,569	875,370	586,827	76,928	13.11%
2010	COMP 04	17,400	56,408,239	27,247,337	12,010,431	44.08%
2011		20,000	73,870,231	47,457,669	11,273,596	23.76%
2012		23,040	89,040,580	58,976,646	10,536,760	17.87%
2013		28,770	91,332,223	67,555,264	10,814,125	16.01%
2010	COMP 05	56,697	4,748,195	2,601,074	846,853	32.56%
2011		58,598	4,748,195	2,814,742	883,673	31.39%
2012		55,953	4,649,003	2,042,704	893,441	43.74%
2013		56,402	4,778,071	2,377,004	877,290	36.91%
2010	COMP 06	6,725	8,938,572	4,460,977	764,164	17.13%
2011		7,500	9,073,343	5,685,907	536,652	9.44%
2012		10,450	12,035,963	5,273,517	1,834,054	34.78%
2013		10,589	12,036,875	6,984,754	1,745,896	25.00%
2010	COMP 07	30,481	47,321,864	27,462,100	1,718,477	6.26%
2011		31,910	59,812,122	27,414,799	1,764,870	6.44%
2012		27,525	68,925,896	27,803,903	1,725,094	6.20%
2013		32,587	71,563,808	31,305,620	1,745,890	5.58%
2010	COMP 08	35,041	4,002,785	2,176,553	1,335,647	61.37%
2011		44,600	4,445,930	2,742,991	1,300,397	47.41%
2012		28,000	4,675,465	3,096,852	1,378,431	44.51%
2013		29,784	4,772,106	3,062,101	1,388,797	45.35%
2010	COMP 09	85,374	28,626,148	14,014,493	8,014,024	57.18%
2011		100,662	26,117,442	13,366,163	8,663,058	64.81%
2012		130,662	24,080,854	15,308,055	8,785,244	57.39%
2013		141,900	24,801,460	15,650,070	8,806,294	56.27%

2010	COMP 10	19,563	2,204,050	1,358,483	289,820	21.33%
2011		20,195	2,686,213	1,369,012	286,192	20.91%
2012		22,588	2,873,711	1,427,513	273,312	19.15%
2013		27,432	2,946,768	1,727,178	273,410	15.83%
2010	COMP 11	68	4,815	2,022	162	8.01%
2011		58	4,653	2,314	125	5.40%
2012		72	4,564	2,962	193	6.52%
2013		72	4,689	2,933	195	6.65%
2010	COMP 12	65,100	4,560,782	2,324,931	210,986	9.07%
2011		62,100	4,750,182	2,762,853	240,838	8.72%
2012		59,800	4,710,332	2,853,926	281,167	9.85%
2013		60,248	4,732,569	2,951,537	278,905	9.45%
2010	COMP 13	42,531	91,251,517	47,250,783	3,469,877	7.34%
2011		49,200	99,140,207	48,520,291	3,250,813	6.70%
2012		51,239	123,909,119	54,459,311	4,732,754	8.69%
2013		48,256	125,705,248	66,066,744	4,857,930	7.35%
2010	COMP 14	125,000	15,039,262	8,602,278	828,891	9.64%
2011		132,000	16,070,277	8,637,138	918,485	10.63%
2012		154,000	16,320,774	9,203,064	960,918	10.44%
2013		157,000	16,531,039	11,669,294	931,014	7.98%
2010	COMP 15	1,208	102,649,211	58,989,222	13,350,976	22.63%
2011		1,785	109,000,000	57,122,053	20,365,551	35.65%
2012		1,497	100,228,093	47,469,466	16,858,264	35.51%
2013		1,358	98,580,086	40,783,363	16,389,624	40.19%
2010	COMP 16	152,000	157,928,000	70,616,738	4,910,000	6.95%
2011		144,200	168,510,000	80,697,435	5,225,000	6.47%
2012		148,100	163,219,000	96,321,817	5,067,500	5.26%
2013		148,759	162,896,000	107,664,494	5,045,890	4.69%
2010	COMP 17	4,105	1,189,316	7,025,939	126,408	1.80%
2011		3,014	837,329	4,661,522	178,400	3.83%
2012		7,498	997,672	4,768,265	282,710	5.93%
2013		7,488	982,870	4,225,690	278,924	6.60%
2010	COMP 18	69	14,634	6,780	3,203	47.24%
2011		53	16,558	8,589	3,349	38.99%
2012		58	17,007	7,963	3,182	39.96%
2013		55	18,957	9,224	3,267	35.42%
2010	COMP 19	236,400	90,942,015	48,213,164	5,585,917	11.59%
2011		270,600	90,399,095	48,579,859	5,337,172	10.99%
2012		272,700	98,984,921	47,003,431	5,909,671	12.57%
2013		263,440	96,709,265	47,966,872	6,053,250	12.62%

2010	COMP 20	33,067	1,109,894	715,186	18,108	2.53%
2011		51,658	982,052	660,356	23,120	3.50%
2012		37,478	1,167,797	7,137,876	27,314	0.38%
2013		39,682	1,187,529	6,944,785	30,578	0.44%
2010	COMP 21	950	2,264,667	951,470	618,319	64.99%
2011		968	2,243,870	1,614,713	727,162	45.03%
2012		978	2,191,969	1,803,573	739,609	41.01%
2013		991	2,141,068	1,765,452	738,504	41.83%
2010	COMP 22	69,300	31,281,018	17,982,088	745,687	4.15%
2011		70,166	42,619,119	20,449,703	1,037,681	5.07%
2012		70,664	44,655,313	31,407,367	1,085,718	3.46%
2013		71,377	46,877,392	28,382,875	1,066,005	3.76%
2010	COMP 23	35	23,142	13,186	1,413	10.72%
2011		53	19,174	14,326	1,011	7.06%
2012		79	20,025	9,743	1,342	13.77%
2013		78	20,158	10,152	1,307	12.87%
2010	COMP 24	401	361,336	164,590	27,278	16.57%
2011		402	382,698	158,609	21,769	13.72%
2012		405	314,482	160,116	22,598	14.11%
2013		402	336,985	160,951	22,007	13.67%
2010	COMP 25	775	81,232	46,588	1,273	2.73%
2011		826	83,012	43,813	1,097	2.50%
2012		681	86,013	43,955	1,118	2.54%
2013		758	86,408	46,909	1,195	2.55%
2010	COMP 26	19,920	101,966,861	68,970,465	33,445,667	48.49%
2011		18,540	106,993,551	78,887,716	42,809,445	54.27%
2012		21,600	104,480,206	79,326,575	45,627,556	57.52%
2013		21,975	105,589,035	81,517,884	47,960,580	58.83%
2010	COMP 27	7,600	10,414,546	6,874,194	73,503	1.07%
2011		7,900	10,369,255	6,024,912	136,427	2.26%
2012		8,200	14,330,495	7,249,494	234,176	3.23%
2013		8,390	14,260,820	7,898,474	231,045	2.93%
2010	COMP 28	25,860	2,800,748	1,012,206	479,429	47.36%
2011		26,340	2,588,479	1,408,487	555,183	39.42%
2012		31,620	2,338,364	1,357,977	589,279	43.39%
2013		39,801	2,156,729	1,343,868	591,490	44.01%
2010	COMP 29	335	21,531	11,154	3,989	35.76%
2011		398	26,898	14,791	3,281	22.18%
2012		379	23,458	12,991	3,396	26.14%
2013		377	22,803	14,069	3,267	23.22%

2010	COMP 30	29,280	5,244,979	4,093,312	783,723	19.15%
2011		22,620	5,347,169	4,271,785	700,497	16.40%
2012		26,550	5,650,591	4,950,212	769,401	15.54%
2013		24,905	5,763,900	7,576,735	784,107	10.35%
2010	COMP 31	11,920	9,456,775	5,858,416	485,875	8.29%
2011		12,640	9,284,036	5,592,146	411,304	7.36%
2012		10,840	9,134,418	5,130,347	479,283	9.34%
2013		11,190	9,146,279	5,619,055	488,931	8.70%
2010	COMP 32	21	7,124	5,016	768	15.31%
2011		45	9,015	5,277	818	15.50%
2012		49	9,131	5,815	989	17.01%
2013		51	9,268	5,750	996	17.32%
2010	COMP 33	45,850	65,324,000	37,819,099	2,550,085	6.74%
2011		53,000	83,486,000	39,296,350	2,373,000	6.04%
2012		54,025	90,078,000	41,017,250	2,896,470	7.06%
2013		52,893	90,858,900	43,190,074	2,968,000	6.87%
2010	COMP 34	658	603,259	383,155	73,014	19.06%
2011		522	733,024	395,215	75,015	18.98%
2012		543	892,203	447,362	74,388	16.63%
2013		558	909,524	490,390	73,698	15.03%
2010	COMP 35	13,379	12,962,495	8,983,565	837,949	9.33%
2011		14,811	13,665,600	7,592,743	1,481,101	19.51%
2012		13,289	15,000,633	7,667,083	1,328,904	17.33%
2013		13,585	15,088,520	7,427,271	1,358,251	18.29%
2010	COMP 36	13,200	41,414,272	28,985,225	1,119,396	3.86%
2011		16,100	42,695,700	38,409,487	1,240,610	3.23%
2012		17,800	51,404,408	37,390,748	1,462,955	3.91%
2013		17,925	52,621,876	37,609,500	1,498,970	3.99%
2010	COMP 37	25,965	5,345,700	2,565,748	1,076,400	41.95%
2011		29,400	6,149,400	3,880,929	1,295,900	33.39%
2012		27,258	6,060,700	3,684,809	1,119,200	30.37%
2013		28,967	6,095,070	3,729,650	1,182,580	31.71%
2010	COMP 38	196	728,341	427,122	23,177	5.43%
2011		205	730,271	523,941	20,251	3.87%
2012		185	759,016	548,975	24,396	4.44%
2013		184	759,630	593,810	21,580	3.63%
2010	COMP 39	20,300	1,023,727	732,904	222,812	30.40%
2011		21,369	1,128,794	720,010	256,593	35.64%
2012		19,540	1,760,950	745,436	225,928	30.31%
2013		18,579	1,963,500	829,502	232,840	28.07%

2010	COMP 40	205	866,148	489,903	39,420	8.05%
2011		133	811,442	504,034	30,241	6.00%
2012		212	790,854	514,054	35,132	6.83%
2013		215,048	795,872	629,540	36,987	5.88%
2010	COMP 41	23,598	2,632,791	1,747,936	118,615	6.79%
2011		20,157	2,511,635	1,655,497	150,848	9.11%
2012		22,589	3,076,148	1,376,707	147,000	10.68%
2013		21,589	2,917,085	1,910,817	150,580	7.88%
2010	COMP 42	968	30,313,363	17,997,227	739,954	4.11%
2011		10,582	56,145,697	26,529,241	1,126,465	4.25%
2012		10,968	66,679,080	37,093,731	1,354,435	3.65%
2013		11,204	79,681,004	38,990,426	1,482,687	3.80%
2010	COMP 43	150,560	33,076,000	18,484,201	-1,890,000	-10.22%
2011		112,012	39,690,640	24,747,895	-1,311,379	-5.30%
2012		177,589	48,056,970	31,286,822	2,058,151	6.58%
2013		168,589	59,056,650	25,810,592	2,948,908	11.43%
2010	COMP 44	27,589	3,029,848	1,469,942	663,071	45.11%
2011		31,458	2,075,721	1,535,017	713,235	46.46%
2012		37,589	2,024,504	1,433,937	813,673	56.74%
2013		35,987	2,158,904	1,736,954	885,790	51.00%
2010	COMP 45	195,040	25,103,762	17,903,394	7,649,002	42.72%
2011		251,220	29,236,766	19,509,963	7,953,171	40.76%
2012		212,530	25,960,094	14,641,861	7,747,223	52.91%
2013		235,890	25,698,714	17,740,134	7,890,068	44.48%
2010	COMP 46	60,355	112,210,660	70,840,263	4,606,576	6.50%
2011		61,052	154,653,461	74,165,123	4,511,485	6.08%
2012		609,669	172,384,128	79,604,865	4,652,679	5.84%
2013		616,630	175,589,951	81,598,981	4,869,825	5.97%
2010	COMP 47	28,826	6,980,917	3,434,749	112,441	3.27%
2011		30,210	6,856,124	3,583,911	123,585	3.45%
2012		27,931	6,768,586	3,118,148	159,919	5.13%
2013		26,589	6,935,820	3,296,943	162,589	4.93%
2010	COMP 48	180,256	50,942,015	27,453,686	2,180,540	7.94%
2011		178,200	50,399,095	28,456,080	2,968,656	10.43%
2012		168,024	58,984,921	31,365,818	3,458,925	11.03%
2013		166,891	59,770,491	28,615,530	3,698,527	12.92%

APPENDIX III: List of Manufacturing Companies

Sampled Manufacturing Companies in Kenya Association of Manufacturers

A Bauman Company Ltd	Kemu Salts Ltd
Athi River Mining Ltd	Kengen
African Cotton Industries Ltd	Keroche Breweries Ltd
Bamburi Cement	Kenya Wine Agency Ltd
Basco Products (K) Ltd	Ken Knit (Kenya) Ltd
Biogas power holdings (EA) Ltd	Limuru Tea Company Ltd
Boc Kenya	London Distillers Ltd
British American Tobacco	Manson Hart Kenya Ltd
Brookside Dairy Ltd	Mombasa Cement Ltd
Carbacid Investments Ltd	Mount Kenya Bottlers Ltd
Central Glass Industries	Nestle Foods Kenya Ltd
Crown Berger Ltd	New Kenya Co-Operative Creameries Ltd
Eaagads Limited	Nzoia Sugar Company
EABL	Midco Textiles (Ea) Ltd
East African Cables Ltd	Proctor and Allan (E.A) Ltd
East African Portland Cement Ltd	Saj Ceramics Ltd
Eveready Kenya Ltd	Sameer Africa
Flamingo Tiles (Kenya) Ltd	Sony Sugar Company Ltd
General Motors (EA) Ltd	Savannah Cement Limited
Kapchurua Tea Co. Ltd	Sasini Tea And Coffee
Kapa Oil Refineries Ltd	Toyota Kenya
Kakuzi Ltd	Unilever Kenya
Kay Salt Ltd	Unga Group Ltd
Kenafric Industries Ltd	Williamson Tea Kenya Ltd