THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON THE

PERFORMANCE OF LARGE MANUFACTURING COMPANIES IN KENYA

EUNICE MUTHEU MUTAVE

REG NO:D61/5452//2017

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE

REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF

BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF

NAIROBI

NOVEMBER 2021

i

DECLARATION

I declare that this research proposal is my original work and has not been presented in any other university for academic credit

Eunice Mutheu Mutave   D61/5452/2017

Signature ......*Eunice*...................................... Date ....16/11/2021................

This research proposal has been presented for examination with my approval as the university supervisor

Signature: -- Date: 23/11/2021 ----------------------------------

DR. HERICK ONDIGO

LECTURER

DEPARTMENT OF FINANCE AND ACCOUNTING

SCHOOL OF BUSINESS, UNINERSITY OF NAIROBI

ACKNOWLEDGEMENT

I wish to acknowledge the Almighty God for empowering me to prepare this study. My sincere gratitude to my supervisor Dr. Herick Ondigo for his guidance and criticism throughout the process of compiling the study. Am also thankful to my moderator Professor J. O. Aduda for his insight and timely response at each stage of undertaking this research. Finally, I wish to acknowledge my family and friends for the support they gave me throughout my study process. May the Lord bless all.

DEDICATION

I dedicate the project to my family and friends for the exceptional encouragement and support they gave me throughout the study process.

TABLE OF CONTENT

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

CSR   Corporate Social Responsibility

NSE   Nairobi Securities Exchange

ROA   Return on Assets

ROCE   Return on Capital Employed

ROE   Return on Equity

ABSTRACT

Most of the firms in the country and other parts of the world engage in CSR activities to improve their images and reputations towards the members of the public with a view to enhancing their performances. Nonetheless, evidence from previous studies provide conflicting results with some of them identifying positive link between firm performance and CSR activities whereas others identify negative link or no link between them. The current study evaluated the link between the performance of large manufacturing firms in the country and CSR activities between 2010 and 2020. Its specific objectives were two and they included determining the influence that community-related CSR activities had on firms' performances and appraising the influence that environmental-related CSR activities had on the firms' performances. Both ROA and ROE were used to measure firm performance. Secondary data obtained from the firms' financial reports and sustainability reports were used to determine how CSR initiatives influenced both ROE and ROA. Both correlation and fixed effect regression analysis method were used to conduct the study. The study found that community CSR projects had negative influence on ROA, but not ROE. Additionally, it established that the environmental CSR projects had positive influence on ROA, but not ROE as well. Despite the variations in the influence, the study recommended that the large manufacturing firms in the country should invest in both community and environmental CSR projects to enhance their images and reputation with a possibility of influencing their performances positively.

CHAPTER ONE: INTRODUCTION

1.1: BACKGROUND OF THE STUDY

Most of the firms in the country engage in CSR activities to improve their reputations and images towards the members of the public with a view to enhancing their performances (Veronica & Rugami, 2017). Nonetheless, others do not engage in such activities because of financial constraints (Jackson, Ones, & Dilchert, 2012). Although some of the firms do not engage in CSR activities due to financial constraints, studies indicate that CSR initiatives enable firms to improve their performances. Others show that CSR initiatives affect firm performance negatively by taking away part of their profits to unnecessary social issues. In the light of this, different sets of theories explain the way CSR initiatives affect firm performance and even some of the basis upon which firms engage in CSR activities. The stakeholder theory argues that firms engage in CSR activities because of the social responsibilities they have to other groups of people apart from their immediate shareholders (Freeman, 1984). The slack resource theory, on the other hand, argues that firms engage in social responsibilities because of the additional resources particularly financial ones that they acquire in their lines of businesses (Keinert, 2008). By arguing so, the slack resource theory gives an impression that financially constrained firms do not engage in CSR activities whereas it is evident that every organization whether profit-making or non-profit has a social responsibility to its immediate society or even its own employees.

Despite the varying perspectives towards CSR initiatives and its probable effect on firm performance, CSR initiatives have gained momentum in the country and elsewhere from the time the term CSR was coined in the early 1950s (Wang, Tong, Takeuchi, & George, 2016).

Accordingly, deliberate attention has been directed towards the effect of CSR initiatives on firm performance. Although several studies have identified a positive link between firm performance and CSR initiatives, meta-analyses carried out by Margolis, Elfenbein and Walsh (2009) and Orlitzky, Schmidt and Rynes (2003) show small, but positive link between firm performance and CSR activities suggesting that the positive link between them might be exaggerated in some studies. To determine the correctness or incorrectness of the above meta-analyses, the current study evaluates the manner in which CSR initiatives influence the performance of large manufacturing firms in the country.

The study is based on four theories namely, stakeholders' theory, Carroll's (1979) four component model, shareholders' theory and slack resource theory, which jointly claim that firms have social responsibilities beyond their immediate responsibility of maximizing wealth for shareholders. The stakeholder's theory is utilized to identify the various groups of people that the large manufacturing firms in the country have social responsibilities to whereas the Carroll's (1979) four component model is utilized to identify the various responsibilities that firms have towards the various groups of stakeholders. The shareholders' theory is utilized to explain the negative link between CSR initiatives and firm performance whereas the slack resource theory is used to indicate the extent to which additional financial resources enable the firms to engage in CSR activities.

1.1.1: CORPORATE SOCIAL RESPONSIBILITY

The CSR practices relate to the social and environmental responsibilities that business enterprises and firms have towards societies and other stakeholders beyond their immediate shareholders (Wang *et al.,* 2016). It also relates to corporate strategies that firms use to conduct

their businesses in socially friendly and ethical manner (Ismail, 2009). The socially friendly manner in this case relates largely to the members of the public whereas the ethical one relates to both the members of the public and employees as well.

Because of the above diversity, the presence or absence of CSR initiatives in organizations could be measured by organizational units that are created to manage social obligations. CSR could also be evaluated in terms of the number of CSR initiatives that firms develop for the sake of their various groups of stakeholders (Wang *et al.,* 2016). Furthermore, it could be measured in terms of the effects that CSR initiatives have on various groups of stakeholders. This could be in terms of amount of money that organizations allocate to such activities or even the number of people that benefit from CSR initiatives directly or indirectly. Additionally, it would be in terms of the projects that the firms initiate to protect the environment or extent social services to different stakeholders.

1.1.2: FIRM PERFORMANCE

The firm performance relates to the way the firms increase their productivity or competitiveness, and it could be measured in different forms. According to Onyango and Moronge (2017), it could be measured in form of profitability, number of customers, employee productivity or in terms of firm competitiveness. The profitability relates to the extra revenue that firms generate out of their business activities because of their CSR related activities. Firms that generate additional revenue are said to perform better than their counterparts that do not generate additional revenue from their business activities. The number of customers relates to the people that firms attract to their business practices to purchase products. The more customers that firms attract the more they are likely to improve their performances, and vice versa (Onyango &

Moronge, 2017). Nevertheless, more customers may not necessarily translate to better performance due to other factors involved in firm performance; hence, firm performance measured in terms of the number of customers should be measured cautiously.

The employee productivity relates to employees' output and efficiency in their lines of duties. The higher the output and efficiency, the better the firm performance even though other factors are involved in enhancing firm performance. The firm competitiveness, on the other hand, relate to firm performance in the light of its competitors (Onyango & Moronge, 2017). The firms that outperform their competitors are normally said to perform better than their competitors do. Alongside the above, the firm performance could also be measured from an accounting or an investors' perspective. From an investor's perspective, it may be measured in terms of dividend incomes or changes in share prices whereas from an accounting perspective it may be measured in terms of Return on Investment (ROI), Return on Equity (ROE) or Return on Assets (ROA) (Maqbool & Zameer, 2018). While the accounting perspective is good because it captures firms' internal efficiencies and their overall financial health, it does not capture the way firms respond to external forces. Similarly, whereas the investor's perspective is good because it captures the way organizations respond to external forces, it does not capture their internal efficiencies and overall financial health. In the light of this, the perspective that one adopts in defining and measuring financial performance depends on objective one intends to achieve (Gautam, Singh, & Bhowmick, 2016). The current study aims to assess how the CSR projects influence or do not influence the internal performance of the large manufacturing firms in the country; as such, it defines firm performance from an accounting perspective using both ROE and ROA.

1.1.3: CSR AND FIRM PERFORMANCE

Theoretically, it would be expected that CSR initiatives would influence firm performance positively because of the positive image that such initiatives create among various groups of people some of whom include customers (Freeman, 1984). Nevertheless, in line with slack resource theory, it would also be expected that because CSR initiatives are voluntary though instrumental to every firm, then some of the firms especially the financially constrained ones would not engage in such initiatives (Keinert, 2008). In this respect, it would be expected that if financially constrained firms would engage in CSR initiatives out of public pressure, then their performances would be influenced negatively as opposed to improving.

1.1.4 LARGE MANUFACTURING COMPANIES IN KENYA

Currently, there are over 853 manufacturing companies in Kenya (KAM, 2020). According to the KAM (2020), the manufacturing companies in the country fall into fourteen (14) major sectors. The sectors include 1) food and beverage, 2) paper and board; 3) timber, wood and furniture, 4) energy, electrical and electronics; 5) building, mining and construction, and 6) metal and allied. Others include; 7) textile and apparel, 8) motor vehicle and accessories, 9) service and consultancy, 10) fresh produce, 11) chemical and allied, 12) leather and footwear, 13) plastic and rubber as well as 14) pharmaceutical and medical equipment.

The large manufacturing firms in the country are critical to national development because they form part of the general manufacturing industry in the country that contribute about 9.2% to national development. Additionally, they provide employment to many people in the country. According to KAM (2020), they provide employment to majority of the people in the country;

hence, play vital role in promoting economic development. Additionally, they manufacture vital products used in different sectors to enhance development.

In spite of the above, the large manufacturing firms in the country are likely to pollute the environment or even act irresponsibly in their efforts to maximize profits for their shareholders. In the light of this, the national environmental law requires them to act responsibly. Additionally, other laws in the country require them to act responsibly by giving back to the members of the general society. While the CSR initiatives are good in terms of enhancing the firms' images and reputations especially among the members of the public, evidence suggests that it might impact firm performance negatively. Accordingly, some of the firms might downplay the importance of CSR activities in their business processes. Others might engage in the CSR activities out of pressure from the government or members of the public. Doing so might hurt their performances; hence, the need for the current study.

1.2: RESEARCH PROBLEM

The law in Kenya like in other parts of the world requires manufacturing firms to engage in CSR activities as part of their giving back to the community. It stipulates that as the firms manufacture products, they should engage in environmental friendly practices and give back to the members of the public majority of who are they customers. In the light of this, research into the influence of CSR initiatives on firm performance has grown steadily over the last two decades. Some of the studies have evaluated its influence on firm performance in other parts of the world (Waworuntu, Wantah, & Rusmanto, 2014; Margaretha & Rachmaati, 2016; Gautam, Singh, & Bhowmick, 2016; Maqbool & Zameer, 2018). Others have evaluated its link with firm performance in different industries including banks and telecommunication industry (Taskin,

2015; Mwancha & Ouma, 2017; Onyango & Moronge, 2017). Some of the studies claim that firms enhance their performances by depicting themselves as social responsible agents (Mwancha & Ouma, 2017; Robert, Lyria, & Mbogo, 2016) whereas others claim that CSR activities undermine firm performance by taking away part of profits that firms make in their business practices (Maina, 2015; Jackson, Ones, & Dilchert, 2012).

A further analysis of the existing studies showed that even if some of the Master's and PHD students in the country had attempted to evaluate the link between CSR activities and the performance of manufacturing companies in the country, most of them looked at the issue from a general perspective. Kilong'i, Ayora and Bufali (2019), for instance, evaluated the effect of CSR activities on the performance of Garissa-based water bottling companies. Using a survey research design, they established a positive link between firms' performance and CSR activities. Khamah, Njehia and Njanja (2015) on their part evaluated the effect of CSR activities on consumer buying behavior of public companies. With the help of descriptive research method, they established that there was close link between consumer buying behaviors and firms' CSR activities.

Chebet and Muturi (2018) evaluated the effects of CSR activities on the performance of sugar manufacturing companies with a special attention on Chemelil and Sony sugar factories. Using multiple linear regression models, the authors established that there was close link between firms' performance and CSR activities. While this study was critical to the current study, it was conducted on two companies implying that its findings could not be generalized to other manufacturing companies in the country; hence, the need for further research.

In the light of the above, it is evident that very little has been done in the country to appraise the influence of CSR initiatives on the performance of large manufacturing firms in Kenya. As a result, it remains unclear how CSR initiatives influence the performance of large manufacturing firms in the country. To bridge the gap, the proposed study will evaluate the influence of CSR activities on the performance of large manufacturing firms in the country. Its research question will be; *how do CSR initiatives influence the performance of large manufacturing firms in the country?*

1.3: OBJECTIVES OF THE STUDY

Broadly speaking, the study evaluated the influence of CSR activities on the performance of large manufacturing firms in the country. Its specific objectives included:

i.   To evaluate the influence of community-related CSR activities on the ROA and ROE of large manufacturing firms in the country.

ii. To appraise the influence of environmental-related CSR activities on the ROA and ROE of large manufacturing firms in the country.

1.4 VALUE OF THE STUDY

The study contributes to the body of extant literature by filling a knowledge gap relating to the influence of CSR initiatives on firm performance in Kenya. It enables the individual large manufacturing firms in the country and related firms to understand the impact that CSR initiatives have on their performances. Additionally, it provides researchers in the country and other parts of the world with reference material for their studies and the basis for future research. To the policy makers, it identifies the need to ensure that firms engage in CSR activities

regardless of the amounts of profits they make at the end of the years. Theoretically, it identifies the influence of various groups of stakeholders on firm performances; hence, contribute to advancing different theories related to CSR practices.

CHAPTER TWO: LITERATURE REVIEW

2.1: INTRODUCTION

The chapter provides the study's theoretical basis. It also reviews the previous studies related to the study area with a view to pinpoint the knowledge gap that the current study fills. It concludes by summarizing the previous studies and providing the conceptual framework that was used to conduct the study.

2.2: THEORETICAL BACKGROUND

Research into the influence of CSR initiatives on the performance of large manufacturing firms in the country could take a stakeholder theory perspective (Freeman, 1984), shareholder theory perspective (Friedman, 1970), slack resource theory perspective (Jackson, Ones, & Dilchert, 2012; Keinert, 2008; Zoeteman, 2012) or even Carroll's (1979) four component model among other theories and models. But why is that even in the presence of CSR initiatives firms may not necessarily improve their financial performance? At the same time, why is it that even if firms have social responsibility to their immediate societies, some of them do not develop CSR initiatives or even disclose them yet they improve their financial performance. The precise answers to these questions are a matter of debate (Maina, 2015), even though there appears to be a precise consensus that even in the presence of effective CSR activities, firms may not necessarily improve their financial performance.

2.2.1: SHAREHOLDER THEORY

The shareholder theory is an important theory in the evaluation of why certain firms do not develop CSR activities yet they improve their financial performance or even outperform their

counterparts that develop CSR activities. Additionally, it is important in evaluating the negative link between firm performance and CSR initiatives. The theory was developed by Friedman (1970) and it claims that firms do not have moral obligation to the members of the public or even other stakeholders except maximizing profit for their shareholders. By arguing so, the shareholder theory views social responsibility activities as detrimental to firms that have the sole responsibility of maximizing wealth for shareholders. Although the theory might be accused of downplaying the importance of other stakeholders especially the members of the public, it acknowledges the existence of other organizations such as governments and charitable organizations that deal with socially responsible actions; hence, does not see the need to burden organizations with this responsibility (Branco & Rodrigues, 2007). Additionally, it acknowledges that firms should behave in honest manner implying that they should not engage in fraud or deceptive practices (Branco & Rodrigues, 2007). In particular, it acknowledges that the firms should not pollute the environment or harm the members of the public in their processes of maximizing profits for shareholders because they should act ethically. Accordingly, the theory might explain why certain firms do not engage in CSR activities yet they improve their performances in their processes of maximizing wealth for their shareholders.

Although the theory limits its scope to shareholders whose businesses and firms have immediate responsibilities to as Friedman (1970) argued, it was utilized in the current study to explain the negative link between firm performance and CSR initiatives. The study argued that the link between community CSR projects and the performance of the large manufacturing firms in the country emanated from the financial resources that the CSR projects drew from the firms; hence, affected their performances negatively.

11

2.2.2: SLACK RESOURCES THEORY

This theory was developed by Penrose (1959) and it postulates that firms engage in CSR activities because they have slack resources implying that those encountering financial challenges do not engage in such activities because they lack slack resources (Zoeteman, 2012). Slack resources in this case relate to the additional resources that firms generate out of their business processes. Because of this, firms see CSR activities as supplementary costs to their business practices; hence, engage in them if they can afford them out of the additional/slack resources (Keinert, 2008).

Although this theory is equally good in evaluating the influence of CSR activities on firm performance, it presumes that firms engage in CSR activities if they improve their financial performance or so long as they possess supplementary financial resources to spend on CSR-related activities. The implication is that firms without such resources should not engage in CSR activities (Jackson, Ones, & Dilchert, 2012). While this is the case, firms have social responsibilities to various groups of people. To employees, they should provide them with good working conditions and even reward them accordingly among other things. Furthermore, they should conserve the environment implying that they should not pollute it or even exploit the members of the public to sustain their business practices (Crane, 2008). Accordingly, it would be wrong to presume that firms should engage in CSR activities if they improve their performances or if they have slack resources at their disposal (Cressy, Cumming, & Mallin, 2012). The theory is utilized in the current study to depict the extent to which the additional financial resources that large manufacturing firms in the country generate from their business processes enable them to

engage in various CSR activities. Additionally, it is utilized to highlight the various CSR activities that the firms engage in.

2.2.3: CARROLL FOUR COMPONENT MODEL

The Carroll's (1979) four component model is also important to the current study. The model, which was developed by Carroll in 1979, deconstructs organizational social responsibilities into four components namely economic, philanthropic, ethical and legal and displays them in a pyramid as follows.

Figure 2.1: Carroll's CSR pyramid

Adapted from Branco and Rodrigues (2007)

As Figure 2.1 depicts, every firm has an economic responsibility to its shareholders and a similar responsibility to the members of the public and other groups of people. To the shareholders, the economic responsibility relate to wealth maximization whereas to the members of the public it relates to offering goods and/or services. However, in the process of doing so, governments develop legal rules and regulations that set the limits under which firms operate in. Besides the legal responsibilities, firms have ethical responsibilities to observe, but unfortunately the responsibilities are normally not included in legal responsibilities yet firms are expected to observe them. Because they are discretionary, firms may observe or ignore them altogether. While this is the case, these responsibilities are part of societal requirements that the members of societies expect firms to observe. Beyond these responsibilities, Carroll (1979) identifies philanthropic responsibilities, which largely are discretionary implying that firms can observe or even ignore them altogether as well. The unfortunate thing is that while these responsibilities are discretionary, they influence the way firms perform financially. Because of this, the current study evaluates the extent to which the large manufacturing firms in the country observe or do not observe these responsibilities in their business practices and the way the responsibilities influence their performances.

The advantage of this model is that it combines different theories in its analysis of CSR activities. At the outset, it evaluates the economic responsibility of firms towards the members of the public and even to its shareholders. Accordingly, it addresses itself to shareholder theory, which is normally regarded as a classical approach to CSR (Branco & Rodrigues, 2007). Beyond these people, the model requires firms to consider the interests of other groups of people; hence, addresses itself to some of the aspects addressed by stakeholder theory. In addition, it claims that firms have social responsibility to societies in totality; hence addresses itself to social needs

14

(Carroll, 1979). Nevertheless, in so doing, it combines many social issues, some of which firms may not necessarily observe in their business processes. For this reason, the model is combined with stakeholder theory in the current study to evaluate how large manufacturing firms in the country observe or do not observe CSR practices in their business processes. Additionally, it is used to evaluate how the CSR initiatives influence the performance of the large manufacturing firms in the country.

2.2.4: STAKEHOLDER THEORY

The stakeholder theory, which was developed by Freeman (1984), is also an important theory to the current study. It presumes that apart from shareholders, firms have ethical obligations to other groups of people and even institutions. Accordingly, unlike the shareholder theory, that focuses much of its attention on shareholders' interests alone; it extends its scope to other groups of stakeholders who include the members of the public, employees, and suppliers among others (Nikolova & Arsic, 2017). The theory normally enables management teams to understand the possible effect of their courses of actions on organizational performance. Accordingly, it helps them to engage in CSR activities as a way of minimizing the negative outcomes of their courses of action (Branco & Rodrigues, 2007).

The unfortunate thing with the stakeholders' theory is that it requires firms to safeguard interests for various groups of people some of whom might be mute or even absent at the time management teams make various organizational decisions (Nwanji & Howell, 2007). While this is good as far as CSR is concerned, it in a way hinders firms from maximizing wealth for shareholders at the expense of other stakeholders. In so doing, the stakeholder theory might undermine firm performance as the shareholder's theory argues. In spite of this, it enables firms

15

to enhance their performances by taking into consideration the interests of various groups of people who might affect firm performance negatively.

In the light of the above, the stakeholder theory is utilized to determine the way large manufacturing firms in the country engage in CSR initiatives. Additionally, it is utilized to evaluate how CSR initiatives influence the performance of large manufacturing firms (Nikolova & Arsic, 2017).

2.3: EMPIRICAL REVIEW

Waworuntu, Wantah and Rusmanto (2014) evaluated the effect of CSR activities on the performance of top Asian public companies. Their main objective sought to determine whether the commitment that the companies showed to their various stakeholders was related in any way to the way they performed financially. They utilized descriptive research design to conduct the study and purposive sampling method to select the 40 Asian companies that were included in the study. The study established a moderate to strong positive correlation that was significant between the firms that engaged in CSR activities and even disclosed those activities to the members of the public and the way they performed financially.

Taskin (2015) evaluated the link between CSR activities and performance of 11 Turkish banks with a view to determining the way their ROA, ROE and net interest margins were impacted by CSR activities. Content analysis was utilized to evaluate CSR level based on CSR index and its effects on banks' performance. Taskin (2015) established that both ROE and ROA lacked explanatory power to explain CSR activities on the 11 Turkish banks that took part in the study whereas CSR activities were related to banks' net interest margins.

16

Margaretha and Rachmaati (2016) evaluated the effect of CSR activities on performance of publicly listed Indonesian companies between 2010 and 2013. The CSR activities were defined in terms of community social activities, environmental activities and CSR activities on employees. The purposive sampling method was utilized to select the 30 Indonesian firms that took part in the study. Using multiple regression analysis, the study established that CSR activities in terms of employee activities did not impact the performance of the Indonesian companies included in the study. However, it established that environmental activities had significant impact on performance when expressed in form of ROA, but not when expressed in terms of Tobin's Q. In spite of this, community social activities had significant impact on performance of the firms when it was measured in terms of ROA and even in Tobin's Q.

Gautam, Singh and Bhowmick (2016) evaluated the effect of CSR activities on performance by demystifying the link between them from an Indian business perspective. Their two specific research objectives included evaluating the direction of causal relationship between both variables and determining the link between firms' performance and CSR disclosure. Using descriptive research design, the top 500 Indian companies were selected to take part in the study. Then multiple regression analysis method in conjunction with descriptive statistics was utilized to analyze the data that was collected from the companies. The study found that firms' financial performance in terms of profitability had a direct causal relationship with CSR disclosure.

Maqbool and Zameer (2018) on equal measure narrowed their scope to the effect of CSR activities on the performance of Indian banks with a view to determine the link between banks' profitability and CSR market measures. The specific CSR activities included community involvement, environmental contribution and diversity as well as workplace initiatives whereas

17

performance was measured using banks' profitability and returns from the stock market. Forty-five (45) Indian banks were identified, but some of them were excluded from the study because of incomplete data. As a result, 28 banks, 15 of which were public and 13 private, were included in the study. The content analysis method was utilized to collect CSR data from banks' financial report. With the help of secondary data that they obtained from the banks' financial reports published between 2007 and 2016, they established that CSR activities among Indian banks had positive effect on the way banks performed financially.

Maina (2015) evaluated the effects of CSR practices on the performance of local companies listed on the NSE. The study's overall objective evaluated the effect of CSR activities on firms' performances whereas the specific objective evaluated the effects of CSR activities on firms' efficiency, liquidity and profitability. With the help of descriptive survey research design, Maina (2015) purposively sampled six companies as a way of controlling the effect of industries and firms' sizes on the link between performance and CSR activities. She then utilized annual financial reports to obtain the amount of money that the firms spent on their CSRs' activities and the way they performed financially. The descriptive statistics utilized in the study included means and frequency distributions whereas the inferential ones included bivariate linear regression model. The study established no significant relationship between firms' liquidity and CSR activities. In addition, it did not established significant relationship between firms' efficiency, profitability and CSR activities. It thereby concluded that CSR activities among the local companies listed on NSE did not affect the efficiency, profitability and liquidity of the local firms.

Robert, Lyria and Mbogo (2016) equally evaluated the effect of CSR on the performance of local companies listed on NSE. However, in contrast to Maina (2015), their specific objective determined the effects of CSR activities on the profitability, liquidity and asset growth of the companies included in the study. With the help of descriptive research design, the study selected 49 firms out of 63 that were listed on the NSE to determine the way CSR activities affected their financial performances. The authors collected secondary data from the firms' financial statements and utilized Pearson correlation analysis, chi-square statistics and t test to explore the data. The study established a notable link between the Return on Capital Employed (ROCE) scores and firm performance among the firms that spent more than 20 million on their CSR activities than their counterparts that spent less than 20 million on their CSR activities. In this respect, CSR activities were found to have significant effect on firms' profitability, but it depended on the amounts of money that firms spent on CSR activities. The study also established a notable link between firms' asset growth and CSR activities.

Onyango and Moronge (2017) evaluated the effects of CSR strategies on the performance of local commercial banks. Their main objective sought to determine the way CSR strategies affected the performance of those banks. Their specific objectives were four and they included determining the way support offered to innovation affected the performance of those banks, determining the way environmental activities initiated by those banks affected the way they performed financially, determining the way community development strategies affected their performance and determining the way support offered to entrepreneurs impacted banks' performances. A descriptive research design was utilized to select 200 research participants from 42 local commercial banks whereas the inferential and descriptive statistics were utilized to describe the link between CSR activities and banks' performance. Using the SPSS program, the

study found notable link between the way commercial banks in the country performed and the way they implemented their CSR activities. In line with this, support offered to entrepreneurs, community development strategies and support offered to innovative activities had positive impact on the performance of local commercial banks whereas the environmental activities did not affect the way the banks performed in any way.

Mwancha and Ouma (2017) appraised the effects of CSR initiatives on the performance of Safaricom Company. Their specific objectives included determining the effect of CSR initiatives on the firm's sales, market share and brand name. With the help of descriptive research design, they selected 75 research participants to take part in the study and utilized percentages, correlation figures and frequency tables to describe the link between firm's CSR activities and the way it performed in terms of sales, market share and brand name. They established that CSR activities had significant effect on the firm's sales, market share and brand name. While the study was able to depict the close connection between the firm's performance and CSR activities, it did not focus its attention on manufacturing companies in the country; thus, the need for the current study.

Muchiri, Wasike and Muigai (2019) evaluated the effect of CSR activities on the local banks listed on the NSE. Unlike the former studies, they evaluated the effect of CSR dimension in terms of environmental conservation and education on the performance of commercial banks. Using a survey research design, the authors collected secondary data from banks' financial reports provided on their public websites. CSR investment was measured in terms of the amount of money that the 11 banks that were selected to take part in the study spent on social activities whereas performance was measured in terms of their net profit after tax. The Karl Pearson

correlation model was utilized to analyze the data collected online from the banks' financial reports. The study established a positive link between banks' performance and CSR activities. Accordingly, the banks that invested heavily in CSR activities were identified as performing better than their counterparts that did not invest heavily in such activities.

2.5: CONCEPTUAL FRAMEWORK

The framework depicts the link between the study's dependent and independent variables. The firms' performance measured in terms of ROE and ROA was the study's dependent variable whereas the CSR activities measured in terms of community involvement and environmental activities was its independent variable as Figure 2.2 depicts. The presumption was that the firms' performance depends partly on the CSR activities they engaged in.

Independent Variable(s)

Community involvement

- Promoting community development
- Providing financial aid and other types of help to disaster stricken people
- Promoting income generating activities among vulnerable people
- Engaging in education activities

HO_1

Dependent Variable

Firm performance

- ROE
- ROA

Environmental activities

- Recycling wastes/pollutants
- Energy conservation
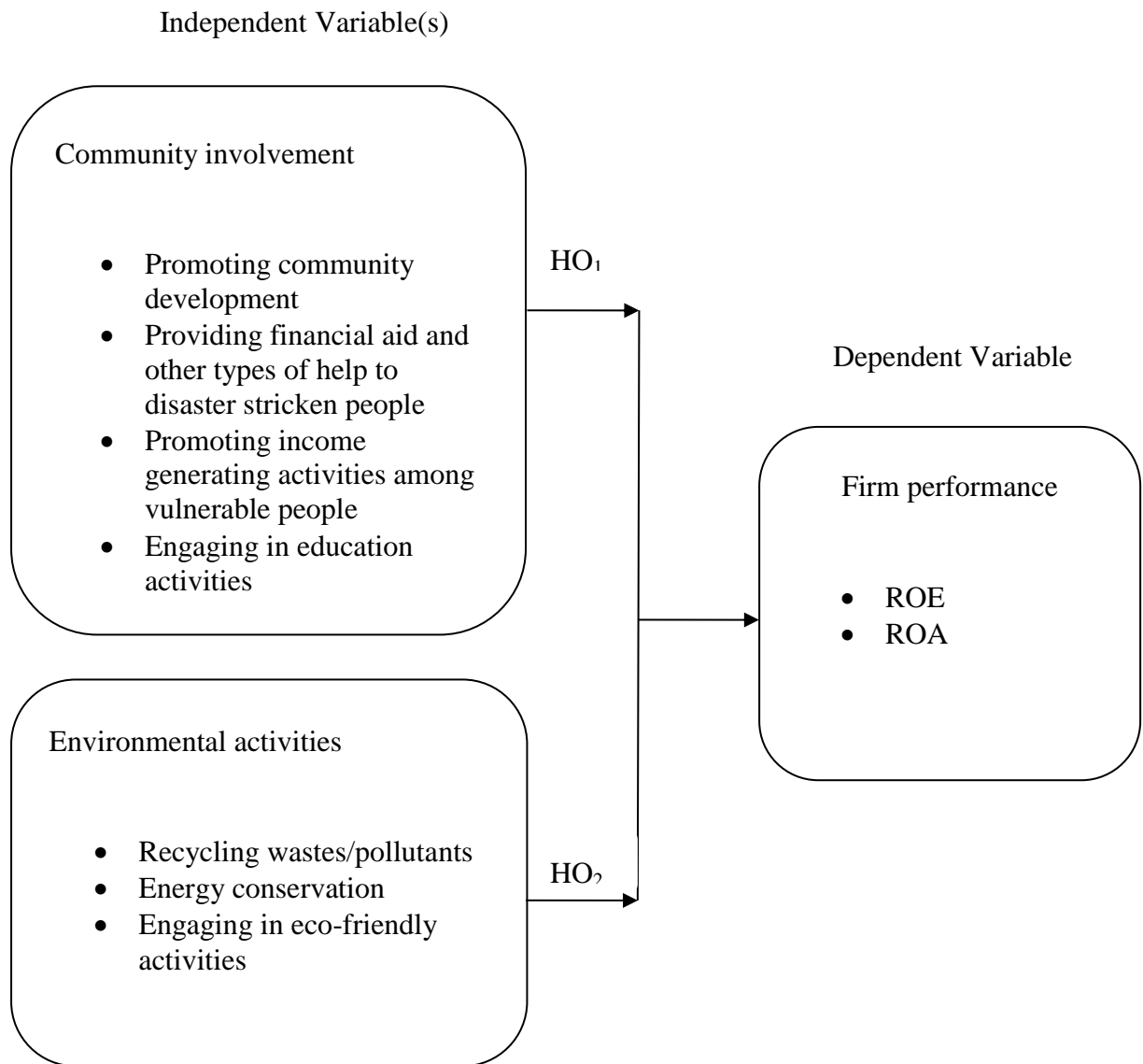- Engaging in eco-friendly activities

HO_2

Figure 2.2: The conceptual model

2.6: SUMMARY OF LITERATURE REVIEW

The review of the literature indicates that several studies have evaluated the issue under

investigation from different perspectives. Some of them have evaluated the effects of the

commitment that firms show towards various groups of stakeholders on their performances

whereas others have evaluated the link between CSR initiatives and firm performance. Using different accounting ratios to measure firm performance, the studies provide conflicting results with some of them showing positive effect on firm performance whereas others do not show any significant effect on firm performance.

2.7 RESEARCH GAP

In the light of the above, although similar studies have been conducted in the country, most of the studies approach the issue from different perspectives. Some of them use descriptive research design to evaluate the issue whereas others use chi-square tests and other types of tests to evaluate the issue under investigation. Indeed, although Maina (2015) does not identify CSR activities as influencing firm performance in any way, she focuses her attention on companies listed on the Nairobi Stock Exchange (NSE) without narrowing her focus to manufacturing companies in general. Similarly, although Robert, Lyria and Mbogo (2016) included seven manufacturing companies in their sample, they focused their attention on companies listed on NSE meaning that they excluded those not listed on NSE. Furthermore, although Kilong'i, Ayora and Bufali (2019) focused their attention on manufacturing companies, they narrowed their focus on water bottling companies based in Garissa town. Khamah, Njehia and Njanja (2015) on their part focused their attention on manufacturing companies listed on NSE whereas Chebet and Muturi (2018) narrowed their focus on Chemelil and Sony sugar factories. In the light of this, the existing studies do not evaluate the influence of CSR initiatives on the performance of large manufacturing firms in the country; hence, the need for the current study. To bridge the gap, the study evaluates the link between CSR activities and the performance of large manufacturing firms in the country. This is critical to the existing body of literature because it fills a research

gap; hence, contribute something new that is beneficial to scholars, companies that manufacture

assorted products in the country and policy makers in the country.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1: INTRODUCTION

The chapter presents the methodology that was utilized to conduct the study. Special attention is directed towards the research design, sample size determination process, the sampling process that was used to pick research participant and the study's target population. In addition, special attention is directed towards the method that was utilized throughout the data collection and analysis processes together with the data presentation methods among others.

3.2: RESEARCH DESIGN

A correlational research design was utilized to evaluate the effects of CSR activities on the performance of large manufacturing firms in the country. The design involved evaluating the extent to which CSR initiatives influenced or did not influence the performance of the firms between 2010 and 2020 (Sugiyono, 2008). The CSR activities were the study's independent variables whereas the firm performance was its dependent variable (Coleman & Briggs, 2003). The CSR activities were defined and measured in terms of community involvement and environmental activities whereas firm performance was measured in terms of firm profitability using both ROA and ROE (Onyango & Moronge, 2017).

The presumption was that firm performance depended partly on CSR initiatives. As a result, the firms that engaged in a wide variety of CSR activities were expected to perform better than their counterparts that engaged in few CSR activities or never engaged in those activities at all. The design was preferred over others because of the statistical link between CSR activities and firm performance.

3.3: POPULATION

According to Casteel and Bridier (2021), the target populations consist of the organizations, entities or people that researchers seek to evaluate in their studies and generalize their findings to. Casteel and Bridier (2021) add that the target population creates the boundaries for the studies. In line with this, the study's target population included the large manufacturing companies in the country. The firms operated in different sectors, but they manufactured the products they sold to their customers. According to KAM (2020), the firms were from the following fourteen (14) sectors namely, 1) food and beverage, 2) paper and board; 3) timber, wood and furniture, 4) energy, electrical and electronics; 5) building, mining and construction, and 6) metal and allied. Others will include; 7) textile and apparel, 8) motor vehicle and accessories, 9) service and consultancy, 10) fresh produce, 11) chemical and allied, 12) leather and footwear, 13) plastic and rubber as well as 14) pharmaceutical and medical equipment. The large firms were considered those with annual sales of over Ksh. 50 million. Accordingly, the manufacturing firms with less than Ksh. 50 million annual sales were excluded from the target population. According to KAM (2020), only 200 firms in the country met this criteria thereby were eligible to the sample.

3.4: SAMPLE SIZE

Based on the data availability from the firms' databases and credible secondary sources, a sample of seven (7) large firms namely, Unga Group, Bamburi cement, BAT, Crown Paints, EABL, Carbacid and Kerry Group were included in the analysis. The random sampling method was used to select the seven large firms included in the analysis. The selection process entailed randomly picking the firms that had annual sales of over Ksh. 50 million, searching for their

websites online and retrieving their financial reports from official websites. Although random sampling method was utilized to select the seven firms included in the analysis, the selection of the firms was influenced largely by the availability of annual financial reports for between 2010 and 2020 that provided the data. Additionally, it was influenced by the sustainability reports that the firms provided. It would be worth noting that some of the firms were excluded from the sample due to unavailability of both annual financial reports and sustainability reports for between 2010 and 2020. Others were excluded from the sample because they did not provide financial reports that were used in the current study to calculate firms' performances.

According to KAM (2020), the Unga Group was from the food and beverage sector and it manufactured and distributed human and animal nutrition products throughout the country. The EABL also was from the food and beverage sector, but it produced and distributed alcoholic beverages throughout the country. The BAT firm on its part produced cigarettes whereas the Crown Paints firm produced and distributed assorted paints to different parts of the country. The Bamburi cement manufactured cement whereas the Carbacid firm engaged in the energy sector with a specialty in gas distribution. The Kerry Group combined the pharmaceutical products with food and beverage products.

3.5: DATA COLLECTION

The secondary data utilized in the current study was obtained from the firms' financial reports accessible online from the firms' official websites or other websites such as the KAM's website that published similar information online between 15th October 2021 and 5th November, 2021. The data collection process entailed obtaining the names of the manufacturing firms in the country from KAM (2020), searching for the firms and their respective official websites online

and retrieving their financial reports from the websites. The firms that did not publish their financial reports online were excluded from the analysis because they did not provide the data sought. The financial reports were evaluated to obtain the relevant data that was recorded first into the Excel program. The data sought related to the firms' net income, total assets, shareholders' equity, community CSR projects and environmental CSR projects. The financial data was obtained from the annual financial statements whereas the CSR related data was obtained the sustainability reports. In exceptional cases, the CSR data was obtained from Chief Executive Officers' (CEOs') statement for the firms that did not provide succinct sustainability reports. The Excel program was used to calculate the firms' ROE and ROA before the data was exported to the Statistical Package for Social Scientists (SPSS) program for further analysis. The SPSS program was used to execute both correlation and fixed effect regression data analysis processes.

3.6: DATA ANALYSIS

The SPSS program was used to analyze the secondary data obtained from the firms' financial reports and other secondary sources. Both fixed effect regression analysis and correlation analysis methods were used to analyze the data. The fixed effect regression analysis method determined the degree to which each of the variables predicted the influence of CSR activities on firms' performances whereas the correlation analysis was used to determine the nature, strength and direction of linear link between CSR initiatives and firm performance (Saunders, Lewis, & Thornhill, 2009). The fixed effect regression method was used to control the variables that varied across the manufacturing firms included in the analysis that were not included in the analysis. Such variables included the nature of the businesses that the firms engaged in among others.

3.6.1: ANALYTICAL MODEL

The following fixed effect regression model was be utilized to analyze the secondary data obtained from the firms' financial reports.

$$Y = \beta_i + \beta_1 X_1 + \beta_2 X_2 + U_{it}$$

Where:

Y = the firm performance as measured in terms of either ROE or ROA

X_1 = Community-related activities/projects (school building projects, sanitary towels, food donations etc.)

X_2 = Environmental-related activities/projects (tree planting, environmental awareness campaigns, beach management projects etc.)

$\beta_{i\ =}$ the unknown intercept for each independent variable

$\beta_{1,\ 2,\ =}$ the coefficients for community-related and environmental-related CSR activities

U_{it} = the model's error term

Control variable = Firm size (firm size was controlled by including firms of the same size [large firms])

The correlation analysis method was utilized to determine the nature and direction of linear link between the firms' performance and CSR activities. The correlational values lay between 0 and

±1; hence, the coefficients close or equal to +1 represented represent perfect positive correlation whereas those close or equal to -1 represented perfect negative correlation. In line with Saunders, Lewis and Thornhill (2009), the values close to -0.7 characterized strong negative correlation whereas those close to -0.3 characterized weak negative correlations. Correspondingly, those close to 0.7 symbolized strong positive correlation whereas those close to 0.3 symbolized weak positive correlation. In contrast, zero represented perfect independence indicating that the variables were not related in any way (Sugiyono, 2008). The SPSS program was utilized to conduct both statistical tests.

3.6.2 VARIABLES' OPERATIONALIZATION

The ROE, which was a performance proxy, was determined using the following formula.

$$ROE = \frac{Net\_Income}{Assets - Liabilities} = \frac{Net\_Income}{Shareholder\_Equity}$$

The ROA, on the other hand, was determined using the following formula.

$$ROA = \frac{Net\_Income}{Total\_Assets}$$

The community-related activities/projects were operationalized in terms of the number of activities/projects that the large manufacturing firms initiated in their business processes as part of CSR initiatives. These included the school feeding projects, the community supporting projects, education programs and income generating projects in the communities among others. The environmental-related activities/projects, on the other hand, were operationalized in terms of the number of environmental-related projects that the firms initiated to protect the environment

30

from pollution and other types of harm. Special attention was directed to the different CSR activities that the firms engaged in as opposed to the measures that the firms indicated in their sustainability reports that they had developed to protect environment from pollution. These included the water conservation related projects, tree planting projects, waste management projects and forest restoration programs among other environmental related projects initiated by the firms. The number of projects was counted for every year to determine the CSR activities that the firms engaged in.

3.6.3: TEST OF SIGNIFICANCE

A 5 percent significance level was utilized to test the study's hypotheses. The decision rule was to reject the null hypotheses for p-values less than or equal to 0.05 whereas the null hypotheses were retained for p-values greater than 0.05.

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 INTRODUCTION

The chapter presents the study's findings without necessarily discussing them. It directs special attention towards the descriptive and inferential statistics used to either reject or retain the null hypotheses.

4.2 DESCRIPTIVE STATISTICS

Table 4.1 provides the study's descriptive statistics. As seen from Table 4.1, each of the large manufacturing firms included in the study engaged in at least one community CSR project. The firms that engaged in many community CSR projects engaged in seven (7) projects annually. The mean number of community CSR projects was 3 with a standard deviation of 1.263. Similarly, the firms included in the analysis engaged in at least one environmental CSR project annually whereas that engaged in many environmental CSR projects engaged in eight (8) projects. In spite of this, the mean number of environmental CSR projects was two (2) projects with a standard deviation of 1.474. The ROA's mean was 41.19% with a variation of 11.68% whereas the ROE's mean was 86.43% with a variation of 24.90% as Table 4.1 depicts.

Table 4.1: The study's descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Community	77	1	7	2.90	1.263

Environmental	77	1	8	2.34	1.474
ROA	77	.25	41.19	14.1511	11.68920
ROE	77	.67	86.43	24.9022	21.09678
Valid N (listwise)	77				

Figure 4.1 provides the frequency of the community CSR projects in the firms included in the study. It shows that majority of the firms engaged in between 2 and 4 community CSR projects annually with very few of them engaging in more than 5 such projects.
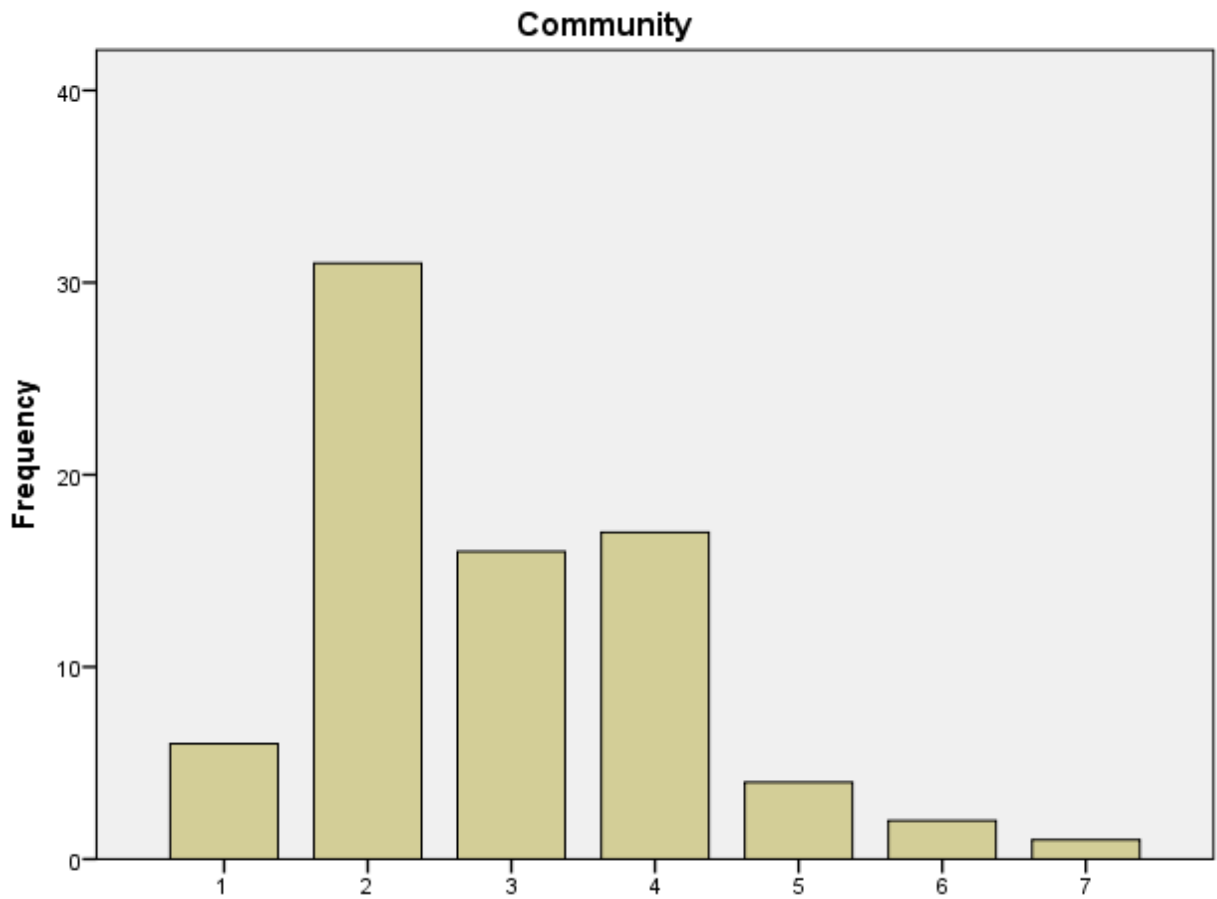
Figure 4.1: A bar chart for the community CSR projects

Figure 4.2 depicts the frequency of the environmental CSR projects that the firms engaged in between 2010 and 2020. It depicts that most of them engaged in between 1 and 3 environmental projects annually for the period between 2010 and 2020.
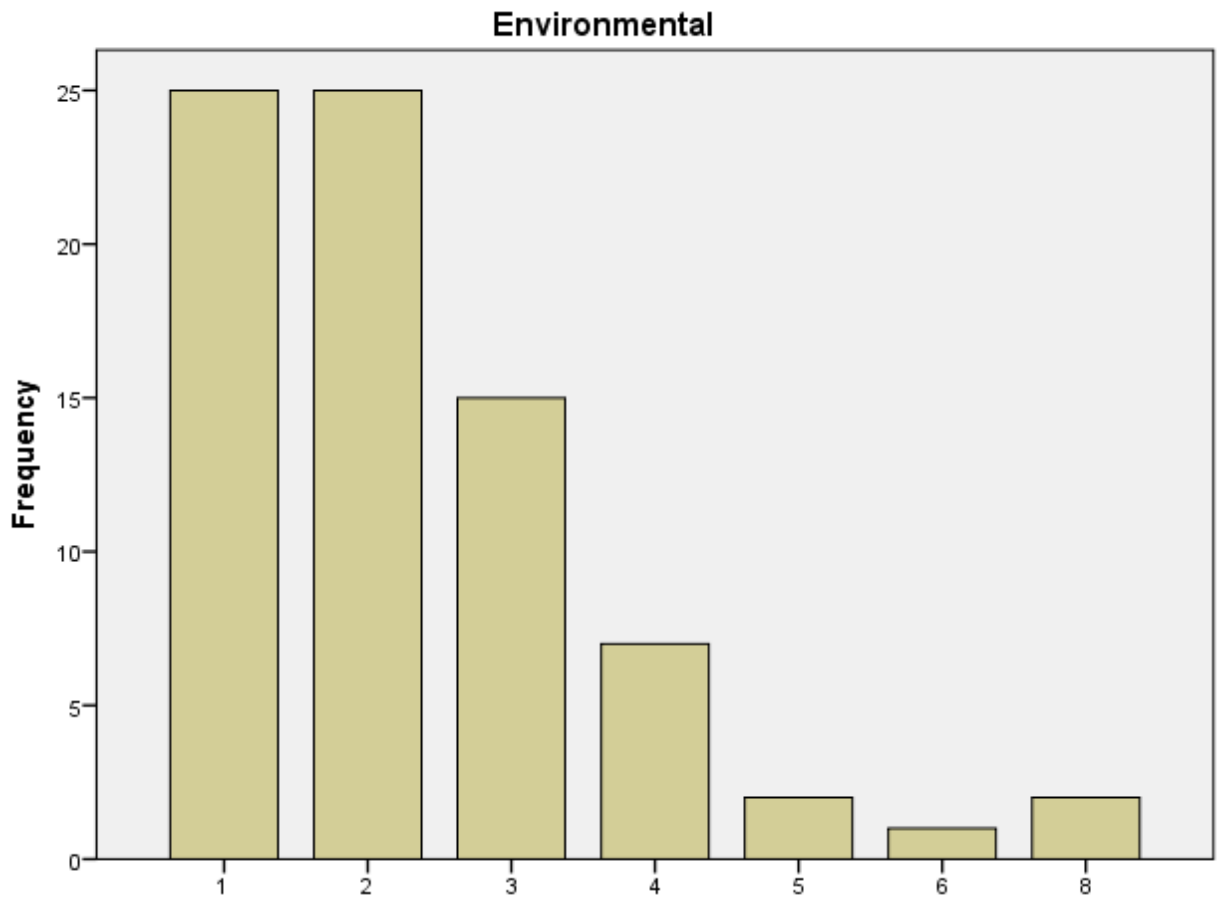
Figure 4.2: A bar chart for the environmental CSR projects

4.3 INFERENTIAL STATISTICS

4.3.1 CORRELATION ANALYSIS

Table 4.2 provides the correlation between ROA and the study's independent variables (community and environmental CSR activities). It depicts a statistically significant correlation between the firms' ROA and the number of community CSR activities the firms engaged in, r (77) = -0.372, p < 0.05. Although there was positive correlation between ROA and the number of environmental activities, r (77) = 0.207, p > 0.05, the correlation was not significant at 5%.

Table 4.2: Correlation between ROA and study's independent variables

		ROA	Community	Environmental
ROA	Pearson Correlation	1	-.372**	.207
	Sig. (2-tailed)		.001	.071
	N	77	77	77
Community	Pearson Correlation	-.372**	1	.549**
	Sig. (2-tailed)	.001		.000
	N	77	77	77
Environmental	Pearson Correlation	.207	.549**	1
	Sig. (2-tailed)	.071	.000	
	N	77	77	77

The correlation between ROE and study's independent variables (community and environmental CSR activities) was also conducted. Like in the above case, there was statistically significant correlation between ROE and the number of community CSR activities the firms engaged in, *r*

(77) = -0.344, p < 0.05. Although there was positive correlation between ROE and the number of environmental activities, r (77) = 0.106, p > 0.05, the correlation was not significant at 5% as Table 4.3 depicts.

Table 4.3: Correlation between ROE and study's independent variables

		ROE	Community	Environmental
	Pearson Correlation	1	-.344**	.106
ROE	Sig. (2-tailed)		.002	.360
	N	77	77	77
	Pearson Correlation	-.344**	1	.549**
Community	Sig. (2-tailed)	.002		.000
	N	77	77	77
	Pearson Correlation	.106	.549**	1
Environmental	Sig. (2-tailed)	.360	.000	
	N	77	77	77

4.3.2 FIXED EFFECT REGRESSION ANALYSIS

The fixed effect regression analysis was also carried out to appraise the influence of the CSR activities on both ROA and ROE.

4.3.2.1 Performance as measured in terms of ROA

Table 4.4: The model's summary statistics for ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.917^a	.841	.822	4.93355

a. Predictors: (Constant), Kerry, Bamburi, EABL, Carbacid, Crown, BAT, Community, Environmental

The R^2 value determined the model's goodness of fit. It established that about 84.1% of variation in ROA was explained by the study's independent variables (community and environmental CSR activities). Table 4.4 provides the model's summary statistics.

Table 4.5: The model's ANOVA results for ROA

Model	Sum of Squares	df	Mean Square	F	Sig.

	Regression	8729.333	8	1091.167	44.830	.000[b]
1	Residual	1655.112	68	24.340		
	Total	10384.445	76			

a. Dependent Variable: ROA

b. Predictors: (Constant), Kerry, Bamburi, EABL, Carbacid, Crown, BAT, Community, Environmental

The ANOVA results indicated that the model was significantly useful in explaining firm performance as measured in terms of ROA, $F_{(8, 68)} = 44.83$, $p < 0.05$. Table 4.5 provides the model's ANOVA results.

Table 4.6: The model's coefficient for ROA

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

	(Constant)	9.622	2.445		3.935	.000
1	Community	-2.298	.676	-.248	-3.399	.001
	Environmental	1.903	.653	.240	2.913	.005

a. Dependent Variable: ROA

Although the ANOVA results were important in evaluating the model's significance in envisaging the effects of the study's independent variables on firm performance, they could not indicate the degree to which the variables influenced ROA. As a result, the model's coefficients were used to predict the effect. As can be seen from Table 4.6, the study found that the community CSR projects initiated every year had statistically significant influence, t (76) = - 3.399, p < 0.05, on the firms' ROA between 2010 and 2020. Similarly, the study established that environmental CSR projects initiated every year had statistically significant influence, t (76) = 2.913, p < 0.05, on the firms' ROA between 2010 and 2020.

Using the unstandardized beta coefficients (Table 4.6), the following model was developed to predict the influence of both community and environmental CSR activities on firms' performance as measured in terms of ROA.

ROA = 9.622 - 2.298*Community CSR projects + 1.903*Environmental CSR projects

The model indicated that a unit increase in the community CSR projects decreased firm performance as measured in terms of ROA by 2.298 units, and vice versa. The implication was that the increase in the number of community CSR projects by one project had a negative effect on ROA whereas a decrease in the number of projects by one had positive influence on ROA. Conversely, a unit increase in environmental CSR projects increased ROA by 1.903 units.

4.3.2.2 Performance measured in terms of ROE

Table 4.7: The model's summary statistics for ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.890[a]	.793	.768	10.15541

a. Predictors: (Constant), Kerry, Bamburi, EABL, Carbacid, Crown, BAT, Community, Environmental

A further analysis was conducted to determine whether the effect of community and environmental CSR activities on firm performance could change or not if the performance would be measured in terms of ROE. Like in the above case, the R^2 value determined the model's goodness of fit. It established that about 79.3% of variation in ROE was explained by the study's independent variables (community and environmental CSR activities). Table 4.7 provides the model's summary statistics.

Table 4.8: The model's ANOVA for ROE

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	26812.629	8	3351.579	32.498	.000[b]
1	Residual	7013.004	68	103.132		
	Total	33825.633	76			

a. Dependent Variable: ROE

b. Predictors: (Constant), Kerry, Bamburi, EABL, Carbacid, Crown, BAT, Community,

Environmental

The ANOVA results also indicated that the model was significantly useful in explaining firm performance as measured in terms of ROE, $F(8, 68) = 32.498$, $p < 0.05$. Table 4.8 provides the model's ANOVA results.

Table 4.9: The model's coefficient for ROE

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.

		B	Std. Error	Beta		
	(Constant)	11.190	5.034		2.223	.030
1	Community	-1.629	1.392	-.098	-1.170	.246
	Environmental	1.670	1.345	.117	1.242	.219

a. Dependent Variable: ROE

Even if the ANOVA results were important in evaluating the model's significance in envisaging the study's independent variables' influence on firm performance, they could not indicate the extent to which the variables influenced firm performance (ROE). Accordingly, the model's coefficients were used to predict the effect. As can be seen from Table 4.9, the study found that the community CSR projects initiated every year did not have a statistically significant influence, $t(76) = -1.170$, $p = .246$, on ROE between 2010 and 2020. Similarly, the study established that environmental CSR projects initiated every year did not have a statistically significant influence, $t(76) = 1.242$, $p = .219$, on ROE between 2010 and 2020.

In the light of the above, it was concluded that both community and environmental CSR projects initiated between 2010 and 2020 by the large manufacturing firms did not influence their performances in any way as measured in terms of ROE.

4.4 HYPOTHESIS TESTING

The first null hypothesis:

> $H0_1$: there is no significant influence between community CSR projects and the performance of large manufacturing firms in Kenya

Presumed that the community CSR projects initiated by large manufacturing firms in the country did not influence the firms' performance between 2010 and 2020. The firm performance was measured in terms of ROE and ROA. For ROA, the alternative hypothesis that presumed that the community CSR projects had notable influence on firms' performances was accepted on account that $p < 0.05$. For ROE, the null hypothesis was retained on account that p (.246) > 0.05. The study concluded that the community CSR projects had negative influence on firms' ROA, but not on ROE.

The second null hypothesis

> $H0_2$: there is no significant influence between environmental CSR projects and the performance of large manufacturing firms in Kenya

Presumed that the environmental CSR projects initiated by large manufacturing firms in the country between 2010 and 2020 did not influence the firms' performances. The firm performance was measured in terms of both ROE and ROA. For ROA, the alternative hypothesis that presumed that the environmental CSR projects had notable influence on firms' performances was accepted because $p < 0.05$. For ROE, however, the null hypothesis was retained because p

(.219) > 0.05. The study concluded that the environmental CSR projects had positive influence on ROA, but not on ROE.

CHAPTER FIVE: SUMMARY OF FINDINGS, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The chapter concludes the study by discussing the findings in the light of the previous studies. Additionally, it summarizes the main findings before providing the concluding remarks and recommending areas for further research.

5.2 DISCUSSION

This section – discussion - discusses the findings in relation to the previous studies. Special attention is directed towards the research objectives; as such, the discussion is organized based on research objectives to depict the degree to which they were achieved or not achieved.

5.2.1 INFLUENCE OF COMMUNITY CSR PROJECTS ON FIRMS' PERFORMANCE

The first research objective sought to appraise the influence of community CSR projects on the firms' performance between 2010 and 2020. The study hypothesized that the community CSR projects did not influence firms' performances (ROA and ROE). The correlation analysis determined whether there was any statistically significant correlation between the two variables. The study established a statistically significant negative correlation, r (77) = -.372, between firm performance as measured in terms of ROA and community CSR projects. Given that the correlation was close to -0.3, then it was considered weak (Saunders, Lewis, & Thornhill, 2009). Similarly, the study established a statistically significant negative correlation, r (77) = -.344, between firm performance as measured in terms of ROE and community CSR projects. The correlation was also considered weak because it was close to -0.3 (Saunders, Lewis, & Thornhill,

2009). The fixed panel data analysis was carried out to appraise the influence of community CSR projects on firm performance.

The study established that the community CSR projects initiated every year had statistically significant influence, $t(76) = -3.399$, $p < 0.05$, on the performance of large manufacturing firms as measured in terms of ROA and not measured in terms of ROE. As a result, the first null hypothesis that presumed that the community CSR projects initiated by the large manufacturing firms in the country did not have statistically significant influence on their performance was rejected. In so doing, the alternative hypothesis that presumed that the community CSR projects had statistically significant influence on the firms' performances was accepted. The study thereby concluded that the community CSR activities had notable influence on the performance of large manufacturing companies in the country.

The findings agreed with Margaretha and Rachmaati (2016) who established that community CSR activities had significant effect on the performance of the Indonesian firms when expressed in terms of ROA. However, in contrast to Margaretha and Rachmaati (2016) who established a positive influence, the current study established a negative influence. The findings were also in agreement with Gautam, Singh and Bhowmick (2016) who established a direct causal link between CSR disclosure and firms' performance.

In spite of the above, the findings were in disagreement with Maqbool and Zameer (2018) who established that the CSR initiatives had positive influence on the performance of Indian banks. Additionally, they were in disagreement with Maina (2015) who did not establish any statistically significant link between CSR activities and the performance of local firms listed on

the Nairobi Stock Exchange. Furthermore, the findings were in disagreement with Robert, Lyria and Mbogo (2016) who identified CSR initiatives as influencing the performance of the local firms positively. In contrast to Robert, Lyria and Mbogo (2016) the current study established that the large manufacturing firms that invested money in additional community CSR projects reduced their performances as opposed to enhancing them suggesting that there was negative link between them. Although the current study did not focus its attention on the amounts of money that the large manufacturing firms spent on their CSR initiatives like Robert, Lyria and Mbogo (2016) did, it suggested that spending on CSR initiatives had negative influence on firms' performances as opposed to positive influence. This was in disagreement with Onyango and Moronge (2017) who identified community CSR initiatives as influencing the performance of the local banks positively.

The results suggested that the community CSR projects initiated by the large manufacturing companies in the country had substantial influence on ROA, but not ROE. They showed that a unit increase in the number of the community CSR projects decreased firms' performance by 2.298 whereas a unit decrease in the number of the projects increased it by 2.298. The implication was that the community CSR projects had negative effect on firm performance. Several explanations could explain the suppressor effect of the community CSR projects on ROA. In line with the shareholders' theory, it is possible that the community CSR projects take part of the firms' profits to CSR initiatives; thus, undermine their performances. According to Keinert (2008), the community CSR projects act as supplementary costs thereby the firms should engage in the projects if they can afford them out of their slack resources. In the light of this, it is possible that as opposed to enhancing firm performance, the community CSR projects undermine the performance of the large manufacturing firms in the country.

48

5.2.2 INFLUENCE OF ENVIRONMENTAL CSR PROJECTS ON FIRMS' PERFORMANCE

The second research objective sought to appraise the influence of environmental CSR projects on the firms' performances between 2010 and 2020. The study hypothesized that the environmental CSR projects did not influence firms' performances (ROA and ROE). A correlation analysis was conducted first to determine whether there was any statistically significant correlation between firms' performance and environmental CSR projects. The study did not establish a statistically significant correlation, r (77) = .207, p = 0.071, between firm performance as measured in terms of ROA and environmental CSR projects. Given that the correlation was close to 0.3, then it was considered weak even though it was not statistically significant (Saunders, Lewis, & Thornhill, 2009). Similarly, the study did not establish a statistically significant correlation, r (77) = .106, p = 0.36, between firm performance as measured in terms of ROE and environmental CSR projects. The correlation was considered negligible because it was close to zero (Saunders, Lewis, & Thornhill, 2009). The fixed panel data analysis was conducted to determine the influence of environmental CSR projects on firm performance.

The study established that the environmental CSR projects initiated every year by the firms had statistically significant influence, t (76) = 2.913, p < 0.05, on the performance of large manufacturing firms as measured in terms of ROA and not measured in terms of ROE. As a result, the second null hypothesis that presumed that the environmental CSR projects initiated by the large manufacturing firms in the country did not have statistically significant influence on their performance was rejected. In so doing, the alternative hypothesis that presumed that the environmental CSR projects had statistically significant influence on the firms' performances

was accepted. By accepting the alternative hypothesis, the study concluded that the environmental CSR activities had notable influence on the performance of large manufacturing companies in te country.

The findings were in consensus with Waworuntu, Wantah and Rusmanto (2014) who established that CSR initiatives had positive correlation with the performance of the Asian public firms. Additionally, they were in agreement with Margaretha and Rachmaati (2016) who established that environmental CSR activities had significant effect on the performance of the Indonesian firms when expressed in terms of ROA, but not when expressed in terms of Tobin's Q. Furthermore, the findings were in agreement with Mwancha and Ouma (2017) who identified CSR initiatives as influencing the performance of the Safaricom Company positively. Moreover, the findings agreed with Muchiri, Wasike and Muigai (2019) who established that CSR initiatives had positive influence on the performance of the local banks listed on NSE. The findings, however, were in disagreement with Taskin (2015) who established that both ROE and ROA lacked the explanatory power to explain CSR activities on the 11 Turkish banks whereas CSR activities were related to banks' performance as measured in terms of net interest margins. Additionally, they were in disagreement with Onyango and Moronge (2017) who identified environmental CSR initiatives as not influencing the performance of the local banks in any way.

The results suggested that the environmental CSR projects initiated by the large manufacturing companies in the country between 2010 and 2020 had substantial influence on ROA. They showed that a unit increase in the number of the environmental CSR projects increased firms' performance by 1.903. The implication was that an additional environmental CSR project increased firms' performance by 1.903. Several explanations could explain the positive effects of

the environmental CSR projects on ROA. In line with the stakeholders' theory, the firms have ethical obligations to other groups of people apart from its shareholders. The findings suggest that when the large manufacturing firms in the country meet their obligations to other groups of people other than shareholders, they enhance their performances.

5.3 SUMMARY

The findings showed that the community CSR projects had negative influence on the performance of large manufacturing firms in the country between 2010 and 2020. They suggested that if the large firms would continue investing in community CSR initiatives, they would decrease their performances and profitability as measured in terms of ROA. Inasmuch as doing so would be detrimental to their performances, it would however improve their reputations towards the members of the public by depicting them as socially responsible.

In spite of the above, the findings showed that the environmental CSR projects had positive influence on the performance of the large manufacturing firms in the country. Unlike in the above case, they suggested that if the firms would invest in additional environmental CSR initiatives, they would enhance their performances and profitability as measured in terms of ROA, but not as measured in terms of ROE. Doing so would be critical to their development. From a stakeholders' theory perspective, it would depict them as socially responsible to the members of the public who purchase their manufactured products.

5.4 CONCLUSIONS

The study evaluated the influence of community and environmental CSR initiatives on the performance of large manufacturing companies in the country between 2010 and 2020. It

established that although the community CSR projects had negative influence on ROA, the environmental CSR initiatives had positive influence on ROA. The study concludes that the large manufacturing companies in the country should invest in environmental CSR projects to enhance their performances. This is in relation to the positive relationship established between the firms' performances and environmental CSR projects. Also, it concludes that even if the community CSR initiatives have negative influence on the firms' performances, they would at least engage in such initiatives to depict themselves as socially responsible. The study acknowledges that even if the initiatives would affect their performances negatively, it would at least improve their images towards the members of the public; hence, improve their performances in one way or the other.

5.5 RECOMMENDATIONS FOR POLICIES AND PRACTICE

Based on the study's findings, the study recommends that the large manufacturing firms in the country should invest in additional environmental CSR projects to enhance their performances as measured in terms of ROA. Additionally, it recommends that although the community CSR projects were identified as influencing the firms' performances negatively, the large manufacturing firms in the country should invest in the projects to present themselves as socially responsible. The study appreciates that even if investment made on community CSR projects would be detrimental to firms' performances, it would improve their images and reputations towards the members of the public; thereby improve performance indirectly.

5.6 AREAS OF FURTHER RESEARCH

Although the study's findings have notable implications to the implementation of CSR initiatives in the manufacturing industry in the country, the study had several limitations. Firstly, it

restricted its focus to large manufacturing firms in the country. As a result, the small manufacturing firms that did not provide their financial reports online were excluded from the study. Secondly, it utilized secondary data from the firms' official websites to evaluate the influence that community and environmental CSR initiatives had on firms' performances. Additionally, it measured firms' performances in terms of ROA and ROE only. Doing so restricted, the study's focus to certain areas thereby excluded others. In the light of this, there would be the need for further research especially among the small manufacturing firms that were excluded from the study. Additionally, there would be the need for similar studies among the large manufacturing firms in the country. However, in contrast to the current study, the studies should collect primary data from large manufacturing firms to determine how the CSR initiatives influence their performances. In addition, the studies should measure firms' performances using other measures other than ROA and ROE.

REFERENCES

Bird, D. (2009). The use of questionnaires for acquiring information on public perception of natural hazards and risk mitigation – a review of current knowledge and practice. *Natural hazards and earth system sciences, 9,* 1307-1325.

Branco, M., & Rodrigues, L. (2007). Positioning stakeholder theory within the debate on corporate social responsibility. *Electronic journal of business ethics and organizational studies, 12*(1), 5-15.

Carroll, A. B. (1979). A three-dimensional conceptual model of corporate social performance. *Academy of management review, 4*(4), 497-505.

Casteel, A., & Bridier, N. (2021). Describing populations and samples in doctoral student research. *International journal of doctoral studies, 16,* 339-362.

Chebet, R., & Muturi, W. (2018). Effect of corporate social responsibility on organizational performance: a case of Sony and Chemelil sugar factories, Kenya. *International journal of social sciences and information technology, 4*(2), 50-62.

Coleman, M., & Briggs, A., 2003. *Research methods in educational leadership and management*. London, Sage Pub.

Cooper, D. R., & Emory, D. C. (2002). *Business Research Methods* (5th ed.). Chicago: Richard D. Irwin Inc.

Crane, A. (2008). *The Oxford handbook of corporate social responsibility*. Oxford: Oxford University Press.

Cressy, R., Cumming, D., & Mallin, C. (2012). *Entrepreneurship, governance and ethics*. Dordrecht, the Netherlands: Springer.

Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. Boston: Pitman.

Friedman, M. (1970). The social responsibility of business is to increase its profits. *New York: Times magazine,* September 13: 32-33.

Gautam, R., Singh, A., & Bhowmick, D. (2016). Demystifying relationship between corporate social responsibility (CSR) and financial performance: an Indian business perspective Independent. *Journal of Management & Production, 7*(4), 1034-1062.

Githinji, R. (2015). The corporate social responsibility strategies and activities employed by the equity bank in Kenya to improve its performance. *IOSR journal of business and management (IOSR-JBM), 17*(1), 28-32.

Jackson, S. E., Ones, D. S., & Dilchert, S. (2012). *Managing human resources for environmental sustainability*. San Francisco, CA: Jossey-Bass, a Wiley Imprint.

Kenya Association of Manufacturers (KAM). (2020). *Kenya manufacturers and exporters directory*. Nairobi: Adafric communications ltd.

Keinert, C. (2008). *Corporate social responsibility as an international strategy*. Heidelberg: Physica-Verlag.

Khamah, A., Njehia, B., & Njanja, L. (2015). Investigating effect of corporate social responsibility on consumer buying behavior: A survey of listed companies in Kenya. *International Journal of Economics, Commerce and Management United Kingdom, 3*(1), 1-20.

Kilong'i, S., Ayora, J., & Bufali, P. (2019). Analysis of Corporate Social Responsibility on Organizational Performance of Water Bottling Companies in Garissa, Kenya. *International journal of strategic management and procurement (IJSMP), 1*(1), 80-87.

Kumar, R. (2011). *Research methodology: A step-by-step guide for beginners* (3rd ed.). London: Sage.

Landau, S., & Everitt, B. (2004). *A handbook of statistical analyses using SPSS*. Boca Raton: Chapman & hall/CRC.

Maina, A. (2015). *Effect of corporate social responsibility of financial performance of firms listed in Nairobi stock exchange*.

Maqbool, S., & Zameer, M. (2018). Corporate social responsibility and financial performance: An empirical analysis of Indian banks. *Future business journal, 4*(1), 84-93.

Margaretha, F., & Rachmawati, B. (2016). The effect of corporate social responsibility to financial performance of company in Indonesia. *OIDA international journal of sustainable development, 9*(4), 11-18.

Margolis, J., Elfenbein, H., & Walsh, J. (2009). Does it pay to be good and does it matter? A meta-analysis of the relationship between corporate social and financial performance. *Harvard university, working paper.*

Muchiri, M., Wasike, J., & Muigai, G. (2019). Effect of corporate social responsibility on performance of commercial banks listed in Nairobi stock exchange. *African journal business, economics and industry (AJOBEI), 1*.

Mugenda, M., & Mugenda, G. (2003). *Research Methods: Quantitative & Qualitative Approach.* Nairobi: Laba Graphics Services.

Mwancha, Y., & Ouma, C. (2017). Effects of Social Responsibility Initiatives on Performance of Safaricom Kenya Limited. *International journal of innovative research & development, 6*(8), 252-280.

Nikolova, V., & Arsic, S. (2017). The stakeholder approach in corporate social responsibility. *Engineering management, 3*(1), 24-35.

Nwanji, T. & Howell, K. (2007). A review of the two main competing models of corporate governance: the shareholdership model versus the stakeholdership model. *Corporate ownership and control, 5*(1), 9 – 23.

Onyango, A., & Moronge, M. (2017). Effects of corporate social responsibility strategies on performance of commercial banks Kenya. *The strategic journal of business and change management, 4*(4), 1098-1117.

Orlitzky, M., Schmidt, F., & Rynes, S. (2003). Corporate social and financial performance: A meta-analysis. *Organizational studies, 24*(3), 403-441.

Penrose, E. (1959). *The theory of the growth of the firm*. New York, NY: Wiley.

Robert, K., Lyria, R., & Mbogo, J. (2016). Influence of corporate social responsibility on financial performance of industries listed at Nairobi securities exchange, Kenya. *International Journal of Advanced Multidisciplinary Research, 3*(10), 82-108.

Saunders, M., Lewis, P., & Thornhill, A. (2009). *Research methods for business students* (5th ed.). Harlow, England: Pearson education limited.

Sugiyono J. (2008). *Statistics for Research*. Bandung, Indonesia: Alfabeta Press.

Taskin, D. (2015). The relationship between CSR and banks' financial performance: Evidence from Turkey. *Journal of Yasar University: special issue*, 21-30.

Veronica, M., & Rugami, J. (2017). Corporate social responsibility and competitive advantage of equity bank Kenya limited. *International Academic Journal of Human Resource and Business Administration, 2*(4), 128-155.

Wang, H., Tong, L., Takeuchi, R., & George, G. (2016). Corporate social responsibility: an overview and new research directions. *Academy of management journal, 29*(2), 534-544.

Waworuntu, S., Wantah, M., & Rusmanto, T. (2014). CSR and financial performance analysis: evidence from top ASEAN listed companies. *Procedia - Social and Behavioral Sciences, 164*, 493 – 500.

Zoeteman, B. C. J. (2012). *Sustainable development drivers: The role of leadership in government, business and NGO performance*. Cheltenham, UK: Edward Elgar.