EFFECT OF ANNUAL COST OF CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM SIZED ENTERPRISES IN NAIROBI COUNTY

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A Project Report Presented to the Institute of Postgraduate Studies in partial fulfilment of the Requirements for the Award of Degree of Master of Business Administration (Finance Option) of Kabarak University

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DECLARATION

The research project report is my own work and to the best of my knowledge it has not been presented for the award of a degree in any university or college.

Signed: ______________________________ Date: ________________________________

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RECOMMENDATION

To the Institute of Postgraduate Studies:

The research project report entitled "Effect of Annual Cost of Corporate Social Responsibility Activities on Financial Performance of Small and Medium Sized Enterprises in Kenya" and written by Maymuna Athuman is presented to the Institute of Postgraduate Studies of Kabarak University. We have reviewed the research proposal and recommend it be accepted in partial fulfilment of the requirement for the reward of the degree of Master's in Business Administration.

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DEDICATION

I would like to thank God for giving me the strength and guidance. I dedicate this research to my parents Michael Kipruto and Aisha Katttee who for the countless times I wanted to give up had the words of encouragement that kept me going on and for their boundless patience that saw this work to completion.

ABSTRACT

Today businesses are expected to take on additional social responsibilities aside from maximising profits and shareholders' wealth. Pressure from stakeholders have induced the businesses to espouse sustainable practices that look beyond their economic and legal requirements but also fulfil social obligations. However, due to their limited resources or lack thereof, small and medium enterprises, especially in developing countries, typically do not practice CSR or engage in reactionary CSR at best. They are largely linked to sporadic and non-voluntary regulatory compliance when they could adopt strategic sustainable responsibilities which are linked to improving financial performances of enterprises. Conducting more research on the relationship between corporate social responsibility and small and medium enterprises' financial performance can induce their strategic investment in sustainable practices that has a positive impact on their economic performance. This study therefore sought to analyse the effect of annual cost of corporate social responsibility activities on the financial performance of small and medium sized enterprises in Kenya. The specific objectives were to analyse the effect of amount spent annually in philanthropic, environmental and ethical activities on the financial performance of small and medium sized enterprises in Kenya. The study was anchored on triple bottom line model and stakeholders' and corporate social responsibility theories. A descriptive study design was adopted in order to observe and make inferences on the effect of corporate social activities spending of firm financial performance. The study targeted a population of 100 top performing medium sized companies in Kenya because of their rank as best financial performers in the country and their involvement in corporate social responsibility activities. Secondary data was collected by use of data collection form and the data was obtained from annual financial reports for years ended 2013 to 2018. Data was edited, coded and analysed using descriptive and inferential statistics. Results were presented in form of tables and graphs. The study will enable the owners of small and medium sized enterprises to understand the resultant effect of corporate social responsibility on financial performance of small and medium enterprises. It will also aid decision makers to make informed decisions about planning of sustainable objectives and allocation of resources towards achievement of those objectives. Using results from random effects model, it revealed annual cost of philanthropic, environmental and ethical activities by small and medium sized enterprises in Kenya can be used to predict the outcome of return on investment as a measure of the small and medium sized enterprises financial performance. Specifically, an increase in 1 unit on the amount spent annually on philanthropic activities lead to a decrease in return on investments by 1.4507 units, keeping amount spent annually on environmental activities and ethical activities constant. The relationship though inverse can be statistically can be used to forecast the outcome of return on investments. Secondly, when amount spent annually on environmental activities is increased by 1 unit, return on investment also decreases by 5.6109 units with other variables kept constant. This indicated that amount spent annually on environmental activities can be used to predict the small and medium sized enterprises returns on investments, though the relationship is inverse. Third, when amount spent annually on ethical activities increases with 1 unit, returns on investment increases by 8.3307 units keeping other variables constant, indicating that amount spent annually on ethical activities brought positive results on the SMEs return on investment as a measure of financial performance.

Key Words: ***Corporate Social Responsibility, Financial Performance, Small and Medium Sized Enterprises***

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LIST OF ABBREVIATIONS AND ACRONYMS

ASX	Australian Securities Exchange
CER	Corporate Environmental Responsibility
CFP	Corporate Financial Performance
COPOLCO	Consumer Policy Committee
CP	Corporate Philanthropy
CSR	Corporate Social Responsibility
DV	Dependent Variable
EBIT	Earnings before interest and tax
FP	Financial performance
GRI	Global Reporting Initiative
ICPAK	Institute of Certified Public Accountants
ISO	International Organisation for Standardisation
IV	Independent variable
KES	Kenyan Shillings
KPMG	Klynveld Peat Marwick Goerdeler
NACOSTI	National Commission for Science Technology and Innovation
NEMA	National Environment Management Authority
NSE	Nairobi Securities Exchange
PCER	Proactive Corporate Environmental Responsibility
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
SME	Small and Medium Sized Enterprises
SPSS	Statistical Package for the Social Sciences
SRI	Socially Responsible Investing
TBL	Triple Bottom Line

OPERATIONAL DEFINITION OF KEY TERMS

Corporate Social Responsibility (CSR): in this study the term corporate social responsibility is construed to mean a business' responsibility in the social welfare of the community while maintaining the long-run economic performance of the firm that supports its investment in those social responsibilities (Davis, 1960). In this study the businesses' responsibility to the community are classified as investments in philanthropic, environmental and ethical CSR activities.

Philanthropic activities: for the purpose of this study philanthropic activities are a business's voluntary or discretionary activities undertaken sometimes out of altruistic motivation, beyond legal requirement and ethical expectations of the society, or undertaken to demonstrate good citizenship in order to augment company reputation (Carroll, 2016)**.**

Ethical activities: for the purpose of this study ethical activities are activities of a business which reflect what consumers, employees, owners and the community regard as consistent with respect to the protection of stakeholders' moral rights, although not codified into law, are expected nonetheless by society (Carroll, 2016).

Environmental activities: for the purpose of this study environmental activities are sustainable activities carried out by companies to manage their environmental impacts effectively and efficiently (Berry & Rondinelli, 1998).

Financial Performance: in this study financial performance refers to the measurement of financial health of a company over a specified period of time to provide stakeholders information which facilitates decision making (Naz & Ijaz, 2016)

Small and Medium-sized Enterprises (SMEs): this study adopts the definition of small enterprises as businesses that employ 10 to 50 people and has an annual turnover that ranges between five hundred thousand and 5 million Kenyan shillings, while a medium sized enterprise has 50 to 99 employees and has an annual turnover ranging between 5 million and 800 million Kenyan shillings (Adeyeye, 2016)**.**

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

In the contemporary business environment, organisations are expected to take on additional social responsibilities aside from the traditional objective of the firm of maximising profits and shareholders' wealth. Society and other stakeholders have put immense pressure on businesses to adopt sustainable strategies that look beyond the required economic and legal responsibilities and proactively engage in activities that positively impact the environment, the society and the people around them (Shen, Govindan, & Shankar, 2015). As a result, firms on a global scale, have widely accommodated Corporate Social Responsibility as their key tool to accomplish sustainability goals due to its capacity to embrace all dimensions of sustainability.

However, does investing in corporate social responsibility really add value to a company? Responses to this question are divided as indicated by previous research. Proponents of corporate social responsibility suggest that firms that engage proactively in corporate social responsibility see strategic management of social responsibility issues as a possible source of competitive advantage, warranting discretionary expenditure (Torugsa, O'Donohue, & Hecker, 2012). They also pointed out by fulfilling their social responsibility, companies earn positive publicity that leads to greater social resources and appeal to talent (Roger & Chen-Hsun, 2017) which translates to a change in consumer attitude towards the organisation and the products and services that they produce and market (Mjomba & Rugami, 2017) and competent workforce that effectively enhance operational performance (Roger & Chen-Hsun, 2017). Other benefits include: having an appealing brand image, enhanced customer loyalty, better relations with supply chain partners and improved reputation with shareholders (Zaborek, 2014). Conversely, opponents are of the view that investment in corporate social responsibility involves incurring an extra cost which raises operational costs thus reducing profitability and competitiveness. Reich (2007) asserts that instead of incurring costs on corporate social responsibility projects in the highly competitive environment that hurt financial health, corporations should concentrate on activities that have positive effects and gains. Therefore, there ought to be a positive correlation between corporate social responsibility activities and the financial performance and outcomes of firms.

1.1.1 Global Perspective on CSR

With the rise in globalisation corporations operating across national boundaries and increased international trade, it has become difficult for states to regulate multinational corporations (Jamali & El Safadi, 2019; Baden, 2016). The burden of ensuring a more responsible business is therefore increasingly borne by the paradigm of corporate social responsibility (Baden, 2016). Corporations are being pressured to take responsibility for the social and environmental implications brought about by their operations (Kanji & Chopra, 2010) prompting their huge participation in dealing with social and ecological challenges such as poverty eradication, combatting climate change (Moratis, 2018) and ethical wrongdoing (Carroll, 2004). Financial pressures have had companies cognisant of their social responsibilities due to rise of socially responsible investing (SRI), shareholder activism and global reporting initiative (GRI) (Michelson, Waring, & Naude, 2016). Other forceful pressures emanating especially from consumers, media, non-governmental organisations and other interest groups (Freeman, 2013) that have popularised corporate social responsibility norms include willingness to boycott 'unethically produced' goods, concern over environmental degradation and concern over adverse effects of globalisation (Michelson, Waring, & Naude, 2016).

Due to the inability to impose stringent regulation upon businesses, private governance has opted to adopt voluntary sustainability standards instead. The United Nations' Global Compact mission, for instance, is to promote corporate sustainability by encouraging companies to align strategies and operations with their universal principles on human rights, environment, labour and ant-corruption, and taking action that advance societal goals. International Organisation for Standardisation (ISO) through the Consumer Policy Committee (COPLOCO) advanced the ISO 26000 standard for social responsibility (ISO 26000:2010) which was published in 2010 as a voluntary guidance standard. ISO 26000:2010 assists organisations in contributing to sustainable development. It advises organisations to take into consideration legal, political, cultural, organisational, societal and environmental diversity.

Investment in corporate social responsibility has grown significantly over the past decade. Approximately $15 billion is spent per annum on corporate giving by companies listed in Fortune 500 (Pappalardo, 2017). Sustainability reporting has also rose dramatically from 2011 where only 20 percent of S&P 500 companies published reports including environmental, social and governance performance. The frequency has been steadily rising annually since then to 85% of the companies in 2017 (Governance & Accountability Institute, 2017). This move to sustainability can be traced to the feasibility and motivations of firms to invest in corporate social responsibility not only to address social issues but because the investments translate to financial gain (Homroy, Barnerjee, & Slechten, 2015)

1.1.2 Regional Perspective on CSR

Corporate social responsibility in developing countries and especially in Africa is still at its infancy, less formalized and less institutionalised. Where it is formalized this usually involves large and high profile national and multinational corporations (Cheruiyot & Tarus, 2016). Generally, priority areas of corporate social responsibility projects are poverty reduction, health, skill development and education, economic and enterprise development, sports and human rights (Cheruiyot & Tarus, 2016). Other areas of focus on corporate social responsibility issues in African countries is ethical issues (related to nepotism and tribalism), natural environment and corruption (Demuijnck & Ngnodjom, 2013). Evidently, the most rapidly expanding economies are developing countries hence the most lucrative growth markets for businesses. Concurrently, the most acute social and environmental crises are felt in the developing countries. Corporate social responsibility issues dealt with in developed countries are therefore quite different from those in developing countries (Visser, 2006).

Developing countries, such as in Sub-Saharan Africa, have different business systems, managerial characteristics and institutional environments (Choongo, 2017). The enterprise structure and characteristic features of small and medium sized enterprises in the developing world hence differ from what is commonly encountered in developed countries. Social and economic crises in the form of wars, poverty, health problems, corruption, misguided aid, social and environmental challenges, are mostly felt in developing countries because they are fast expanding economies (Choongo, 2017). Thus small and medium sized enterprises in developing countries tend to be born out of necessity which are likely to exhibit different orientations to basic social and environmental functions (de Kok & Deijil, 2013). To what extent however do small and medium sized enterprises in developing countries contribute to achievement of broader objectives of sustainable and equitable development? According to Jamali, Lund-Thomsen and Jeppesen (2017) small and medium sized enterprises labour-intensive production processes and considerable employment growth rates contribute significantly to job creation and poverty alleviation in developing countries. They tend to be strongly rooted in their communities, generally closer to their employees and local community constituents (Demuijnck & Ngnodjom, 2013). The verdict although of whether involvement of these small and medium sized enterprises in corporate social responsibility makes any difference to their profitability is still out there (Lund-Thomsen, Jamali, & Vives, 2013).

1.1.3 Kenyan Perspective on CSR

In Kenya, corporate social responsibility is often seen as a peripheral to the core business and corporate social responsibility departments are rare and many operate within marketing, corporate affairs or communications department. In most cases, where there are defined corporate social responsibility policies, they are often philanthropic projects. Corporate leadership in Kenya tend to focus on launching community projects, supporting corporate social responsibility policies and ensuring resources for these projects, rather than embedding corporate social responsibility in business processes (Essays, UK, 2018). It is then not surprising that not many companies in Kenya have adopted sustainability reporting as part of their annual reports. Large Kenyan corporations, especially banks and listed firms, on the contrary, keep financial records concerning expenditure in corporate social responsibility activities and actually share the same with the public. For instance, the Kenya banking industry spent KES 2.1 billion in corporate social responsibility activities. The industry has spent approximately KES 9 billion over four years since 2015 in corporate social responsibility activities. The banks' top corporate social responsibility investment has been on educational activities, followed by health then environmental activities. Other areas that have received social investment from Kenyan banks in the tune of KES 3 billion is sports (Kenya Bankers Association, 2019).

Unlike their large counterparts, small firms are less visible when it comes to social awareness because of their inferior sustainability reporting capabilities, inadequate corporate social responsibility policies, less public attention, weaker financial position as opposed to large enterprises, among other reasons (Mousiolis, Zaridis, Karamanis, & Rontogianni, 2015). They however have the same responsibility for the social and environmental impacts of their activities (Cheruiyot & Tarus, 2016). Cheruiyot & Tarus (2016) posit that in Kenya specifically, small local enterprises have a weak financial base and inadequate corporate social responsibility policies if none which limits their adoption of corporate social responsibility strategies. This means that small and medium sized enterprises only engage in sporadic voluntary social and environmental development activities apart from the legal and ethical requirements which is explained by Torugsa, O'Donohue, & Hecker (2012) to be reactive corporate social responsibility.

Small and medium sized enterprises still hold a vital role in the Kenyan economy as main source of employment, innovation, competition and entrepreneurial development. Small and medium sized enterprises in Kenya, like other developing countries, are huge promoters of grass root economic growth, equitable sustainable development which has largely contributed to poverty reduction. The devolved system of governance promotion of favourable economic environment that has seen growing numbers of small and medium sized enterprises coupled with the sectors aforementioned performance, have done little to remedy the high mortality rate of small and medium sized enterprises due to the challenges they face, among them; inadequate enforcement of sector related regulation, inadequate access to finance, limited access to credit, poor infrastructure (Ong'olo & Awino, 2013).

1.2 Statement of the Problem

Despite the fact that small and medium sized enterprises account for about 98% of businesses worldwide where they contribute to 50-60% of employment and a substantial share to overall economic value, they are seen to practice reactionary corporate social responsibility limited to non-voluntary regulatory compliance instead of adopting corporate social responsibility as a strategic tool and increase competitive advantage and thus their financial performance (Torugsa, O'Donohue, & Hecker, 2012). Small and medium sized enterprises typically have limited or no resources to engage proactively in corporate social responsibility which hinders their opportunity to reap from the benefits (Torugsa, O'Donohue, & Hecker, 2012). Therefore costs associated with engaging in corporate social responsibility are deemed unproductive for they don’t have direct returns. However, employing strategic and well-coordinated efforts in corporate social responsibility may give favourable returns both in the long run and short term (James, 2015). In addition, this should not be the determining factor that bars SME investment in proactive corporate social responsibility since small and medium sized enterprises have capabilities like shared vision, employee involvement, stakeholder management, innovation, strategic proactivity and capital management which can be instrumental in the integration of corporate social responsibility issues in their strategic planning (Torugsa, O'Donohue, & Hecker, 2012). Adoption of strategic corporate social responsibility activities will therefore help small and medium sized enterprises properly budget and choose those activities that not only secures their financial stability but ensure they are socially and ethically responsible.

Over the years, research has mainly focused on large companies when studying the role of firms in corporate social responsibility, consequently little attention is given to the role small and medium sized enterprises play (Mousiolis, Zaridis, Karamanis, & Rontogianni, 2015). Thus the link between CSR and SME financial performance is still vague (Mousiolis, Zaridis, Karamanis, & Rontogianni, 2015) especially in developing countries (Zaborek, 2014). More attention should be accorded to understanding the contribution of small and medium sized enterprises in CSR since they are the backbones of most economies in terms of growth and providers of innovative solutions to social problems (Jamali, Lund-Thomsen, & Jeppesen, 2017). More studies should therefore be conducted to examine the relationship between corporate social responsibility and SME performance and especially so on how small and medium sized enterprises strategically invest in corporate social responsibility to improve their social at the same time financial performance.

1.3 Purpose of the Study

The purpose of this study was to investigate the effect of annual cost of corporate social responsibility activities on financial performance of small and medium sized enterprises in Nairobi County.

1.4 Objectives of the Study

The specific objectives of the study were:

1. To analyse the effect of amount spent annually in philanthropic activities on the financial performance of small and medium sized companies in Nairobi County
2. To assess the effect of amount spent annually in environmental activities on the financial performance of small and medium sized companies in Nairobi County
3. To evaluate the effect of amount spent annually on ethical activities on the financial performance of small and medium sized companies in Nairobi County

1.5 Research Hypotheses

The following made up the research hypotheses of the study:

H_{01}: There is no statistically significant effect of annual cost of philanthropic activities on the financial performance of small and medium sized enterprises in Nairobi County

$H_{02:}$ There is no statistically significant effect of annual cost of environmental activities on the financial performance of small and medium sized enterprises in Nairobi County

H_{03}: There is no statistically significant effect of annual cost of ethical activities on the financial performance of small and medium sized enterprises in Nairobi County?

1.6 Justification of the Study

This study was conducted with the aim of creating a deeper understanding of the importance of CSR and resultant effects on SME performance which will encourage SME sustainable development similar to that of their large counterparts. This study also intended to encourage small and medium sized enterprises to include in strategic planning CSR investment as opposed to engaging in reactionary CSR with unstructured CSR programs and unplanned philanthropic giving which only results to an extra cost to the company by examining how strategic CSR improves financial performance,

1.7 Significance of the Study

This research is beneficial in the enhancement of understanding of the relationship between the resources used in CSR activities and the financial standing of small and medium sized enterprises in Nairobi County. The research offers a rich empirical source to researchers in the creation of a deeper understanding of the importance of CSR and stimulates future research on the subject. Results of the study are beneficial to managers since they aid in making decisions concerning allocation of company resources in social and environmental concerns emanating from their operations with an aim of obtaining competitive advantage. Small and medium sized enterprises are a huge contributor to the Kenyan economy and a study therefore on cost of CSR activities on their performance invokes and steers the formulation of policy guidelines on CSR. The findings of the study are also informative to formulation of policies by state departments to improve the engagement of corporate social responsibility by small and medium sized enterprises and improve the social welfare of the communities they serve and enhance the ethical behaviour of these enterprises

1.8 Scope of the Study

The research was conducted on small and medium sized enterprises in Nairobi County that carry out and maintain records of the CSR activities. The study focused on the top 100 mid-sized companies ranked as the fastest growing medium sized companies in Kenya in the year 2018 according to a survey carried out by KPMG and Nation Media Group’s Business Daily every year. The survey focused on fast growing mid-sized companies in recognition of the fact that the SME sector is a key contributor to Kenya’s economic growth. Companies participating in the top 100 survey were specifically chosen as target population because of their entrepreneurial success and profitability which indicate their financial success. Also other qualitative aspects of these companies which were criteria for their ranking and consequently of interest to this research include their business confidence outlook, talent management policies and most importantly their involvement in corporate social responsibility. The survey captured financial performance for 6 years between 2013 and 2018.

1.9 Limitations of the Study

This study faced certain limitations including withholding information by respondents because the companies wanted to guard their confidential information especially relating to financial data which if leaked to competitors would cause detrimental effects. This was managed by seeking consent from respondent through presentation of an introductory letter from the researcher and presentation of a research permit issued by NACOSTI that reassured the respondents of authenticity of the researcher and their treatment of any information collected as confidential.

The researcher experienced delays during data collection process caused by respondents, majorly company managers, having busy schedules that did not allow them to provide the required data at the researcher's planned time intervals. The researcher therefore sent introductory letters early to allow the respondents to create time to take part in the survey. Other communication methods like email and phone calls were explored to set appointments with the respondents to allow timely collection of data.

Respondents are likely to give limited or incorrect information since they are inclined to paint a positive image of their companies. The researcher therefore explained the importance and impact of the research while assuring the respondents that all information offered was going to treated with utmost confidentiality thus encouraged the offering of best accurate information as they could possibly give.

The study involved collecting data from 70 small and medium sized companies that are sparsely spaced in Nairobi County. It was physically impossible to visit all the companies and drop the data collection sheets within the budgeted and reasonable time. The researcher therefore employed the use of research assistants who were trained on the ethical requirements of research on data collection before being sent to the field. Data was therefore collected on time to allow data analysis and preparation of this project report.

1.10 Assumptions of the Study

The study made an assumption that all the small and medium sized enterprises are going concerns and will continue to be going concerns throughout the period of the study. It also assumed that all the firms maintain proper books of account and prepare financial statements that reflect true and fair views of their financial statuses. It also supposed that the firms undertook CSR investments during the five year period under study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter contains a review of literature on corporate social responsibility and its relation with financial performance. It highlights various theories on corporate social responsibility and financial performance and provides the basis for the appropriate conceptual framework.

2.2 General Overview of Literature Review

This section reviewed previous studies that have been done concerning CSR and FP. It identified and examined the gaps and shortcomings in extant literature.

With the growing body of extant literature involving corporate social responsibility, it is however clear that there is relatively less studies on the role small and medium sized enterprises play in corporate social responsibility especially in developing countries (Jamali, Lund-Thomsen, & Jeppesen, 2017) unlike their large counterparts (Mousiolis, Zaridis, Karamanis, & Rontogianni, 2015). The situation is similar locally since majority of research seek to investigate the relationship between CSR and large corporations, especially banks (Mjomba & Rugami, 2017; Chege, 2014; Kipruto, 2014) and companies listed in the Nairobi Stock Exchange (Gichohi, 2014; Sisimonda, 2016; Too, 2017). The complex and multi-faceted relationship between corporate social responsibility and SME performance (Jamali, Lund-Thomsen, & Jeppesen, 2017) is yet to be understood. More research can be instrumental in bringing more insight in this regard.

Research done on small and medium sized enterprises in Kenya including by Osino (The Relationship between Corporate Social Responsibility and Financial Performance of Small and Medium Enterprises in Kenya, 2013) and Simon (The Effect of Corporate Social Responsibility on Financial Performance of 100 Top Small and Medium Enterprises in Kenya, 2014) focused on amount spent on corporate social responsibility activities. This study however grouped these activities under annual expenditure on philanthropic, environmental and ethical corporate social responsibility activities to draw a distinction on how these activities independently affect financial performance of small and medium sized enterprises.

2.3 Investment in Philanthropic Activities

Corporate philanthropy sometimes referred to as business giving, embraces businesses' voluntary and discretionary activities. It is not a business' responsibility, nonetheless, in the contemporary world, the public expects businesses to take up in discretionary responsibilities. It encompasses social activities that are neither mandated nor are a requirement of law and that are not carried out to fulfil any moral obligations or satisfy any ethical norms. Philanthropic responsibilities are those that a business fulfils not out of ethical motivation but out of altruism. Corporate philanthropy entails what the public least expects the company to do. Forms of discretionary responsibilities may therefore include; giving gifts, donating money, donating products and services, volunteerism by employees and management, community development and any other discretionary contribution to the community or stakeholder that make up the community (Carroll, 2016).

There is no direct link between corporate philanthropy and corporate financial performance according to Hogarth, Hutchinson and Scaife (2018). Friedman (1984) posits that corporate giving only increases costs for the company without any economic benefits. However, firms engage in discretionary activities which has positive effects on their non-financial performance, including enhanced corporate image (Hogarth, Hutchinson, & Scaife, 2018), improved competitive advantage (Mjomba & Rugami, 2017), reduce commercial risk and earn more support from regulatory authorities (Roger & Chen-Hsun, 2017). In the long run financial performance is impacted positively (Roger & Chen-Hsun, 2017).

Zulfiqar (2016) studied the Link between Corporate Philanthropy and Corporate Financial Performance and argues that corporate philanthropy (CP) aligns with the bottom line since it can be a significant determinant of corporate financial performance. The study consisted of 80 out of 166 companies in the Textile industry listed at the Pakistan Stock Exchange. Criteria for inclusion of the companies in the study was their engagement in donations. Primary data was collected from 2009 to 2014 from annual reports on company websites. Measure of the study's independent variable, CP, included annual cash donations reported in the annual reports of the companies. Current financial performance, the dependent variable, was measured using financial measures, ROA and ROE, the two most commonly used metrics of financial performance. Past financial performance is used as a moderating variable since past financial performance affects subsequent year's corporate social performance. Results show that CP has a significant positive relationship with ROA but has an insignificant relationship with ROE. Zulfiqar explains that ROE is unaffected by spending in CP due to the capacity of the companies to pay dividends with regards to profitability. The study concludes that good financial performance creates availability of slack resources enabling investment in philanthropic activities which in turn increases social performance and ultimately has a positive impact on financial performance (Zulfiqar, 2016).

In their study on Corporate Philanthropy, Reputation Risk Management and Shareholder Value: A study of Australian corporate giving, Hogarth, Hutchinson and Scaife (2018), examined the role of corporate philanthropy in the management of reputation risk and shareholder value of the top 100 ASX listed Australian firms for three years 2011 to 2013. They found a negative relationship between corporate giving and shareholder value but the effect is mitigated by firms' management of reputation. The results show that for every dollar spent on corporate giving the measure for shareholder value, Tobin's Q, decreases by 0.413%. Alternatively, if firm reputation is increased by 1 point, Tobin's Q increases by 0.267%. The study concluded that corporate giving and reputation risk management has a positive relationship with shareholder value. Measure for reputation used was media coverage and corporate philanthropy was amount spent in corporate giving. Shareholder value metric was total shareholder return constituted as price of firm's stock at year end plus dividend per share divided by previous year share price. The measure shows a single year's gain or loss received by a shareholder (Bloom & Milkovich, 1998). They also used Tobin's Q which is represented by market value of the firm divided by replacement value of assets. Reputational risk management was the study's moderating variable. From the results, they made the following inference: for a firm to be viewed favourably for involvement in philanthropic activities it must also manage its reputation (Hogarth, Hutchinson, & Scaife, 2018).

Gao and Yang (2017) studied the relationship between corporate philanthropy and financial performance and found that corporate philanthropy has a positive effect on corporate financial performance. They further sought to find mediating role of market visibility and mediating effect of institutional ownership in the relationship between corporate philanthropy and financial performance. The study focused on Chinese listed manufacturing firms and data was collected from period between 2003 and 2015. After analysing data they found that long term and foreign institutional has a partial positive effect on the relationship between corporate philanthropy and corporate financial performance. Institutional ownership as a composition, along with short-term and domestic ownership have a positive but insignificant effect on corporate financial performance. They also found that an interaction between corporate philanthropy and market visibility results to a positive effect with both foreign and short-term institutional ownerships (Gao & Yang, 2017).

A study titled Too Little or Too Much? Untangling the Relationship between Corporate Philanthropy and Firm Financial Performance by Wang, Choi and Li (2008) sought to find the relationship between corporate philanthropy and corporate financial performance. The study collected and analysed data relating to 817 firms listed in the Taft Corporate Giving Directories and The Standard & Poor COMPUSTAT series, for a period of 13 years between 1987 and 1999. From the Corporate Giving Directories data on corporate giving was collected including information about specific donations in dollars, direct gifts, nonmonetary gifts and sponsorships, while data on financial performance of those firms' whose costs on corporate philanthropy were obtained were collected from the COMPUSTAT series. The study employed two measures of corporate financial performance: Return on Assets (ROA), an accounting-based measure and Tobin's Q, a market-based measure. The moderating variable was environmental dynamism which was measured using industry level objective information and the control variables were lagged corporate financial performance, firm level of research and development and advertising intensities. The firms' sizes, age and debt ratios were also used as control variables. The study found a U-shaped relationship between corporate philanthropy and corporate financial performance which it explains as: in the beginning periods corporate giving is seen to have a positive relationship due to the enabled firms' control over stakeholder resources but in the latter years the relationship is inverse explained by a continuous increase in agency costs and direct costs which ultimately become dominant (Wang, Choi , & Li, 2008).

According to Mjomba and Rugami (2017) CSR is important to stakeholders of Equity bank and especially to the local community and from their study they found that the bank's Education sponsorship program improves the bank's reputation while the financial literacy training and entrepreneurship education program promotes the bank's customer retention. They studied the relationship between corporate social responsibility activities and competitive advantage of Equity Bank Kenya Limited. The research's independent variables were the bank's education sponsorship program, financial literacy training program, entrepreneurship education program, environment conservation activities and agricultural programs. The study used descriptive and exploratory research method on a sample of 88 managers from the bank's 117 branches across the country. Primary data was collected and analysed using SPSS. The findings also show that agriculture and environment conservation activities enhances the bank's stakeholder relationships. They conclude by indicating the importance of strong brand reputation, improved customer retention and loyalty and a strong bond with stakeholder on the business performance in terms of growth. They credit the bank's strategic engagement in CSR activities for the continued growth and sustainable competitive advantage (Mjomba & Rugami, 2017).

2.4 Investment in Environmental Activities

Corporate Environmental Responsibility (CER) applies to the duties of firms to abstain from damaging the natural environment. In the recent past concerns about environmental conservation by businesses arose, stakeholders requiring them to become more environmentally aware and responsible. Overall societal environmental concerns and pressure from governmental environmental policy has caused firms to evaluate and counter the impact of their actions on climate from the greenhouse emissions (Lundgren & Zhou, 2017). Sindhi & Kumar (2012) posit that with the increased awareness on environmental issues and magnitude of costs associated, it has become imperative for businesses to integrate environmental responsibility actions into their business strategy. Also firms take a proactive role in the protection of environment not out of compliance but voluntarily in the quest to becoming socially aware (Lundgren & Zhou, 2017). Environmental CSR are actions like recycling, use of clean energy, responsible use of water, pollution control, and waste disposal management, among others, taken to reduce any damaging effects on the environment from business processes. Involvement in Green CSR can be credited for the reduction of business risk, improvement of corporate reputation and provision of opportunities for cost saving.

Empirical evidence on the relationship between CER and CFP is in its infancy at best and research have mixed results (Jo, Kim, Lee, & Park, 2013). Those who advocate for CER argue that good environmental management strategy can result in good corporate image which leads to increased financial performance (Jo, Kim, Lee, & Park, 2013). Researchers therefore recommend incorporation of sustainable strategies in conducting their businesses in order to mitigate against the adverse effects on the natural environment (Sindhi & Kumar, 2012).

Jiang, Xue and Xue (2018) used multi-variable regression analysis on data collected from 44 enterprises and found that proactive corporate environmental responsibility (PCER) has a positive effect on corporate financial performance while studying the role of proactive corporate environmental responsibility on corporate financial performance. The findings show that there was a statistically significant effect between PCER and CFP in the Chinese energy industry. Observations of end year data were made from 2009 to 2014 in the energy industry classified as coal, mining and washing industry, oil and gas mining industry, ferrous metal mining industry, non-ferrous metal mining industry and electric, heating, natural gas and water production and supply industry, which were represented by the sample data. CFP was measured using ROA and PCER was measured using certain items. The index included; training in environmental protection consciousness, training funds for environmental protection, advocating employee participation in environmental public welfare activities, pursuit of zero emissions during production and application and special funds to support the conservation and utilisation of resources. Past financial performance was used as a moderating variable in the study. They concluded that past performance has no moderating effect on the relationship between PCER and CFP for state owned firms since they receive resources from government for their operations thus are not responsive to changes in their financial performance. As for privately owned firms, the neutral effect could be as a result of firms voluntarily engaging in CER neglecting financial benefits in pursuit of other non-financial ones like corporate legitimacy and reputation (Jiang, Xue, & Xue, 2018).

A study by Jo, Kim, Lee and Park (2013) conducted to examine how environmental costs affect the corporate financial performance of manufacturing firms around the world found that investments made in CER, can decrease a firm's environmental cost thereby improving CFP. This finding, according to the study, is in line with the slack resources concept which argues that when a firm invests available slack resources in CSR this results in better financial performance. Results show that conventional industries like the basic resources and food and beverage industries incur substantially high environmental costs while technology and telecommunication industry incurs less. It also found that reduced environmental costs and high CFP are correlated but have a dynamic relationship such that lowered environmental costs is followed by at least two years of enhanced ROA. Data was collected from financial statements from Worldscope database by Thomson Financials for 30 countries within 2002 and 2011. Sample consisted of 16,214 firm year observations relating to different countries, 6,795 observations relating to 11 countries in Asia-Pacific region, 5,060 observations relating to 16 countries in Europe and 4,269 observations relating to 3 countries in North America. CER was represented by total environmental costs, sum of direct and indirect environmental costs, and CFP was defined by ROA adjusted for total environmental costs. Panel-data regression method was used to analyse data (Jo, Kim, Lee, & Park, 2013).

Li, et al (2017) analysed the effects of corporate environmental responsibility on financial performance with emphasis on moderating role of government regulation and organizational slack on the relationship. The study was conducted on Chinese energy-intensive listed firms. Data for 3 years between 2012 and 2014 was collected and analysed and found that corporate environmental responsibility has a positive significant influence on corporate financial performance. From the findings, the survey concluded that organizational slack had a negative moderating effect due to the fact that firms with abundant slack resources are less likely to gain a higher financial performance while government regulation had a positive significant moderating effect because stringent regulations of government considerably strengthens the positive influence of corporate environmental responsibility on firm performance. The findings further suggest that the moderating effect of organizational slack is dependent on the degree of government regulation. An inverse relationship is observed where imposition of stringent government regulations weakens the moderating effect of organisational slack between corporate environmental responsibility and corporate financial performance (Li, et al., 2017).

Manrique and Ballester (2017) obtained data for a sample of 2982 large firms from the year 2008 to 2015 to enable them analyse the effect of corporate environmental performance has on corporate financial performances of firms situated in developed and developing countries. Environmental data was collected from ASSET4 database and financial data of the sampled firms was collected from Worldscope database and the data on economic development level of the firms' domicile country was collected from International Monetary Fund (IMF). The dependent variable, corporate financial performance (CFP) was measured using return on assets (ROA) an accounting based measure which reflects the short term CFP and Tobin's Q a market based measure which reflects the long term CFP. The independent variable corporate environmental performance was measured using a sector-neutral index that reflects the degree of success of environmental practices of the firms through three of the following categories of environmental score: emission reduction, product innovation and resource reduction. The control variables included the firms' size, firms' leverage, firms' slack resources, firms' location, firms' 'capital expenditure, firms' market power, firms' growth, firms' research and development expenses and firms' economic sector. The study used the panel data regression model to analyse data and make inferences. The study found a positively significant relationship between corporate environmental performance and corporate financial performance with a stronger effect demonstrated in firms in the developing countries than those in developed countries. This could be explained by difference in implementation phase of developing and developed countries.

The relationship between environmental performance and financial performance was analysed on companies listed in the Australian stock exchange by Muhammad, Scrimgeour, Reddy and Abidin (2015). Environmental performance data was collected from environmental reports submitted by the companies under survey to the National Pollutant Inventory and financial performance data was collected from the ASX database. The nature of relationship was observed to be positive between corporate environmental performance and corporate financial performance during the period of pre-financial crisis between 2001 and 2007. No relationship was present during the consequent period of financial crisis between 2008 and 2010 (Muhammad, Scrimgeour, Reddy, & Abidin, 2015).

Cai, Cui and Jo (2016) studied the relation between corporate environmental responsibility and risk in publicly traded firms of different industries in the United States. The period of study was 22 years between 1991 and 2012. The study developed and tested three hypotheses: risk reduction, resource constraint and cross industry variation. The study found an inverse relationship between engagement in CER and risk (Cai, Cui, & Jo, 2016).

Lioui and Sharma (2012) assessed the impact of environmental corporate social responsibility (ECSR) on corporate financial performance (CFP). The study used return on assets and Tobin's Q as measures of corporate financial performance. Results of the study show a statistically significant negative relationship between environmental corporate social responsibility, strengths and concerns, and return on assets. They also show a statistically significant negative relationship between environmental corporate social responsibility, strengths and concerns, and Tobin's Q. The authors concluded that the direct effect of environmental corporate social responsibility, strengths and concerns, and corporate financial performance was negatively significant. However the relationship between the firms' environmental corporate social responsibility and research and development was positive and significant, thus the researchers concluded that corporate social responsibility activities foster research and development efforts of firms' which ultimately add value to firms'. This result indicated an indirect positive relationship between environmental corporate social responsibility, strengths and concerns and firm performance (Lioui & Sharma, 2012).

2.5 Investment in Ethical Activities

The normative expectations of most societies hold that laws are essential but not sufficient. Society expects businesses to act and carry on their affairs in an ethical manner in addition to operating within the prescribed laws and regulations. Being ethically responsible therefore means that firms abide by the norms, values, standards, policies and practices that are regarded by society as morally right even though the resulting actions do not fall within codified law. Businesses must exhibit fairness and objectivity in their interaction with consumers, employees, owners and other stakeholders that constitute the community in order to protect their moral rights and ultimately fulfil their moral obligation (Carroll, 2016).

Cases of corporate misbehaviour like the Enron scandal have called the attention of firms towards business ethics and its effect on business operations. Government regulations, media scrutiny, and pressure from other stakeholders have nudged the importance of strategically aligning businesses with ethical norms (Berrone, Surroca, & Tribo, 2005). Investment in business ethics can lead to increased trust and commitment with stakeholders thus improving CP in the long run (Berrone, Surroca, & Tribo, 2005). Adopting and enforcing ethical codes (Berrone, Surroca, & Tribo, 2005) is one common strategy employed by managers in fulfilment of ethical obligation.

In a lot of studies regarding CSR and CFP, the link between FP and ethical activities has been under-researched. Verschoor (1998) however studied the link between a corporation's financial performance and its commitment to ethics. The study identified 134 of the largest U.S public corporations that give annual reports on their commitment to ethical behaviour or emphasize compliance with their code of ethics. The study showed that these corporations have better financial performance than those which are not committed to ethical codes. The sample size of the study was 500 of the largest publicly held U.S corporations. Measure for financial performance was sales or revenue while annual reports were examined to identify companies that report on their commitment to ethical behaviour or those that abide by a code of conduct. Specifically, the language used was analysed to characterise a commitment to ethics and results show the companies ranged from strongly committed to those who mentioned ethics in passing. Findings show that 374 or 74.8% of the companies voluntarily reported on their internal controls. The study discovered that few management reports change over time. Substantially all the companies use the same major activities to achieve internal control objectives, which include; internal audit function, audit committee oversight and use of external auditors for independent audits. Codes of conduct or ethics systems are less frequently used by these companies. 134 or 26.8% of the 500 companies included a commitment to use ethical practices in dealing with stakeholders or specified that a code of conduct or ethics was part of their internal control structure. In conclusion, the researcher states that concern for ethical conduct is becoming a typical issue for management in achieving profitability and urges managers to effectively implement commitment to ethical and social responsibility to achieve effective internal controls. The researcher also urges adoption of standard ethical codes prescribed by accounting bodies that significantly improve accountability and efficiently achieved desired financial and ethical performance (Verschoor, 1998).

Too (2017) sought to establish the connection between CSR and FP of commercial banks listed at the Nairobi Stock Exchange in her study where she investigated the effect of the amount invested by commercial banks in philanthropic, ethical, legal and economic activities on their financial performance. Secondary data from annual reports of 11 banks was collected between 2006 and 2016. Data was analysed using STATA. CSR metrics were amounts spent by the banks on philanthropic, ethical, legal and economic activities and FP was measured using ROI. Results indicated that investing in ethical, legal and economic activities causes an insignificant increase in financial performance of commercial banks. The study, however, shows that investment in philanthropic activities has a significant positive effect on financial performance and the study recommends that commercial banks should invest more in corporate giving to realise better financial performance.

Chun, Shun, Coi and Kim (2013) assessed the contribution of ethics to financial performance with emphasis on the mediating role of collective organizational commitment and organizational citizenship behaviour in the relationship. The study targeted a population of companies that were studied by Korea Research Institute for Vocational Education and Training. 401 companies were sampled using stratified sampling method based on firm size, location and industry. The study had a 65.6% response rate since 263 out of the 401 companies agreed to participate in the survey. Unit of analysis were employees from the companies who amounted to 3821 employees from 130 of the companies. The study adopted a split group design to reduce potential method biases caused by same-source variance in aggregated data. The independent variable, contribution to ethics, was measured using the following indicators: external ethics, internal ethics, employee ethics and organizational commitment to ethics. Financial performance, the dependent variable, was measured using return on assets of the firms. The relationship was controlled using firm size, debt to equity ratio, proportion of cash and cash equivalents in firms' total assets, firm industry and firm innovativeness and efficiency. The study found that commitment to ethics has a positive and significant effect on financial performance. Of the three dimensions of corporate ethics, internal ethics was found to have the strongest correlation with employees' collective commitment to the organization. The researchers posit that when employees perceive that their organization adheres to legal and ethical standards, then their commitment to the company is strengthened (Chun, Shin, Coi, & Kim, 2013).

Kim (2010) assessed the long term financial performance of ethical companies and found that corporate social responsibility is negatively related to systematic and unsystematic risks thus concluding that once a company is recognized as being ethically responsible, it is able to reduce its risks. However, it failed to find a consistent impact of corporate social responsibility on financial performance. The independent variables were measured using corporate social responsibility, operationalised by composite score of CSR, and individual dimensions, operationalised by community, corporate governance, employee relationship, diversity, human rights, environment and product and consumer. The dependent variables were measured using firms' idiosyncratic return and systematic and unsystematic risk of the firms'. CEO compensation played a moderating role between the independent and dependent variables. The control variables included: sales, total assets, number of employees, value of common stock and total senior securities. The data sources of the study were The Business Ethics 100 Best Corporate Citizens list, COMPUSTAT and The Centre for Research in Security Prices (CRSP). Of the eight dimensions of corporate social responsibility, community and employee relationship were seen to lower systematic risk whereas product/customer and employee relationship were the main drivers that enhance a firms' idiosyncratic return (Kim, 2010).

2.6 Theoretical Framework

This section examined theories and models that were relevant in providing the foundation for establishing the objectives of the study. This study was guided by Corporate Social Responsibility theory, Stakeholders' theory and Triple Bottom Line model.

2.6.1 Corporate Social Responsibility Theory

The concept of corporate social responsibility was introduced by Howard Bowen, often referred to as the "father of CSR". In his book: Social Responsibilities of the Businessman (1953), he indicates that corporations have a responsibility of behaving ethically and being responsive towards societal stakeholders. This theory is generally a concept that emphasizes both the responsibility to remain profitable and the responsibility to interact ethically with the immediate community and the world at large. As a theory corporate social responsibility is constituted by obligations: economic, legal, ethical and discretionary (philanthropic) responsibilities which a corporation owes the society of which it considered to be a member of. Popularly known as Carroll's Pyramid of CSR, the theory proposes that a company should first and foremost be economically responsible for it to survive in order to carry out the other obligations. It should then ensure it complies with all prevailing laws and regulations and before it considers becoming a good corporate citizen it should meet its ethical duties (Carroll, 1979). Nevertheless Carroll (2016) stresses that firms should engage in decisions, policies, practices and actions that fulfil these obligations simultaneously and not in a sequential or hierarchical manner starting from the base.

Carroll selected the pyramid as a geometrical design to illustrate the building block nature of the four part framework. Accordingly, economic responsibility was placed at the base because it is a fundamental requirement of any business (Carroll, 2016). Hence, without financial stability a company is unable to meet other responsibilities including those it owes to society. However, the traditional thought questions spending in the legal, ethical and philanthropic activities arguing that they detract the firm profitability. The business case for CSR counters that engagement in CSR has positive effects like cost and risk reduction, increased competitive advantage, company legitimacy and reputation and so on. (Carroll, 2016).

The theory was important in this study as it revealed the importance of being economically sound and staying socially aware. It also revealed that a firm can improve its financial standing by employing sustainable strategies in its activities. The major strength of Corporate Social Responsibility theory is that it encompasses all social responsibilities categorised in the four dimensions. The major limitation of this theory is that as a result of prioritizing economic responsibility over legal and ethical can cause corporate misbehaviour, as was the case with Enron (Baden, 2016).

2.6.2 Stakeholders' Theory

Edward R. Freeman is credited for originally detailing the Stakeholder Theory of organisational management and business ethics in 1984 in his book Strategic Management: A Stakeholder Approach. According to Freeman and Reed (1983, pp. 88-89), corporate action or inaction are driven by the obligation the corporation has towards its stockholders, who are sacrosanct and inviolable, but there is a long tradition departure from the view that stockholders have a privileged place in the business enterprise. They state that there are other groups that the corporation owes responsibility to, and these groups have a stake in the actions of the corporation. These groups, referred to as stakeholders, give support to the corporation, without which the corporation ceases to exist. From the definition of stakeholders as “any group or individual who is affected by or can affect the achievement of an organisation’s objective”, the theory suggests that managers should employ stakeholder management as a strategic approach (Freeman, 1984) in the achievement of both business and social goals (Freeman & Reed, 1983).

Stakeholder management essentially involves formulation and implementation of processes and procedures which satisfy only those groups or individuals that have a stake in the business by managing and integrating the relationships and interests of shareholders, customers, employees, suppliers and community in a way that ensures long term success of the firm (Freeman & McVea, 2001). Stakeholders in the traditional sense include employees, customers, suppliers, government, financial institutions and shareholders, primary stakeholders, but in a wider sense it also includes public interest groups, protest groups, trade associations, competitors and unions (Freeman & Reed, 1983). The study deduces that the latter group is mostly owed social responsibility. They are equally important because, although they affect the organisation indirectly, their actions can still positively or negatively affect the organisation (Saylor.org, 2013).

In his views, Freeman says that CSR is built on false conceptual distinctions of business on one side and ethics or social issues on the other. He is against the idea of separating business and social responsibility so that for a business making money and catering on self-interests, some social compensation becomes necessary. He therefore proposes that CSR needs to be built into the business, so that ethical and social concerns are just as important as profits for any business. All transactions of the business then encompass economic, social and environment effects without distinction on each, but ultimately value is created to all stakeholders of the transaction (Freeman, 2013).The theory was pertinent to the study because it elaborated the link between financial performance and creation of value for all stakeholders without assignment privilege to any duty the business has over any one of the stakeholder groups. It also explained the importance of business as well as social responsibilities managers have to cater for in a strategic manner.

2.6.3 Triple Bottom Line Model

Spreckley (1981) asserted that financial performance, social wealth creation and environmental responsibility of enterprises should be measured and reported. This concept was later coined as "Triple Bottom Line" by John Elkington (Elkington, 1999). Elkington suggested that companies should prepare for three bottom lines; the first, the basic traditional objective of the firm, "profit or loss", second, "people" by ensuring social welfare is not disrupted by organisation's operations, and last "planet" by ensuring the organisation is environmentally responsible (Elkington, 1999). Business entities should just as seriously value their environmental quality and social capital as they do their economic prosperity (Zak, 2015). Triple Bottom Line (TBL) reporting is therefore regarded as an important tool for accomplishing sustainability goals (Slaper & Hall, 2011). TBL as a sustainability tool measures the impact of an organisation's activities on profitability and shareholder value, social and human and environmental capital (Slaper & Hall, 2011).

CSR embodies the concepts of social and environmental performance as highlighted in TBL. However, TBL unlike CSR separates the concept of environment from social responsibilities (Fauzi, Svensson, & Abdul Rahman, 2010). Both planet and people concerns have different measures just like profit that enable reporting in TBL (Fauzi, Svensson, & Abdul Rahman, 2010). Businesses worldwide are compelled to use TBL because of it sustainable nature and its evident ability to influence long term profitability (Slaper & Hall, 2011).

The theory was of importance in the conduct of this research for the ability it had to separate environmental responsibilities from other social responsibilities as highlighted as this research's variables. It also provided the ability of measurement of environmental and social activities in the instance of this study being philanthropic and ethical activities in financial terms.

2.7 Conceptual Framework

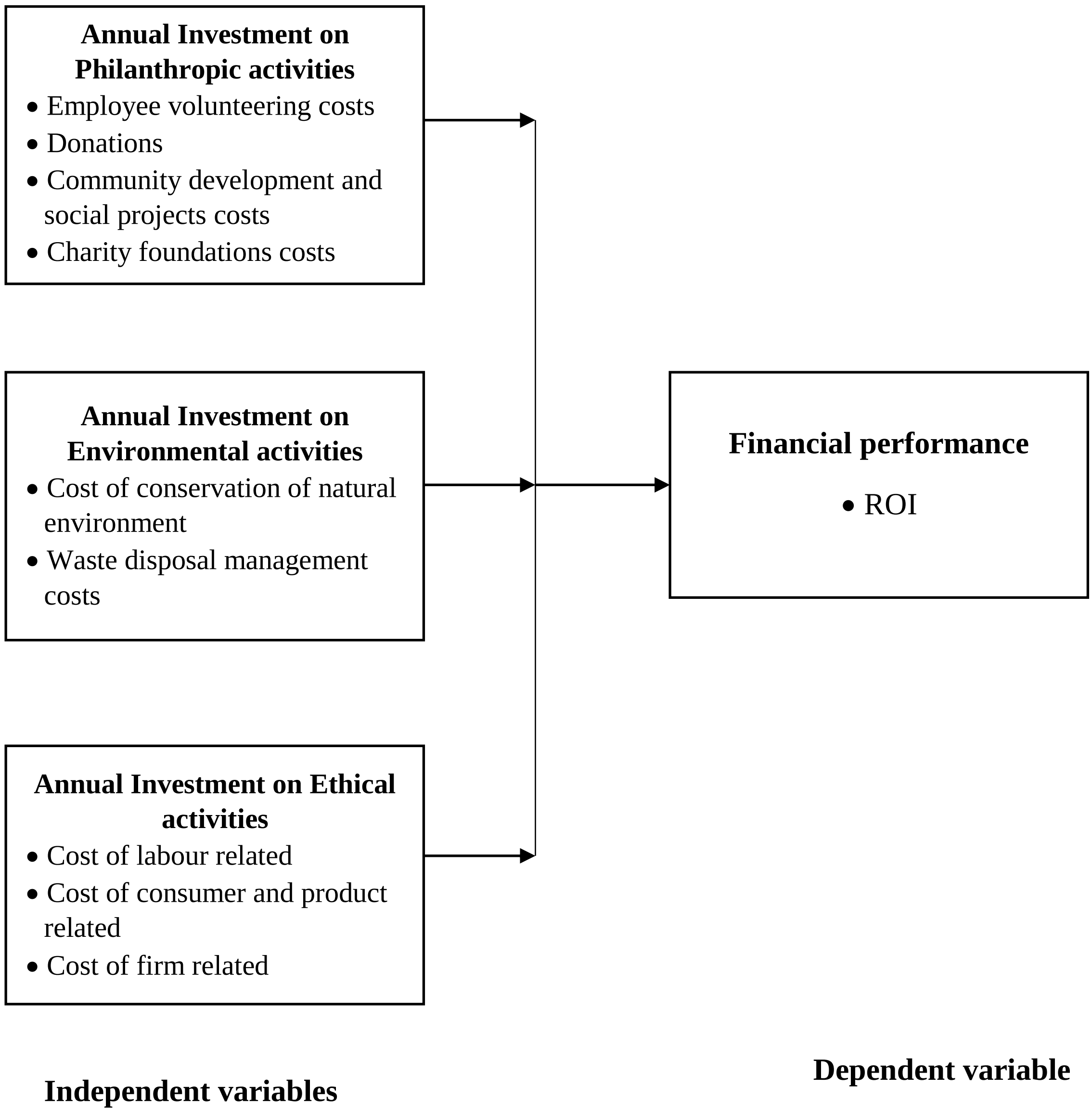

Figure 2.1 Conceptual Framework

Source: Author, 2019

The conceptual framework illustrated in Figure 2.1 above shows the relationship between the independent variables; philanthropic, environmental and ethical corporate social responsibility activities and the dependent variable; financial performance measured by ROI.

Table 2.1 Knowledge Gaps

Author & year	Topic of the study	Variables	Methodology	Research theory/model	Findings	Knowledge gap
Gichohi, 2014	Effects of CSR on FP of Firms listed in the NSE	FP (DV), CSR score, efficiency, capital intensity (IVs)	Descriptive study design, Regression analysis	Stakeholder theory, slack resources theory, agency theory	Insignificant positive relationship	Focus is put on listed firms. Gap is left for SMEs. Recommends use of data for period longer than 5 years
Sisimonda, 2016	Influence of CSR on Firm Performance among companies listed on the NSE	Firm Performance (DV), Ethical CSR, environmental CSR, philanthropic CSR (IVs)	Historical and experimental research design, Regression analysis	Signalling theory, legitimacy theory, theory of multi-dimensional performance, stakeholders' theory	Positive relationship	Analysed FP using EBIT. Gap is left for other measures like ROI. Recommends research on legal CSR and use of longitudinal research design
To o, 2017	Effect of CSR on FP of Commercial Banks Listed at NSE	FP (DV), Amount invested in philanthropic activities, ethical activities, legal activities and economic activities (IVs)	Longitudinal survey approach, descriptive and exploratory research design, regression analysis	Stakeholder theory, triple bottom line model	Positive insignificant relationship	Analysed the effect Carroll's set of CSR responsibilities. Gap left for environmental activities. Recommends use of ROI as measure of FP and covering more than 10 years

Author & year	Topic of the study	Variables	Methodology	Research theory/model	Findings	Knowledge gap
Osino, 2013	The Relationship between CSR and FP of SMEs in Kenya	FP (DV), CSR disclosure, size, industry type (IVs)	Regression analysis, SPSS	Agency theory, stakeholder theory, slack resources theory, good management theory, signalling theory	Positive relationship	Focused on relationship between SME FP and CSR. This study analyses the same relationship but with emphasis on proactive CSR. Suggests introduction of qualitative measures of CSR.
Simon, 2014	The Effect of CSR on FP of 100 Top SMEs in Kenya	FP (DV), Amount spent on CSR, size, industry type (IVs)	Descriptive design, Regression analysis, SPSS	Agency theory, good management theory, slack resources theory	Significant positive effect	Focused on effect of CSR on FP of top performing SMEs. Gap is left for how proactively SMEs engage in CSR. This study therefore analyses how proactively top performing SMEs engage in CSR activities. Suggests similar study be carried out that makes use of primary data to better quantify the level of SMEs CSR adoption.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter contains a description of the research design, target population, sampling frame, sample size and sampling technique used in the study. It also describes the research instruments, data collection, data processing and data analysis procedures used in the study.

3.2 Research Design

Research design is plan and procedures for research. It entails the methods of data collection and analysis and interpretations that translate the approach into practice (Kothari & Gaurav, 2014). Descriptive research design was ideal for this study. A descriptive study involves observing and describing the behaviour of the subject without influencing it in any way. The design was used to describe the impact of investments made by small and medium sized enterprises in philanthropic, environmental and ethical corporate social responsibility activities by observing the effect they had on their financial performances. Descriptive survey is an inexpensive and non-time-consuming method that guarantees efficiency and accuracy of gathered information about the target population (Mwangangi, 2018).

3.3 Location of the Study

The location of the study was Nairobi County. Small and medium sized enterprises located within Nairobi County were chosen because of their proximity to the researcher and they made up a huge percentage (86%) of the target population. Most small and medium sized enterprises that fit the definition as given by this study; small enterprises that have a turnover ranging from five hundred thousand shillings to 5 million shillings and medium enterprises that have a turnover of 5 million shillings to 800 million shillings, are majorly located in Nairobi County. Another characteristic of these enterprises relevant to the study is that such enterprises are more likely to continue being going concerns for the period of study. Those companies that were sampled were going concerns for the period of study and engaged in corporate social responsibility activities.

3.4 Population of the Study

Population refers to the number of items that is intended for the study. It is the entire set of available objects for which data collected can be used to make conclusions and get relevant information that will be used in research (Kothari & Gaurav, 2014). The population of the study was made up of small and medium sized enterprises from Kenya’s top 100 mid-sized companies' survey. The survey is an initiative of KPMG and Nation Media Group, launched in the year 2008, which has since been identifying 100 top performing small and medium sized enterprises every year. The small and medium sized enterprises listed in 2018 were be targeted. It seeks to identify Kenya's fastest growing medium sized enterprises in order to showcase business excellence and highlight some of the country's most successful entrepreneurship stories. The choice of the target population was based on the companies' entrepreneurial success and profitability which indicate their financial success. The choice was also premised on other qualitative aspects of these companies which were criteria for their ranking and consequently of interest to this research which include their business confidence outlook, talent management policies and most importantly their involvement in corporate social responsibility.

3.5 Sampling Procedure and Sample Size

3.5.1 Sampling Procedure

A sample is the number of items chosen from a statistical population whose properties are studied to gain information about the universe. Sampling is the process of selecting a representative part of a population for the purpose of determining parameters or characteristics of the population. Sampling enables the observation of the selected items rather than the whole because it is cheaper and saves time. It is also useful when some items in the population are inaccessible (Kothari & Gaurav, 2014). This survey selected a sample from 86 companies situated in Nairobi County.

3.5.2 Sample Size

A finite population sample size was determined using formulae (Kothari & Gaurav, 2014) as follows;

$$n = \frac{NZ^2p(1-p)}{e^2(N-1)+Z^2p(1-p)}$$

Where, n is sample size

N is population size or the sampling frame

Z is level of significance obtained from z-table

p is sample ratio expected to have required characteristics, conservative value is 0.5

1-p is sample ratio expected not to have required characteristics

e is margin of error = 0.05

$$n = \frac{86 * 1.96^2 * 0.5 * 0.5}{0.05^2(86-1) + 1.96^2 * 0.5 * 0.5}$$

$$n = 70$$

The sample of the study was 70 small and medium sized enterprises all situated in Nairobi County and were selected using simple random sampling method where each individual company had the same probability of being chosen.

3.6 Instrumentation

Secondary data was collected using a data collection sheet from the financial records of sampled enterprises. Net investment made annually by each of the firms in the survey and net profit data was collected from financial statements of the respondent small and medium sized enterprises for the years between 2013 and 2018 then the data was analysed using STATA which allowed the researcher to make inferences about the relationship between investment by the small and medium sized enterprises and SME financial performance.

3.7 Data Collection Procedure

After obtaining an introductory letter from the university and a research permit from NACOSTI, collection of data begun. Data collection sheets were used to collect financial data; amount invested per annum on philanthropic, environmental and ethical corporate social responsibility activities and annual net profits of 70 small and medium enterprises under survey. The researcher filled the data collection form with data collected from the financial statements of the respondents for a period between 2014 and 2018. The researcher relied on annually prepared financial statements which included statements of financial performance where net profit amounts and values for total investment were indicated and annual reports where amounts invested in corporate social responsibility activities were recorded.

3.8 Data Analysis

Data was analysed using both descriptive and inferential data analysis techniques. Data was edited, coded and classified accordingly to facilitate better and efficient analysis. Descriptively, data was analysed using mean and median. Minimum and maximum values were also generated along with values of standard deviation. Panel data regression analysis will be used to inferentially investigate the effect of annual cost of corporate social responsibility (represented by the annual amounts spent on philanthropic CSR activities, environmental CSR activities and ethical CSR activities) with the mediating effect of past financial performance (represented by the ROI of the previous year) on financial performance (represented by ROI) of small and medium sized enterprises.

The multiple regression model is specified as follows;

$Y_{it} = \beta_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \varepsilon_{it}$

Where, Y = measure of financial performance (ROI)

β_0 = intercept

β_1, β_2, β_3, = coefficients of philanthropic, environmental and ethical corporate social responsibility activities respectively

X_1, X_2, X_3 = annual cost of philanthropic, environmental and ethical corporate social responsibility activities respectively

ε = error term

Analysed data were presented in text, graphic and tabular form.

3.9 Ethical Considerations

Ethical norms of research are observed to promote the aims of research such as knowledge, truth and avoidance of error and promote values that are essential to collaborative work such as trust, accountability and fairness. They also ensure researchers can be held accountable to the public and uphold social and moral values (Resnik, 2015). To uphold these ethical norms, this research treated all information collected from respondents with utmost confidentiality. The researcher ensured that all data was collected from respondents who voluntarily offered the information. Findings of the study were reported honestly and will be shared to maintain openness. The researcher will take full responsibility of the conduct and consequences of this research.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

This chapter presents the analysis of the data collected from the 100 top performing small and medium sized enterprises in Kenya according to KPMG and Nation Media Group in relation to the effect of annual cost of Corporate Social Responsibility activities on their financial performance. The chapter is presented in terms of the set objectives and hypotheses, interpretation and discussions of the findings and comparison to the findings of other scholars. Specifically, the study analysed the effect of amount spent annually in philanthropic, environmental and ethical corporate social responsibility activities on financial performance of small and medium sized enterprises. The analysis was first done using descriptive statistics in terms of mean and standard deviation. The core secondary data relating to the null hypotheses was tested using multivariate regression analysis, tested statistic at 0.05 significance level. The decision to use either fixed or random model was informed by Hausman test. Data normality was diagnostically tested using; time fixed effects test, test for random effects, test for time fixed effects, test for cross sectional dependence, test of multicollinearity, autocorrelation test and panel unit root test. Presentation was done by use of tables and figures. A list with a total of 70 small and medium sized enterprises was first of all obtained from KPMG and Nation Media Group and the secondary data on cost of corporate social responsibility activities and their financial performance was directly obtained from small and medium sized enterprises covering the years 2013 to 2018.

4.2 Response Rate

Response rate is the total number of individuals who gave responses by answering the survey divided by the total number of individuals in the sample. It is usually written as a percentage. The sample size of the study was 70 small and medium sized enterprises out of a target population of 100 SMEs identified as the top performing companies for the year 2018. After randomly selecting 70 SME, data was collected from each of the selected SMEs achieving a 100% response rate.

4.3 Descriptive Statistics of Cost of CSR Activities

This section presents the results of the mean, standard deviation, minimum and maximum values of cost of philanthropic, environmental and ethical CSR activities carried out between 2013 and 2018.

4.3.1 Average Amount Spent on CSR Activity

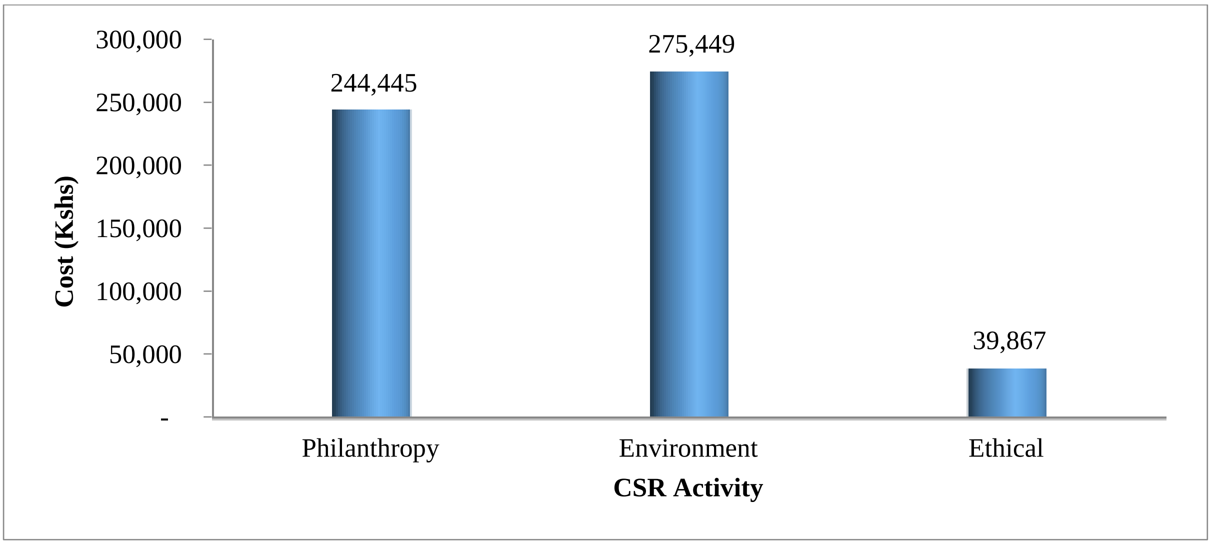

Figure 4.1 Average Cost of CSR Activities between 2013 and 2018

Figure 4.1 presents the results of the mean of values of amounts spent of philanthropic, environmental and ethical CSR activities carried out within the years 2013 and 2018. The results reveal that the SMEs ranked by the KPMG and Nation Media Group survey spent more money in environmental activities of their CSR to the tune of KES 275,449,000 followed by philanthropic activities which grossed to KES 244,445,000 and least expenditure on ethical activities which amounted to an average of KES 39,867,000. This finding indicated that environmental CSR activities were of major concern to the small and medium sized enterprises in the survey followed by philanthropic CSR activities then ethical CSR activities.

4.3.2 Financial Performance Trends

This section presents the average financial performance of the small and medium enterprises in the KPMG and Nation Media Group survey based on their performance on total investments over the period of study and based on the net profit over the years of the study.

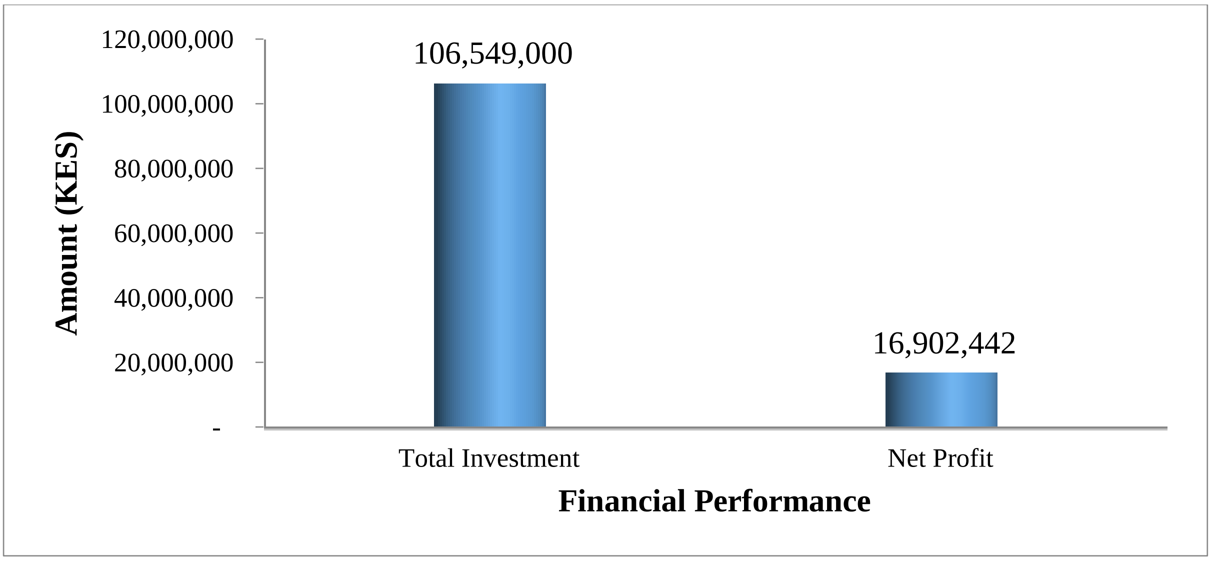

Figure 4.2 Average Financial Performance of the SMEs

The results from figure 4.2 presents findings on financial performance of the SMEs under the study. The study established that the average total investment by the SMEs was KES 106,549,000,000 which generated an average net profit of KES 16,902,442,000. This finding indicated that the SMEs investment gave them good average net profit.

4.4 Descriptive Statistics for Various CSR Activities

This section indicates the mean, standard deviation, minimum and maximum values of measures of CSR activities in the form of amounts spent in philanthropic, environmental and ethical activities during the period of study and measures financial performance in the form net profit and total investment which give values for return on investment.

4.4.1 Descriptive Statistics of CSR Activities

Table 4.1: Descriptive Statistics of CSR Activities

Variable	Observations	Mean '000	Std. Dev. '000	Min '000	Max '000
Philanthropic Activities	420	244523.2	481884.2	112	1914503
Environmental Activities	420	276081.7	1024624	58	7046812
Ethical Activities	420	39798.46	60554.75	13	36410123

Descriptive analysis indicates the mean and standard deviation of the diverse forms of CSR. The table also indicates highest and lowest variable values used. The table shows that the mean value of amount spent on philanthropic CSR activities was KES 244,523,200, KES

276,081,700 for environmental CSR activities and KES 39,798,460 for ethical CSR activities indicating that investing in philanthropic CSR activities cost the SMEs the highest amount money followed by environmental CSR activities and the least amount was spent on ethical CSR activities. The maximum cost on philanthropic CSR activities was KES 1,914,503,000 and the minimum was KES 112,000. The maximum amount spent on environmental activities was KES 7,046,812,000 and minimum amount being KES 58,000. The maximum amount of money spent by the SMEs in ethical activities was KES 36,410,123,000 and the minimum amount was KES 13,000.

4.4.2 Descriptive Statistics of SMEs Financial Performance

Table 4.2: Descriptive Statistics of SMEs Financial Performance

Variable	Obs.	Mean '000	Std. Dev. '000	Min '000	Max '000
Total investment	420	120,753,008	31,467,548	18,241	3,851,509
Net profit	420	17,012,407	77,372,307	995,124	61,365,008
Return on Investment	420	0.120733	0.1517661	0.098	1.54

Table 4.3 presents the results of the descriptive statistics of financial performance measures by the SMEs under the study. First, the findings revealed that the mean performance for total investment was KES 120,753,008,000 with the maximum total investment being KES 3,851,509,000 with a minimum of KES 18,241,000 deviating from the mean by KES 31,467,548,000. The mean performance for net profit was KES 17,012,407,000 with maximum net profit achieved in the period under the study being KES 61,365,008 with minimum of KES 995,124 deviating from the mean by KES 77,372,307,000. The mean return on investment (ROI) was 0.12 with a maximum value being 1.54 and minimum of 0.098

4.5 Inferential Statistics

This section presents the results of inferential statistics using panel data regression model and the decision of which type of model to adopt based on the Hausman Test. Data normality tests including test for time fixed effects, test for cross-sectional dependence, test for heteroscedasticity, multicollinearity test and autocorrelation test were carried out before testing the set hypotheses.

4.5.1 Regression Analysis

Panel regression was used to test existence of any relationship between the independent variables and dependent variable. The researcher carried out an analysis of fixed effects and random effects panel data regression models, thereafter Hausman test was conducted to choose between the two models and relevant diagnostics test were carried out before the conclusion was made to preferred model.

4.5.1.1 Fixed Effects of Regression Model

Table 4.3: Fixed Effects of Regression Model

Source	SS	df	MS			
Model	.608935751	3	.202978584			
Residual	9.04186825	416	.02173526			
Total	9.650804	419	.023032945			
			Number of obs	= 420		
			Prob>F	= 0.0000		
			R-squared	= 0.0631		
			Root MSE	= .14743		
ROI	**Coef.**	**Std. Err**	**t**	**P >|t|**	**95% Conf. Interval**	
Phil	-1.451207	2.861508	-5.06	0.000	-2.01102	-8.87054
Env	-5.612509	7.6812609	-0.73	0.465	-2.07032	9.49013
Eth	8.3310207	2.3801507	3.50	0.001	3.65014	1.30145
_cons	.1245931	.0086382	14.42	0.000	.0176132	0.14157

Source: SMEs CSR Costs and Financial Performance

The fixed effects model above shows the effect of annual cost of Corporate Social Responsibility activities on financial performance of the SMEs in the KPGM and Nation Media survey. The study established p-value of $0.000 < 0.05$ which implies the combined effect of the CSR activities on financial performance is significant, with R squared of 0.0631 indicating that the variations in SMEs annual cost of Corporate Social Responsibility activities explain 6.3 % of variations in financial performance while the other dependent variables not included in this study explain 93.7% of variations of financial performance of the SMEs under survey. It can therefore be concluded that the independent variables (annual cost of Corporate Social Responsibility activities) can be used to foresee the outcome of financial performance of the SMEs in the KPGM and Nation Media survey.

From the model amount spent annually in philanthropic activities had negative significant relationship with financial performance of the SMEs as indicated by a p-value of 0.000 < 0.05. An increase in amount spent annually in philanthropic CSR activities will result in a decrease in return on investment by 1.451207 units keeping amount spent annually on environmental and ethical CSR activities constant. The relationship is more of significant and therefore can be used to predict the outcome of return on investment.

The relationship between amount spent annually in environmental activities and return on investment did not have a significant relationship indicated by a p value of 0.465 > 0.05. The result of r = - 5.612509 denotes that a unit increase in amount spent annually in environmental CSR activities will result to a 5.612509 units decrease in return on investment keeping annual cost of philanthropic CSR activities and ethical CSR activities constant.

Further analysis indicated that amount spent annually in ethical activities had a positive relationship with return on investment. From the model, an increase in amount spent annually in ethical activities by 1 unit will lead to an increase in return on investment by 8.3310207 units keeping amount spent annually on environmental and philanthropic activities constant. Overall, amount spent annually in ethical activities was the best predict of return on investment with the highest coefficient relationship with return on investment.

4.5.1.2 Random Effects of Regression Model

Table 4.4: Random Effects of Regression Model

					Number of obs	=420
					F(3,416)	=44.75
					Prob>F	=0.0000
					R-squared	=0.0631
					Root MSE	=.14743
RoI	Coef	Std. Err.	t	P>|t|	95%Conf Interval	
Phil	-1.4507	1.5808	-9.16	0.000	-1.7607	-1.1407
Env	-5.6109	2.2309	-2.52	0.012	-1.0008	-1.2309
Eth	8.3307	1.4707	5.65	0.000	5.4307	1.1206
_cons	.1245931	.00906	13.75	0.000	.1067841	.1424022

Source: SMEs CSR Costs and Financial Performance (213-213)

The random effects model above shows that the combined effect of amount spent annually on CSR on return on investments is statistically significant within the SMEs in the KPGM and Nation Media survey. The study established p value of 0.000 < 0.05 with R squared 0.0631 which just like the results from fixed effects model indicates that the variations in SMEs annual cost of Corporate Social Responsibility activities explain 6.3 % of variations in financial performance while the other dependent variables not included in this study explain 93.7% of variations of financial performance of the SMEs under survey. It can therefore be concluded that the independent variables (amount spent annually CSR activities) can be used to foresee the result of return on investments within the SMEs in the KPGM and Nation Media survey.

From the model amount spent annually on philanthropic activities is inversely related with return on investments. An increase in amount spent annually on philanthropic activities will lead to a decrease in return on investments by 1.4507 units with a p value = 0.000 < 0.05, keeping amount spent annually on environmental CSR activities and ethical CSR activities constant. The relationship between amount spent annually on philanthropic CSR activities and return on investments is inversely related. The relationship though inverse can be statistically used to forecast the outcome of return on investments because of the statistical significance.

As inferred from the result r = - 5.6109, when amount spent annually on environmental CSR activities increases by 1 unit, return on investment also decreases by 5.6109 units with other variables kept constant. The relationship was statistically significant as denoted by p value = 0.012 < 0.05. This indicated that amount spent annually on environmental CSR activities can be used to predict the SMEs returns on investments, though the relationship is inverse.

Third, amount spent annually on ethical CSR activities had inverse significant relationship with return on investment, r = 8.3307, p value = 0.00 < 0.05. When amount spent annually on ethical activities increases with 1 unit, returns on investment increases by 8.3307 units keeping other variables constant indicating a statistically significant relationship with a p value = 0.000 < 0.05

4.5.1.3 Hausman Test

Estimating models from panel data requires a determination of whether a correlation exists between the unobservable heterogeneity of each SME and the independent variables within a model (random effects). The choice of the model to use was based on (Hausman, 1978). The study established p value = 0.0179 < 0.05 hence the null hypothesis was rejected, taking random model as the preferred model which according to (Raheman & Nasr, 2007) counters the challenges of heteroscedasticity.

Table 4.5: Hausman Test

	(b)	(B)	(b-B)	sqrt (diag(V_b-V_B))
	Random	Fixed	Difference	S.E.
Phil	-1.4507	-1.451207	2.861508	
Env	-5.6109	-5.612509	7.6812609	
Eth	8.3307	8.3310207	2.3801507	

b = consistent under H_0 and H_a; obtained from xtreg

B = inconsistent under Ha, efficient under H0; obtained from xtreg

Test: H_0: difference in coefficients not systematic

Chi2(3) = (b-B)'[(V_b-V_B)^(-1)](b-B)

= 5.16 chi2 < 0 = ➔ 0.0179

The choice between random and fixed effects model was made using results from Hausman test. The hypothesis that the random effects model was preferred to the fixed effects model was used for the basis of the choice of the model. The study established chi-square of 5.16, p value = 0.0179 < 0.05, which was significant making the researcher fail to reject the hypothesis and hence choosing random effect model as recommended by (Greene, 2012)

The following diagnostic tests were used to ascertain data normality: time fixed effects test, test for cross sectional dependence, test for heteroscedasticity, test of multicollinearity and autocorrelation test.

4.5.2 Test for Time Fixed Effect

Table 4.6: Test for Time Fixed Effect

testparm phil env eth roi

(1) roi = 0

(2) phil = 0

(3) env = 0

(4) eth = 0

$Chi_2(4) = 5.47$

Prob > chi2 = 0.7146

The study established p value = 0.7146 > 0.05, hence failing to reject the null hypothesis that the coefficients for all years are both equal to zero, therefore there was no time fixed effects.

4.5.3 Test for Cross-Sectional Dependence

Table 4.7: Test for Cross-Sectional Dependence

	phil	env	eth
Phil	1.0000		
Env	0.03517	1.0000	
Eth	-0.16501	0.876	1.0000

Breusch-Pagan LM test of independence: chi2(3) = 6.143, Pr = 0.3154

Based on 140 complete observations

The Breusch-Pagan LM test of independence was carried out to check for cross sectional dependence in the data. The null hypothesis in the Breusch-Pagan LM test of independence is that residuals across entities are not correlated. The findings above gave a chi square value of 6.143 resulting in a p value of 0.3154 which is more than 0.05. The researcher therefore failed to reject the null hypothesis and concluded that there was no cross sectional dependence from the analysed set of data.

4.5.4 Test for Heteroscedasticity

Modified Wald test was used to test heteroscedasticity in the panel data. Results for the Modified Wald test for group wise heteroscedasticity in random effect regression model are presented below.

Table 4.8: Modified Wald Test for GroupWise Heteroscedasticity

Breusch-Pagan/Cook-Weisberg test for heteroscedasticity

H_o: Constant variance

Variables: fitted values of roilog

Chi2(1) = 210.107

Prob > Chi2 = 0.000

The study tested for panel level heteroscedasticity using the Breusch-Pagan / Cook-Weisberg as shown in table above. The null hypothesis of this test was that the error variance was homoscedastic. The Breusch-Pagan / Cook-Weisberg test produced a chi-square value of 210.107 with a p-value of 0. 000. The p value was statistically significant at 5 percent level and hence failing to reject the null hypothesis of constant variance which signifies the non-existence of heteroscedasticity in the study's data indicating that the there was no heteroscedasticity in the regressed data.

4.5.5 Multicollinearity Test

Table 4.9: Multicollinearity Test

Variable	VIF	1/VIF
phil	2.87	0.348
env	5.19	0.192
eth	4.18	0.239
Mean VIF	4.08	

The study used variance inflation factors to measure the levels of multicollinearity of each independent variable and the findings were compared to those from the correlation matrix. Each of the variance inflation factors fell within the acceptable range of less than 10 thus the levels of multicollinearity do not pose a great problem of data abnormality (Hair, Anderson, Tatham, & Black, 1995).

4.5.6 Autocorrelation Test

Table 4.10: Autocorrelation Test

Number of gaps in sample 2
Durbin-Watson d statistics (9, 25) = 0.924

The study used the Durbin-Watson test for autocorrelation to test the presence of autocorrelation in the data and the results are presented in above table. The null hypothesis of this test was that there was no first order autocorrelation in the data. The test statistic reported was D test with 9 and n 25 degrees of freedom. The p - value of the D test was 0.924 implying the D test was statistically significant at 5 percent level. The results therefore indicate that there was no problem of first order autocorrelation in the data. The study further used Wooldridge test to test autocorrelation in panel data.

4.6 Hypothesis Test

The hypothesis $\mathbf{H_{01}}$ that there is no statistically significant effect of annual cost of philanthropic CSR activities on the financial performance of small and Medium Sized Enterprises in Nairobi County was rejected. As per Table 4.4: Random Effects of Regression Model the annual cost of philanthropic activities had an inverse correlation with return on investment as a measure of financial performance, r = - 1.4507. The p value of .000 < .05 indicates that the annual cost of philanthropic activities has a significant effect on return on investment as a measure of financial performance of Medium Sized Enterprises in Nairobi County. This finding is supported by the fact that firms engage in discretionary activities which have a positive effect on their non-financial performance, including enhanced corporate image (Hogarth, Hutchinson, & Scaife, 2018), improved competitive advantage (Mjomba & Rugami, 2017), reduce commercial risk and earn more support from regulatory authorities (Roger & Chen-Hsun, 2017). In the long run financial performance is impacted positively (Roger & Chen-Hsun, 2017).

The finding is further supported by Zulfiqar (2016) who studied the Link between Corporate Philanthropy and Corporate Financial Performance and argues that corporate philanthropy (CP) aligns with the bottom line since it can be a significant determinant of corporate financial performance. Results show that CP has a significant positive relationship with ROA but has an insignificant relationship with ROE. Zulfiqar explains that ROE is unaffected by spending in CP due to the capacity of the companies to pay dividends with regards to profitability. The study concludes that good financial performance creates availability of slack resources enabling investment in philanthropic activities which in turn increases social performance and ultimately has a positive impact on financial performance (Zulfiqar, 2016)

Other findings on the study conducted in Australia by Hogarth, Hutchinson and Scaife (2018) established that for every dollar spent on corporate giving the measure for shareholder value, Tobin's Q, decreases by 0.413%. Alternatively, if firm reputation is increased by 1 point, Tobin's Q increases by 0.267%. The study concluded that corporate giving and reputation risk management has a positive relationship with shareholder value. Measure for reputation used was media coverage and corporate philanthropy was amount spent in corporate giving. Shareholder value metric was total shareholder return constituted as price of firm's stock at year end plus dividend per share divided by previous year share price (Hogarth, Hutchinson, & Scaife, 2018).

Wang, Choi and Li (2008) also found that in later years of corporate giving, a firms' performance is significantly negatively affected in their study of the effect of corporate philanthropy and financial performance. They explained this behaviour as continuous increase of agency costs and direct costs that ultimately affect financial performance. The study found that in the beginning years corporate giving improves performance due to utilisation of slack resources from which they concluded that the companies generally have a U-shaped relationship between corporate giving and corporate financial performance (Wang, Choi , & Li, 2008).

The hypothesis **HO_2** that there is no statistically significant effect of annual cost of environmental activities on the financial performance of small and medium sized enterprises in Nairobi County was **rejected**. As per Table 4.4: Random Effects of Regression Model the annual cost of environmental activities had inverse correlation with return on investment as a measure of financial performance, $r = - 5.6109$. The p value of $.012 < .05$ indicates that the annual cost of environmental activities has a significant effect on return on investment as a measure of financial performance of Medium Sized Enterprises in Nairobi County.

The finding is supported by Jiang, Xue and Xue (2018) who found that proactive corporate environmental responsibility (PCER) has a significant effect on corporate financial performance (CFP) in the Chinese energy industry. The study further established that past performance has no moderating effect on the relationship between PCER and CFP for state owned firms since they receive resources from government for their operations thus are not responsive to changes in their financial performance (Jiang, Xue, & Xue, 2018).

The finding is also supported by Jo, Kim, Lee and Park (2013) who established that conventional industries like the basic resources and food and beverage industries incur substantially high environmental costs while technology and telecommunication industry incurs less. It also found that reduced environmental costs and high CFP are correlated but have a dynamic relationship such that lowered environmental costs is followed by at least two years of enhanced ROA (Jo, Kim, Lee, & Park, 2013).

The issue of integrating environment into firms' business is also supported by Sindhi & Kumar (2012) who posit that with the increased awareness on environmental issues and magnitude of costs associated, it has become imperative for businesses to integrate environmental responsibility actions into their business strategy. Also firms take a proactive role in the protection of the environment not out of compliance but voluntarily in the quest to becoming socially aware (Lundgren & Zhou, 2017). Environmental CSR are actions like recycling, use of clean energy, responsible use of water, pollution control, and waste disposal management, among others, taken to reduce any damaging effects on the environment from business processes. Involvement in Green CSR can be credited for the reduction of business risk, improvement of corporate reputation and provision of opportunities for cost saving.

The findings by Lioui and Sharma (2012) also support the findings of this study. They found that environmental corporate social responsibility, strengths and concerns, negatively affect return on assets and Tobin's Q of companies under survey, concluding that the direct effect of environmental corporate social responsibility, strengths and concerns, and corporate financial performance was negatively significant. However the relationship between the firms' environmental corporate social responsibility and research and development was positive and significant, thus the researchers concluded that corporate social responsibility activities foster research and development efforts of firms' which ultimately add value to firms'. This result indicated an indirect positive relationship between environmental corporate social responsibility, strengths and concerns and firm performance (Lioui & Sharma, 2012).

The hypothesis **HO_3** that is no statistically significant effect of annual cost of ethical activities on the financial performance of small and medium sized enterprises in Nairobi County. As per Table 4.4: Random Effects of Regression Model the annual cost of ethical activities had positive correlation with return on investment as a measure of financial performance, $r = 8.3307$, p value $= .000 < .05$ indicating that the annual cost of environmental activities affected return on investment as a measure of financial performance of Medium Sized Enterprises in Nairobi County.

This finding is supported by Too (2017) sought to establish the connection between CSR and FP of commercial banks listed at the Nairobi Stock Exchange in her study where she investigated the effect of the amount invested by commercial banks in philanthropic, ethical, legal and economic activities on their financial performance. Secondary data from annual reports of 11 banks was collected between 2006 and 2016. Data was analysed using STATA. CSR metrics were amounts spent by the banks on philanthropic, ethical, legal and economic activities and FP was measured using ROI. Results indicated that investing in ethical, legal and economic activities causes an insignificant increase in financial performance of commercial banks. The study, however, shows that investment in philanthropic activities has a significant positive effect on financial performance and the study recommends that commercial banks should invest more in corporate giving to realize better financial performance (Too, 2017).

Findings by Chun, Shin, Coi and Kim (2013) also support the findings of this study. They assessed the contribution of ethics to financial performance with emphasis on the mediating role of collective organizational commitment and organizational citizenship behaviour in the relationship. The study found that commitment to ethics has a positive and significant effect on financial performance. Of the three dimensions of corporate ethics, internal ethics was found to have the strongest correlation with employees' collective commitment to the organization. The researchers gave an explanation of the positive relationship that when employees perceive that their organization adheres to legal and ethical standards, then their commitment to the company is strengthened (Chun, Shin, Coi, & Kim, 2013).

Similar findings were reported by Kim (2010) who assessed the long term financial performance of ethical companies and found that corporate social responsibility is negatively related to systematic and unsystematic risks thus concluding that once a company is recognized as being ethically responsible, it is able to reduce its risks. However, it failed to find a consistent impact of corporate social responsibility on financial performance. The study found that community and employee relationship: which were dimensions of corporate social responsibility, were seen to lower systematic risk whereas product/customer and employee relationship were the main drivers that enhance a firms' idiosyncratic return (Kim, 2010).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the analysis of the effect of annual cost of corporate social responsibility activities on financial performance of small and medium sized enterprises in Nairobi County. The study then makes conclusions based on the findings. The recommendations from the findings and areas for further research are also presented.

5.2 Summary

The study established that that the SMEs ranked by KPMG and Nation Media Group in the top 100 performing small and medium sized companies spent more money in environmental activities of their CSR (KES 275,449,000) followed by philanthropic activities (KES 244,445,000) and spent the least on ethical activities (KES 39,867,000). This finding indicated that environmental CSR activities were of major concern to the SMEs in the survey followed by philanthropic and ethical CSR activities. The study also established that the average total investment by the SMEs was KES 106,549,000,000 which generated an average net profit of KES 16,902,442,000. This finding indicated that the SMEs investment gave them low average net profit.

The study established that the mean value of amount spent in philanthropic CSR activities was KES 244,523,200. The companies spent an average of KES 276,081,700 on environmental CSR activities and KES 39,798,460 on ethical CSR activities. This finding indicated that investing in philanthropic CSR activities cost the SMEs the highest amount money followed by environmental CSR activities and the least amount was spent on ethical CSR activities. The maximum cost on philanthropic CSR activities was KES 1,914,503,000 and the minimum was KES 112,000. The maximum amount spent on environmental activities was KES 7,046,813,200 and minimum amount being KES 58,000. The maximum amount of money spent by the SMEs in ethical activities was KES 36,410,123,000. The finding further revealed that the mean performance for total investment was KES 120,753,008,000 with the maximum total investment being KES 3,851,509,000 with a minimum of KES 18,241,000 deviating from the mean by KES 31,467,548,000. The mean performance for net profit was KES 17,012,407,000 with maximum net profit achieved in the period under the study being KES 61,365,008,000 with minimum of KES 995,124,000. The mean return on investment (ROI) was 0.12 with a maximum value being 1.54 and minimum of 0.098.

Choice of whether to use fixed or random effect model was based on the results of the Hausman test. The test revealed that the random effects model was preferred to the fixed effects model. For random effects model, Hausman test revealed a statistically significant chi-square value confirming that random effect model was more preferred compared to fixed model. The study also carried out a number of diagnostic test on data normality and relationship including; test for time fixed effect which established that the coefficients for all years are jointly equal to zero, therefore no time fixed effects, recommending that random effects was appropriate model for the study. Test for cross sectional independence revealed that there was no cross sectional dependence from the analysed set of data. There was also no heteroscedasticity in the study data. There was an acceptable level of multicollinearity between all the variables and there was no autocorrelation.

5.3 Conclusions

Using results from random effects model, revealed annual cost of philanthropic, environmental and ethical corporate social responsibility activities by Small and Medium Sized Enterprises in Nairobi County can be used to predict the outcome of return on investment as a measure of the SMEs financial performance. The first objective of the study was to analyse the effect of amount spent annually in philanthropic activities on the financial performance of small and medium sized enterprises in Nairobi County. From the findings, an increase in 1 unit on the amount spent annually on philanthropic CSR activities lead to a decrease in return on investments by 1.4507 units, keeping amount spent annually on environmental activities and ethical activities constant. The relationship though inverse can be statistically can be used to forecast the outcome of return on investments. The negative relationship between annual cost of philanthropic CSR activities and ROI is anticipated because costs incurred in discretionary activities are made by firms out of majorly on voluntary basis with no expectation of getting any return. Firms on the contrary expect that their image and reputation are secured through indulgence in those discretionary activities (Hogarth, Hutchinson, & Scaife, 2018; Mjomba & Rugami, 2017; Roger & Chen-Hsun, 2017). In the context of this study costs of philanthropic activities were majorly in the form of donations to causes and scholarships given to needy students in the community the SMEs reside. These costs are majorly incurred to boost corporate reputation.

The second objective of the study was to assess the effect of amount spent annually in environmental activities on the financial performance of small and medium sized enterprises in Nairobi County. It was found that when amount spent annually on environmental activities is increased by 1 unit, return on investment also decreases by 5.6109 units with other variables kept constant. This indicated that amount spent annually on environmental activities can be used to predict the SMEs returns on investments, though the relationship is inverse. An inverse relationship between annual cost of environmental activities and return on investment is observed due the fact environmental costs are largely considered to be borne out of the ordinary operational activities of firms collectively thus are considered to be imposed on firms rather than voluntarily taken on by firms. For example, NEMA collects fees for controlling pollution and other adverse environmental effects.

The third objective of the study was to evaluate the effect of amount spent annually on ethical activities on the financial performance of small and medium sized companies in Nairobi County where the findings indicate that when amount spent annually on ethical activities increases with 1 unit, returns on investment increases by 8.3307 units keeping other variables constant, indicating that amount spent annually on ethical activities brought positive results on the SMEs return on investment as a measure of financial performance. As discussed by after examining different literature, they conclude that ethically responsible management contributes to better financial performance by reducing the cost business transactions in the long run, building trust with stakeholders and contributing to a successful teamwork environment and maintaining social capital (Viera, 2013). Most ethical activities firms engage in are borne out of the ordinary activities of firms, for example maintaining a safe and healthy working environment for employees, payment to Kenya Bureau of Standards to give approval of safety and standard of products, licences including those relating to County activities are usually directed towards normal operations thus cause the performance of the firms to be better placed than those firms that do not engage in such activities.

5.4 Recommendations

5.4.1 Policy Recommendations

Since SMEs see CSR as a voluntary activity that they invest in at their own discretion, the study recommends that CSR should be treated as an integral part of the firms' strategy to improve financial performance since CSR has a significant effect on firms' financial performance. Companies' management should therefore formulate strategic plans and policies which ensure that firms' acts in an ethically and socially responsible manner towards all stakeholders and ensure these policies are implemented. These policies will ensure that SMEs in Kenya are socially responsible.

The study recommends that relevant government departments like NEMA, Ministry of Trade and Institute of Certified Public Accountants (ICPAK) should develop policies related to engagement in CSR activities which become a blueprint of ethical and good social behaviour for companies and ensure that these policies are implemented. The study also recommends that these government departments should create awareness on the importance of integrating CSR activities in business. Such awareness should target SMEs, State Corporations and listed firms using a common format so that these organization may be aware of their role in enhancing philanthropic, environmental and ethical activities in their businesses as they pursue profitability.

Given that CSR activities come with a cost, the study recommends that the Ministry of Finance should design a policy that extends tax incentives on CSR activities by commercial firms in Kenya. Such incentives would be a natural motivator for the firms that will make them see the need to conserve the environment they operate in, be socially responsible to the people in Kenya who buy goods and services from the firms and also to operate ethically.

5.4.2 Recommendations for Further Research

The study recommends a comparative empirical study to be carried out on the effect of annual cost of corporate social responsibility activities on financial performance in SMEs, Listed Firms and State Corporations. This is because this study did not cover listed firms and state corporations. The findings from such a study will shade more light on the difference in level of involvement on CSR activities by these firms and also verify how such involvement comparatively affect their financial performance.

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APPENDICES

Appendix I: Letter of Introduction

The Managing Director,

……………………………………………………………………………………………………..

Dear Sir/Madam,

RE: <u>PERMISSION TO CARRY OUT RESEARCH IN YOUR FIRM</u>

I am conducting a research which seeks to determine the 'Effect of Annual Cost of Corporate Social Responsibility Activities on Financial Performance of Small and Medium-sized Enterprises in Kenya' as part of the requirements for the award of a Master's degree in Business Administration, Finance at Kabarak University. I seek to collect accurate data from small and medium enterprises on CSR initiatives focused through stakeholders, to draw conclusions that would contribute to growing literature on CSR as a strategy for firm financial performance. I kindly seek your permission and cooperation to participate in this study. Please share any additional information that would add value to this research. Ethical considerations including confidentiality and anonymity will be held in the highest regard. The study will be used for academic purposes only and key findings of the study will be availed upon request.

Thank you in advance,

…………………………

Maymuna Athuman

Appendix II: Data Collection Sheet

Year	Total Annual Investment in KES			Total Investment	Net Profit	Return on Investment
	Philanthropic CSR activities	Environmental CSR activities	Ethical CSR activities			
2013						
2014						
2015						
2016						
2017						
2018						

Appendix III: NACOSTI Letter

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR
SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **799418**

Date of Issue: **14/August/2019**

RESEARCH LICENSE

This is to Certify that Ms.. Maymuna Athuman of Kabarak University, has been licensed to conduct research in on the topic: Effect of corporate social responsibility activities on financial performance of small and medium sized enterprises in Kenya for the period ending : 14/August/2020.

License No: **NACOSTI/P/19/379**

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Appendix IV: List of Top 100 SMEs in Kenya 2018

S/No	NAME	LOCATION
1	GENERAL CARGO SERVICES LTD	NAIROBI
2	VIVO ACTIVE WEAR	NAIROBI
3	DIAMOND PROPERTY MERCHANTS LTD	NAIROBI
4	MANDHIR CONSTRUCTION LTD	NAIROBI
5	TRUEBLAQ LIMITED	NAIROBI
6	NYWELE CREATIVE	NAIROBI
7	SYNER MEDICA (KENYA) LTD	NAIROBI
8	ORANGE PHARMA LTD	NAIROBI
9	QUESTWORKS LIMITED	NAIROBI
10	HAJI MOTORS LTD	NAIROBI
11	SOFTWARE TECHNOLOGIES LIMITED	NAIROBI
12	FLOOR DÉCOR KENYA LTD	NAIROBI
13	GRACEFUL RESTAURANT	NAIROBI
14	FAYAZ BAKERS LIMITED	MOMBASA
15	NATIONWIDE ELECTRICAL INDUSTRIES LTD	NAIROBI
16	BABS SECURITY SERVICES LTD	NAIROBI
17	RURAL DISTRIBUTORS LIMITED	NAIROBI
18	EXECUTIVE HEALTHCARE SOLUTION LIMITED	NAIROBI
19	ECO STEEL AFRICA LIMITED	NAIROBI
20	I SPY AFRICA LIMITED	MOMBASA
21	USERNAME INVESTMENT LIMITED	NAIROBI
22	RSA KENYA LIMITED	NAIROBI
23	BLUEKEY SEIDOR (K) LTD	NAIROBI
24	VICTORIA COURTS TRADING LIMITED	NAIROBI
25	POLYPHASE SYSTEMS LIMITED	NAIROBI
26	BELLA SAFARIS LIMITED	NAIROBI
27	EXON INVESTMENTS LIMITED	MOMBASA
28	OCTAGON PENSION SERVICES LTD	NAIROBI
29	PRAFULCHANDRA & BROTHERS LTD	NAIROBI
30	ISOLUTIONS ASSOCIATES LTD	NAIROBI
31	DESIGN PARTNERSHIP LIMITED	NAIROBI
32	MACHINES TECHNOLOGIES (2006) LIMITED	NAIROBI
33	POLUCON SERVICES (K) LIMITED	MOMBASA
34	PATHCARE KENYA LIMITED	NAIROBI
35	HOTEL WATERBUCK LTD	NAIROBI
36	BILASHAKA FLOWERS LIMITED	NAIVASHA
37	NATURAL WORLD KENYA SAFARIS LTD	NAIROBI
38	RUP PHARM LTD	NAIROBI
39	CHEQUERED FLAG LTD	NAIROBI
40	UNIQUE OFFERS LIMITED	NAIROBI
41	MYSPACE PROPERTIES (KENYA) LIMITED	MOMBASA
42	KOMAL CONSTRUCTION CO. LIMITED	NAIROBI
43	METCO LIMITED	NAIROBI
44	UFANISI FREIGHTERS (K) LTD	NAIROBI
45	ELITE OFFSET LIMITED	NAIROBI

46	GOODMAN AGENCY LIMITED	NAIROBI
47	MOJO PRODUCTIONS LIMITED	NAIROBI
48	YOGI CORP (EA) LTD	NAIROBI
49	NOVEL TECHNOLOGIES E.A. LTD	NAIROBI
50	NORTH STAR COOLING SYSTEM LTD	NAIROBI
51	PREMIER INDUSTRIES LTD	NAIROBI
52	ELIDE TOURS & SAFARIS LTD	NAIROBI
53	UNITED (EA) WAREHOUSES LIMITED	MOMBASA
54	RILEY FALCON SECURITY SERVICES LTD	KISUMU
55	THE SCOTT TRAVEL GROUP LIMITED	NAIROBI
56	PARSHVA LTD	NAIROBI
57	NOVA INDUSTRIES LTD	NAIROBI
58	ZIMELE ASSET MANAGEMENT	NAIROBI
59	TANDU ALARMS SYSTEMS LTD	NAIROBI
60	ECONOMIC INDUSTRIES LTD	NAIROBI
61	THE MAKINI SCHOOL LIMITED	NAIROBI
62	SIMBA TECHNOLOGY LTD	NAIROBI
63	TIKOO A CO. LTD	NAIROBI
64	MIC GLOBAL RISKS INSURANCE BROKERS LTD	NAIROBI
65	SUPER-BROOM SERVICES LIMITED	NAIROBI
66	EXPRESS COMPANY LIMITED	NAIROBI
67	REAL AUTO SPARES LTD	NAIROBI
68	MAGNUM ENGINEERING & GENERAL LTD	NAIROBI
69	VALLEY HOSPITAL LTD	NAIROBI
70	PALMHOUSE DAIRIES LTD	GITHUNGURI
71	JAMII AUTOCARE	NAIROBI
72	TDF GROUP LIMITED	NAIROBI
73	R WORLD ENTERPRISE LTD	NAIROBI
74	POWER GOVERNORS LIMITED	NAIROBI
75	SIDEWAYS TOURS & CAR HIRE	NAIROBI
76	DE RUITER EAST AFRICA LTD	NAIVASHA
77	BAGDA’S AUTO SPARE LTD	NAIROBI
78	BELVA DIGITAL LIMITED	NAIROBI
79	BIMAS KENYA LIMITED	NAIROBI
80	VARSANI BRAKELININGS LTD	NAIROBI
81	KAESER COMPRESSORS LTD	NAIROBI
82	DIGITAL CITY LTD	NAIROBI
83	COAST FARMCARE AGROVET LTD	MOMBASA
84	AGOMA GROUP LIMITED	NAIROBI
85	OFFICE DYNAMICS LIMITED	NAIROBI
86	CITROLAM CONTRACTORS LIMITED	NAIROBI
87	MASTER FABRICATORS LTD	NAIROBI
88	TRAVEL CARE LIMITED	NAIROBI
89	CLASSIC MOULDINGS LTD	NAIROBI
90	FARMAL GENERAL MERCHANTS LTD	NAIROBI
91	INDEX MODERN LIVING	NAIROBI
92	EUROCON TILES PRODUCTS LTD	NAIROBI
93	NEWLINE LIMITED	NAIROBI

94	LEKHA TRADING COMPANY LTD	NAIROBI
95	IDEAL MANUFACTURING COMPANY LIMITED	NAIROBI
96	MAROO POLYMERS LTD	NAIROBI
97	EAST AFRICA TEA TRADE ASSOCIATION	MOMBASA
98	COASTAL IMAGE TECHNOLOGIES LIMITED	MOMBASA
99	COMPUTER PRIDE LIMITED	NAIROBI
100	VISCAR INDUSTRIAL CAPACITY LIMITED	NAIROBI

Source: www.eastafricatop100.com