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Influence of Corporate Social Responsibility on Financial Performance of Listed Manufacturing Firms in Kenya

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Abstract

Purpose: The general objective of the study was to establish the influence of corporate social responsibility on financial performance of listed manufacturing firms in Kenya. The specific objectives of the study was to establish the influence of environmental responsibility, CSR initiative on public education, corporate philanthropy on financial performance of listed manufacturing firms in Kenya. The theories that anchored the study comprised of Triple Bottom Line Theory, Integrative Social Contracts Theory and The Stakeholder Theory.

Methodology: A descriptive research design was employed in the study and the target population comprised of ten listed manufacturing firms in Kenya. The units of observation comprised of employees from upper, middle and lower management levels. A total of 90 employees were targeted. The study used questionnaires to gather primary data and secondary data was acquired from financial reports of the selected firms. Both descriptive and inferential statistics were employed in analyzing the collected data. The statistics were generated through Statistical Package for Social Scientists and MS Excel.

Results: The findings of the study revealed that environmental responsibility and corporate philanthropy bears a positive and significant influence on the levels of financial performance of listed manufacturing firms. This is shown by beta values of 0.197 and 0.271 and significant values of 0.0122 and 0.0136 respectively. The results implies that increasing either environmental responsibility or corporate philanthropy with one unit results to increase in the levels of financial performance of listed manufacturing firms in Kenya with respective beta values. The study further revealed that CSR initiative on public education bears a positive but insignificant influence on financial performance of listed manufacturing firms in Kenya. This is shown by a beta value of

0.101 and an insignificant value of 0.0743. This bears the implication that increasing CSR initiative on public education with one-unit results to insignificant increase in the levels of financial performance of the listed manufacturing firms.

Unique Contribution to Theory, Policy and Practices: The study recommended the listed manufacturing in Kenya to enhance both environmental responsibility and corporate philanthropy practices in the firm's operations since the practices increases the financial performance levels to a positive and significant level.

Keywords: *Environmental Responsibility, CSR Initiative on Public Education, Corporate Philanthropy on Financial Performance and Listed Manufacturing Firms*

INTRODUCTION

1.1 Background of the Study

Corporations have long made profits their predominant motivation for operating, which has led to greater risk for human societies and the ecological health of Earth (Barnes, 2011). Thus, corporations are faced with increasing pressure to change their operational strategies to incorporate environmentally and socially responsible approaches when conducting business. Civil societies, including governmental agencies and environmental groups, have established standards and expectations for firms that impact the world's shared components. The obligations a company assumes in attempting to meet those societal expectations can be characterized as corporate social responsibility (CSR; Cholette, Kleinrichert, Roeder, & Sugiyama, 2014). CSR is grounded in the moral and ethical philosophies of the individual corporation, and a significant number of global corporations have embraced the challenge of impactful CSR by accepting that social concerns are legitimate and realizing that their organization's continuing operations is connected to social engagement. Aside from these noble intentions and motives, contemporary business leaders are challenged to remain competitive and profitable while engaging in CSR. Prevailing CSR investment strategies focus on economic return and branding despite the philanthropic origins of CSR (Calabrese, Costa, Menichini, & Rosati, 2013). Although many business leaders now envision social engagement with stockholders, local communities, and other stakeholders as a feature in conducting business in a competitive environment and have committed resources that exceed regulatory requirements, many others believe that committing more than what is required would significantly impact their financial bottom line (Marín, Rubio, & Maya, 2012).

Environmental efforts on corporate social responsibility programs are a component of the overarching CSR concept, which encompasses strategies pertaining to a number of critical environmental indicators, such as resource reduction and recycling, biodiversity, greenhouse gas emissions reduction, energy demand reduction, waste disposal, and so on (Seroka-Stolka, 2013). Furthermore, Medarevic (2012) adds his two cents, claiming that considering the environmental effects of CSR by businesses is a more holistic approach to business because it considers more than just the financial bottom line. The subsections that follow cover some of the most important aspects of environmental CSR. As a result of the corporate social responsibility initiative, a firm can choose to participate in a variety of socially responsible activities, and this is what defines its CSR strategy. Because a CSR plan contains five components, it must follow ethical ideals when conducting business. In an ideal world, immoral behavior would contradict the company's efforts to be ethical. Second, it could involve a company making charity contributions, sponsoring community service, and reaching out to make a difference in people's lives (Thompson, 2012).

Corporate philanthropy involves a company that practices CSR embraces responsibility for its actions and, through its activities, positively affects the environment, society, consumers, employees, communities, and other stakeholders. One such responsibility entails philanthropy,

also called the discretionary responsibility. It is best described by the resources contributed by corporations toward social, educational, recreational and/or cultural purposes. As observed by Park, Lee and Kim, (2014), corporate philanthropy is a discretionary responsibility of a firm that involves choosing how it will voluntarily allocate resources to charitable or social service activities in order to reach marketing and other business-related objectives of which there are no clear social expectations as to how the firm should perform.

1.2 Statement of the Problem

The manufacturing sector is one of the major contributors to the economic health of any country both locally and internationally (Matar & Eneizan, 2018). Locally, the manufacturing sector employs a significant number of people and on the international scene, the country is able to sell the manufactured products to other countries (Mutunga, 2018). Khalifa and Shafii (2013) have observed that the 20th century saw different countries distinguishing themselves from the rest by embracing industrialization. The economic growth rates in Africa were high even during the global financial crisis in 2008. Recently, only a few countries are performing well in the manufacturing sector while the rest are lagging behind (ACET, 2014). However, despite the significance level of manufacturing firms, the firms continue facing performance challenges. A report from World Bank (2015) revealed that manufacturing firms in Kenya registered declining profits and growth stagnation occasioned by turbulent operational environment. The sector contributed to the country's GDP 13.6% in 2016 which was a decline of 5.6% registered in 2015. Cholette *et al.*, (2014) notes that adoption and implementation of CSR activities in the operations of the manufacturing firms bears the capability of enhancing the levels of financial performance. The study therefore focused on establishing how corporate social responsibility influences financial performances focusing on listed manufacturing firms in Kenya.

A number of researches have been conducted in Kenya on corporate social responsibility on financial performance. For instance, Lorwood (2012) in his study about the relationship between CSR and financial performance of mobile telephony firms in Kenya. This study adopted a descriptive design. The study found a positive correlation between return on assets and the controls indicating that when the controls increase, so does the return on assets. However, this study did not address the influence of environmental responsibility on financial performance a gap the present study sought to fill. On the other hand, Muiruri (2012) did a case study on the challenges of aligning corporate social responsibility to corporate strategy for Safaricom foundation. The main objective of this research was to evaluate the challenges and to align CSR to corporate strategy in Safaricom Foundation. Findings of the study established that Corporate Social Responsibility was found to be a fundamental part of corporate strategy. However this study was conducted on corporate strategy alignment where the proposed study focuses on financial performance is. Omwenga (2013) also looked into how Kenya's power and lighting company's management viewed corporate social responsibility. The research was done with a cross-sectional

descriptive design. According to the report, 87.5 percent of managers believe that responsible corporate behavior by Kenya Power and Lighting Company (KPLC) is in the best interests of shareholders, with a mean score of 4.43. However, the study did not look into the financial impact of corporate social responsibility initiatives on public education.

On the other hand, Amara (2013) did a research on the variables that impact decision of corporate social obligation programs among commercial banks in Kenya. The investigation discovered that most commercial Banks in Kenya practice corporate social obligation. They do this principally for moral thought. Banks need to help networks where they come from by fixing specific cultural issues to help in working on the encompassing of their organizations. Anyway the review didn't survey the impact of corporate charity on the monetary execution of recorded assembling firms a hole the current review tried to fill. These discrepancies looked in this area have prompted the need to lay out the impact of corporate social obligation on monetary execution of recorded manufacturing firms in Kenya.

1.3 Objectives of the Study

- i. To determine the influence of environmental responsibility on financial performance of listed manufacturing firms in Kenya
- ii. To examine the influence of corporate social responsibility initiative on public education on the financial performance of listed manufacturing firms in Kenya
- iii. To determine the influence of corporate philanthropy on financial performance of listed manufacturing firms in Kenya

LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Triple Bottom Line Theory

Elkington (1997), as quoted by Mwai (2013), created this theory, which expanded the standard reporting and accounting framework to take into account a company's social, environmental, financial, and economic performance. Spreckley (1981) coined the term "triple bottom line," which was quoted by Ngatia (2014) in his book, in which he claimed that businesses should track and report on social, environmental, and financial performance. Elkington (1997), as quoted by Mwai (2013), created this theory, which expanded the standard reporting and accounting framework to take into account a company's social, environmental, financial, and economic performance. Spreckley (1981) coined the term "triple bottom line," which was quoted by Ngatia (2014) in his book, in which he claimed that businesses should track and report on social, environmental, and financial performance. The triple bottom line hypothesis requests that an organization obligation will lie with the partners as opposed to the investors no matter what the organization size or construction. Triple base hypothesis attempts to exemplify the three circles of maintainability as

per. The three circles are financial, social and natural. Additionally, the triple main concern hypothesis is otherwise called People, Planet and benefit or the three P's which as per Mwangi, and Jerotich (2013), made sense of that the three P's incorporate benefit which is for the association monetary execution while planet and individuals is for the CSR recipients. For this reasons, the triple primary concern hypothesis sets headings and standards to assess and report the financial presentation and CSR accomplishments of manufacturing organizations. This hypothesis was utilized to secure the two goals to research the impact of natural obligation and CSR drive on state funded schooling on the monetary execution of recorded manufacturing firms in Kenya.

2.1.2 Integrative Social Contracts Theory

Integrative social contracts theory stated that social contracts exist between enterprises in the industrial and service industries and society, according to Donaldson and Dunfee (1994), as quoted by Siueia, Wang, and Deladem (2019). Companies in the manufacturing and service industries, according to Robert, Lyria, and Mbgogo (2016), should integrate social needs because their survival is dependent on the existence of their community. ISCT (integrative social contracts theory) is a new concept in corporate ethics influenced primarily by political philosophers such as Rawls and Donaldson. ISCT states there is a micro social contract that can happen between individuals from explicit networks including organizations, public financial association and enterprises in working on the social government assistance of the networks. Social contacts between the business and the general public will have an immediate relationship, implying that the more business become social the more society rewards the business, Robert, Lyria, and Mbgogo,(2016).This hypothesis extraordinarily center around corporate social obligation programs as a common agreements of business in assembling ventures and the general public. Subsequently, the hypothesis upholds CSR programs as an instrument that influences the monetary exhibition of business and its moral guidelines. The integrative common agreements hypothesis was utilized to moor the objective that tried to evaluate the impact of corporate magnanimity on the financial execution of recorded assembling firms in Kenya.

2.1.3 Stakeholder Theory

The term stakeholder was traditionally defined as any group or individual who can affect or is affected by the achievement of the organization's objectives (Freeman, 2010).Kinyua, 2016) define stakeholders as those individuals who depend on the organization to fulfill their own goals and on whom, in turn, the organization depends on. Freeman's definition is applied in this study as it is widely used. An organization has internal and external stakeholders and the level of influence to unilaterally determine the strategy of an organization depends on the level of power and interest that the stakeholder holds or possibility of cooperation or threat from such stakeholders. Stakeholder Management is stakeholders' relationships management. The idea of stakeholder management suggests that managers must formulate and implement process which will satisfy all and only those groups who have a stake in the business Freeman and Mcvea (2001)

as cited by Kinyua, 2016). It is built on partnering mentality that involves communicating, contracting, managing partnership and motivating as postulated by (Blair, 2015). There are three approaches to stakeholder management: normative, descriptive and instrumental. Normative stakeholder theory approach identifies the moral or philosophical guidelines linked to the activities or the management of corporation (Blair, 2015). The aim of descriptive branch is to understand how managers deal with stakeholders and how they represent their interests. It looks at how they represent their interests and the impact of the stakeholder approach in the achievement of various corporate goals (Breitbarth, *et al*, 2015). Instrumental Approach on the other hand study the organizational consequences of taking into account stakeholders in management examining the connections between the practice of stakeholder management and the achievement of various corporate governance goals. Kiliç, Kuzey, and Uyar, (2015) observe that understanding the link between the application of given strategies to engage stakeholders and outcomes is critical in so far as improvement in outcomes infers that the correct strategy has been applied and these strategies have been applied successfully.

Stakeholder theory suggests that by management addressing stakeholders' interests, the organization will perform better than those organizations that do not address these groups' interest (Kolyperas, *et al*, 2015). The instrumental perspective for instance postulates that better stakeholder relationships result in higher profitability or increased firm value. Organizations will need to be concerned with those stakeholders who work hard to make strategy successfully implemented and on those who will seek to sabotage the successful management of the strategy. The best way to eliminate an enemy is to make him a friend the saying goes. Stakeholder analysis and management has a utilitarian aim of identifying stakeholders who will, or can be persuaded to support actively the strategy of the organization as postulated by Eden and Ackermann (2011). Why should organizations pay attention to stakeholders? Pragmatically, this is because it helps with the competing demands being made on organizations by many stakeholders. It recognizes and enables management of the interactions that exist between stakeholders. It acknowledges the influence that both internal and external stakeholders can have and increases the likelihood of change and realization of aspirations as noted by (Eden & Ackermann 2011). Stakeholder management theory gives four strategies that organizations can use to manage different categories of stakeholders namely: offensive, swing, hold and defensive strategies. This informed our choice of four of the independent variables in this study. The study anchored the stakeholder theory to the third objective; to determine the influence of corporate philanthropy on financial performance of listed manufacturing firms in Kenya since the normative stakeholder theory approach identifies the moral or philosophical guidelines linked to the activities or the management of corporations.

2.3 Conceptual Framework

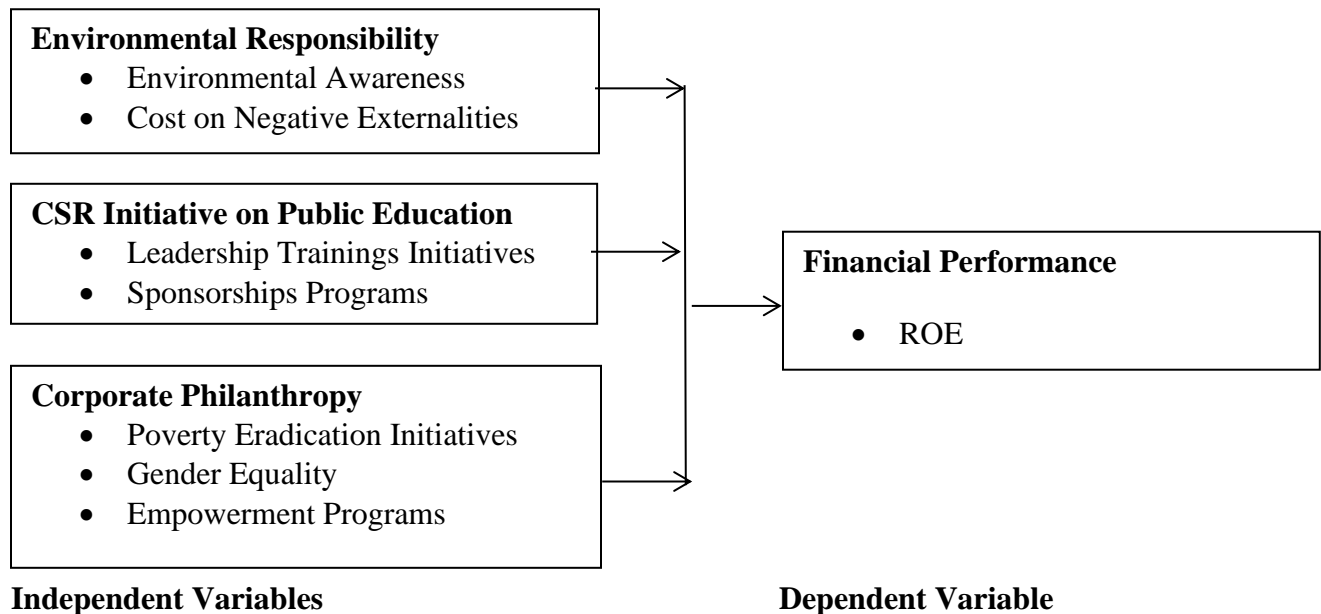


Figure 1: Conceptual Framework

2.3.1 Environmental Responsibility

Environmental CSR, according to Seroka-Stolka (2013), is a subset of the overarching CSR concept that encompasses strategies for a variety of critical environmental indicators such as resource conservation and recycling, biodiversity, greenhouse gas emissions reduction, energy demand reduction, and waste disposal, to name a few. According to Medarevic (2012), firms considering the environmental impacts of CSR is a more holistic approach to business because it focuses on more than the financial bottom line. The subsections that follow cover some of the most important aspects of environmental CSR. According to Ganescu and Dindire (2014), there is a positive correlation between environmental responsibility and corporate reputation since activities such as the reduction of pollution enhances confidence and safety for employees, local communities and consumers. Organizations need to be compelled to honour their environmental responsibilities since their primary preoccupation of creating economic value invariably leads to social costs or external costs necessary for creating environmental value but not borne by producers (Lombardo and D’Orio, 2012).

Sarker and Tacconi (2013) affirm that societal expectations and stakeholder demands diverge as a result of changes in socio-political, social, and environmental issues. Additionally, corporations’ engagement in corporate environmental responsibility is affected by a number of internal and external factors including economic, regulatory, scrutiny of international nongovernmental organizations (NGOs), peer pressure and competitive advantage. Juhmani (2014) posits that a component of corporate environmental responsibility is in environmental disclosures through the

performance of environmental accounting which is dependent upon a number of factors including firm size, financial leverage, profitability, firm age, and the size of the audit firm. Strong environmental credentials enable corporations to benefit financially since they create the perception on the part of strategic stakeholders that these companies are worthy of investment (Vincent, 2012). Aggarwal (2013) expounds on this by mentioning that organizations that fail to comply with their environmental responsibilities suffer in terms of their reputation with stakeholder and customers, and their appeal to current and potential employees. This is also supported by Jo, Kim, Lee and Park (2013) who determine that the cost savings that emanate from corporate environmental initiatives facilitate good financial performance.

Seroka-Stolka (2013) investigated the environmental CSR in the Polish food sector and found that while the sector is highly dependent on natural resources, it has considerable and varied impacts on the environment; as such, enterprises in the industry should be compelled to institute environmental protection mechanisms. Business-to-business (B2B) firms are able to outcompete their business-to-consumer (B2C) counterparts due to the fact that the former face less scrutiny in terms the environmental impacts of their business activities from their customers who are companies and government; while the latter have to deal directly with consumers who are more sensitive to environmental impacts (Eccles, Ioannou and Serafeim, 2014). Nieminen (2014) sheds lighter on this by positing that the higher level of customization in the B2B sectors allows them to have closer relationships with key stakeholders such as suppliers unlike in B2C sectors, thus lessening the need to comply with stringent customer demands relating to environmental impacts of business activities. According to Rosi, Cvahte, and Jereb, (2013), environmentally responsible corporations are able to reduce the costs associated with negative externalities thereby resulting in increased financial performance in the long-run. Singh, and Agarwal, (2013) refer to this as the trade-off hypothesis which maintains that in fulfilling their dichotomous financial and environmental responsibilities, companies are able to enhance their overall performance provided this is a positive trade-off, however, trade-offs based on whimsical managerial initiatives do not lend themselves to better overall performance.

2.3.2 CSR Initiative on Public Education

As a concept, there is no universal definition of corporate social responsibility (CSR) Sindhi, and Kumar (2012). The lack of definition of CSR attribute to its inherent intricacy and the jurisdictional influence that makes it to be defined differently across countries and business people. Truong, (2016) argues that socially responsible companies are expected to integrate economic, social and environmental concerns into their business strategies and activities beyond their compliance with the law. Social responsibility is not a corporate philanthropy. A company can choose to participate in a number of different socially responsible endeavours and it is this then that coins its strategy for CSR. A CSR strategy has five components thus it should observe ethical principles in operating the business. Ideally an unethical conduct would go against the company's quest of being ethical.

Secondly, it could entail organization making charitable contributions, supporting the community service and reaching out to making a difference in the lives of individuals (Zhang,*et al*, 2014). Gichohi (2014) also studied Effects of Corporate Social Responsibility on Financial Performance of Firms Listed in the Nairobi Securities Exchange. It sought to establish the effect of CSR on financial performance of 14 companies listed firms in the Nairobi Securities Exchange. The study measured financial performance was measured using the return of assets. Investment in CSR was measured using monetary spending on social activity. Data was obtained from audited financial statement, websites publications and annual report. Secondary data was obtained from the year 2010 to 2014. It was established that CSR had a positive but insignificant effect on financial performance. Study findings were that none of the variables were strongly correlated. The study concluded further that a positive but insignificant relation existed between CSR and financial performance. Factors such as the amount of investment spent on the resources contributed by corporations toward social, educational, recreational and/or cultural purposes were seen to improve the reputation of the company but could not necessarily imply that this would translate into a significant increase in financial performance. The study recommended that firms should be socially responsible so as to enhance the value of the firm for the shareholders. The study also recommends CSR not to be viewed as a voluntary undertaking but a compulsory practice for the firms. Lastly, policies among firms to ensure that the firm acts in ethical and socially responsible manner to all stakeholders should be formulated and implemented (Gichohi, 2014).

According to Muhumed, (2018), CSR education strategies do not only result only in a onetime benefit for the firm. Studies have established that by engaging in community-empowering initiatives such as education, the company establishes or pursues a long-term growth strategy. The children and the youth that are educated and empowered today become the firm`s future customers. Certainly, a good deed performed by the firms such as taking needy children to school creates a feeling or sense of purpose for the employees. In fact, studies have established that the beneficiaries of such programs are developing a sense that they owe the corporation and a lot and as such become unwavering customers of the firm. Hence, it is perceptible that CSR is an important way in which firms market themselves by establishing public presence. For instance, Palmer (2012) argues that providing education to bright needy students or children from humble backgrounds increases the future potential of the children not only to become loyal customers of the firm but to empower their families who in turn remain loyal to the firm. Both the beneficiaries and their relations attribute their economic status and prosperity to the firm. This further leads to increase in market share, sales and profitability for the firm.

2.3.3 Corporate Philanthropy

A company that practices CSR embraces responsibility for its actions and, through its activities, positively affects the environment, society, consumers, employees, communities, and other stakeholders. One such responsibility entails philanthropy, also called the discretionary

responsibility. It is best described by the resources contributed by corporations toward social, educational, recreational and/or cultural purposes. As observed by Park, Lee and Kim, (2014), corporate philanthropy is a discretionary responsibility of a firm that involves choosing how it will voluntarily allocate resources to charitable or social service activities in order to reach marketing and other business-related objectives of which there are no clear social expectations as to how the firm should perform. Corporate philanthropy falls within the organization's ethical and social commitments. These are values that organizations subscribe to comprising of ethical and social standards as evidenced in their mission, organizational objectives and organizational culture (Park, Lee & Kim, 2014). Serban (2013) establishes that society-oriented CSR activities are geared towards the improvement of the standard of living of citizens and by extension, the overall welfare of the country's economy. Singh and Agarwal (2013) state that in order for the effectiveness of CSR to be felt in society, an appropriate measurement tool must be conceived and, as such, came up with a CSR Impact Index that comprises such measures as poverty eradication; promotion of education, gender equality, and women empowerment; reducing child mortality; combating AIDS/HIV, employment enhancing vocational tools; amongst others.

One of the crucial indicators of the social impact of CSR, community development, involves initiatives undertaken as a result of collaborations between corporate and communities to endow individuals and groups with much needed skills to implement change in their communities. Enwereonye, Ugorji, Alozie and Awurumibe (2015) supplement these findings by mentioning that community development is a component of the critical skill set that managers require in order to effectively implement CSR. CSR decisions must not conflict with the market through the enforcement of actions that are harmful to companies lest they lead to social penalties imposed on innocent members of the society as a result of misallocated resources (Armstrong and Green, 2012). Kotchen and Moon (2012) refer to this as corporate social irresponsibility (CSI) which includes activities that heighten externalized costs and/or conflicts resulting from poor distribution of resources. Popa and Salanta (2014) find a linkage between CSR and CSI where the former are reactive measures against adverse effects of the latter. Adeyanju (2012) contends that socially responsible business practices are discretionary actions in support of social causes aimed at improving community well-being and include human rights, training and development of local labour, and contributing expertise to communities. Such practices are stronger in organizations which have a higher consumer orientation because they value the brand awareness created by CSR.

2.3.4 Financial Performance

The term "financial performance" is a composite of an organization's financial health, its ability and willingness to meet its long term financial obligations and its commitments to provide services in the foreseeable future, the time frame for objectives and strategies should be consistent, usually from two to five years. Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or

has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms (Kyalo, 2017). Empirical researchers on the relationship between CSR, CS, and firm value have used different means to measure financial performance. Hejazi, Ghanbari, and Alipour (2016) grouped financial metrics into market-based and accounting-based measures. Although, the accounting and market based financial measures started losing relevancy because of the notion that these measures are constant and complex to understand; too financial; internally focused; and does not present long-term firm's view (Vij&Bedi, 2018). The accounting and market-based measure are still the most objective method of assessing firm performance (Rahman, Ibrahim, & Ahmad, 2017). Other methods such as performance pyramid, balanced scorecard, closed-loop management system, SMART pyramid, though include financial measures but also subjective, which makes it difficult to assess firm performance without bias (Vij&Bedi, 2018).

Recently return on assets (ROA), profit after tax (PAT), earnings per share (EPS), Tobin's Q, market book value (MBV), and return on equity (ROE) have been used extensively for measuring firm financial performance (Li *et al.*, 2016). Researchers such as Chih, Chih, & Chen (2010), Kabir& Thai (2017), and Saxena & Kohli (2012) used accounting measures that constitute mainly of ROA, PAT, and ROE. Others have used market-based measurement such as Tobin's Q, and market to book value (MBV) to assess CFP (Cordeiro & Tewari, 2014; Shank & Shockey, 2016). A few numbers of studies have assessed CFP using a combination of accounting and market measure (Garg, 2015). For example, Strouhal, Gurvits, Nikitina-Kalamae, & Startseva (2015) measured financial performance using ROA and market value added (MVA); also, Garg (2015) employed ROA and Tobin's Q as a means for evaluating CFP. However, researchers have widely adopted ROA and Tobin's Q as units of measurement for examining firms' financial performance (Garg, 2015; Jiri, Petra, Aleksandr, & Zuzana, 2018).

RESEARCH METHODOLOGY

3.1 Research Methodology

The study utilized the descriptive research design as the design helps probe specific aspects of study variables by collecting the information of a set of parameters known beforehand that is desirable to collect data about (Mwangi, 2015). The target population comprised of Ten (10) listed manufacturing firms in Kenya. The unit of observation comprised of employees from in upper, middle and lower management level. 9 respondents (three from each managerial level) were targeted from each listed manufacturing firm thus making a total of 90 respondents. The study used census technique due to the size of the population. The study relied on both primary and secondary data which was collected from the listed manufacturing firms financial statements. For the purpose of collecting primary data, questionnaires were utilized. Secondary data was acquired from financial reports of the respective firms through a secondary data collection sheet.

The study employed both descriptive and inferential statistics in analyzing the data which were generated using SPSS. Descriptive statistical analysis was done using, mean and standard deviation to describe the basic characteristics of the data. Inferential data analysis was done using the Pearson's Product-Moment Correlation Coefficient. Correlation analyses was used to measure the relationship between variables. The researcher used multiple regression models to establish if the relationship between the independent variables and the dependent variables are statistically significant. The model is illustrated below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where Y represents Financial Performance, β_0 represents the regression model constant, X_1 represents Environmental Responsibility, X_2 represents CSR Initiative on Public Education, X_3 represents Corporate Philanthropy, ε represents the estimated error of the regression model and β_i are the coefficients of the variables determined by the model.

FINDINGS OF THE STUDY

4.1 Results

90 questionnaires were administered to target respondents comprising of employees from in upper, middle and lower management level from the selected manufacturing firms. 74 questionnaires were fully filled and returned for analysis. This accounted for 82.2% response rate which was considered sufficient and justifiable for analysis. The appropriateness of the response rate was supported by Cooper and Schindler (2013) assertions a response rate of 50% is adequate, with 60% considered good while a 70% and above response rate is considered to be very good. The study managed to attain the high response rate by employing a drop and pick method during data collection.

4.2 Descriptive Statistics

4.2.1 Environmental Responsibility

The researcher presented respondents with statements on environmental responsibility and requested them to rate their level of agreement using a scale of 1-5 where 5 where 1=strongly disagree, 2=disagree, 3-neutral, 4- agree and 5=strongly agree. The results presented in table 1 shows that respondents were in agreements with the statements that the firm incurs costs related with negative externalities (mean=3.54, standard deviation=1.184), that there are initiative the firm has taken to reduce both air and water population (mean=4.26, standard deviation=0.313), and that the firm incurs waste disposal costs in the firm operation (mean=4.19, standard deviation=0.348). Similarly, respondents agreed with the statement that the firm have adopted environmental friendly production to reduce costs (mean=4.09, standard deviation=0.491) and that waste disposal costs has prompted the firm to modify methods of production (mean=4.31, standard deviation=0.434).

The respondents were however neutral on the statements that the firm incurs high costs in creating environmental awareness (mean=3.17, standard deviation=1.655) and that undertaking corporate environmental initiative enables the firm to reduce expenses (mean=3.21, standard deviation=1.113). On average however, all respondents were in agreement with the statements on environmental responsibility as shown by average response mean of 3.82 and average standard deviation of 0.791. The results concurs with Juhmani (2014) who noted that a component of corporate environmental responsibility is in environmental disclosures through the performance of environmental accounting which is dependent upon a number of factors including firm size, financial leverage, profitability, firm age, and the size of the audit firm.

Table 1: Descriptive Statistics on Environmental Responsibility

Environmental Responsibility	Mean	Standard Deviation
The firm incurs high costs in creating environmental awareness	3.17	1.655
The firm incurs costs related with negative externalities	3.54	1.184
Undertaking corporate environmental initiative enables the firm to reduce expenses	3.21	1.113
There are initiative the firm has taken to reduce both air and water population	4.26	0.313
The firm incurs waste disposal costs in the firm operation	4.19	0.348
The firm have adopted environmental friendly production to reduce costs	4.09	0.491
Waste disposal costs has prompted the firm to modify methods of production	4.31	0.434
Average	3.82	0.791

4.2.2 CSR Initiative on Public Education

The researcher presented respondents with statements on CSR Initiative on Public Education and requested them to rate their level of agreement using a scale of 1-5 where 1=strongly disagree, 2=disagree, 3-neutral, 4- agree and 5=strongly agree. The results presented in table 2 shows that respondents were in agreement with the statements that the firm endeavors on leadership training programs (mean=4.17, standard deviation=0.623), that the firm sponsors needy

children to school (mean=3.76, standard deviation=1.132), that the firm donates learning materials to schools (mean=3.64, standard deviation=1.204) and that the firm is involved in constructing educational facilities to schools (mean=3.54, standard deviation=1.154). However, respondents were neutral on the statements that the costs associated with mentorship programs bears effect on the performance of the firm (mean=3.11, standard deviation=1.348) and that the costs associated with dedicating resources towards educational, recreational and cultural purposes affects the firms' financial performance (mean=3.01, standard deviation=1.432). However, an average response mean of 3.54 and average standard deviation of 1.149 implies that all respondents were in agreement with the statement on CSR Initiative on Public Education. The results concurs with McWilliams and Siegel (2011) who noted that CSR activities especially those related and associated with education are important in facilitating the relationship between the rural stakeholders and the firm especially the manner in which the rural people who are also poor hold or perceive the firm.

Table 2: Descriptive Statistics on CSR Initiative on Public Education

CSR Initiative on Public Education	Mean	Standard Deviation
The firm endeavors on leadership training programs	4.17	0.623
The firm sponsors needy children to school	3.76	1.132
The firm donates learning materials to schools	3.64	1.204
The firm is involved in constructing educational facilities to schools	3.54	1.154
The costs associated with mentorship programs bears effect on the performance of the firm	3.11	1.348
The costs associated with dedicating resources towards educational, recreational and cultural purposes affects the firm's financial performance	3.01	1.432
Average	3.54	1.149

4.2.3 Corporate Philanthropy

The researcher presented respondents with statements on Corporate Philanthropy and requested them to rate their level of agreement using a scale of 1-5 where 1=strongly disagree, 2=disagree, 3=neutral, 4= agree and 5=strongly agree. The results presented in table 3 shows that respondents were in agreement with the statements that the firm allocates finances towards poverty eradication programs (mean=4.27, standard deviation=0.271), that women empowerment

programs increases the market reachability of the firm (mean=4.05, standard deviation=0.423) and that investing in community skills development enhances awareness of the firm's activities (mean=3.92, standard deviation=0.798). Additionally, respondents agreed with the statement that allocating resources to training and development programs to local communities enhances the firm's relationships (mean=3.98, standard deviation=1.003) and that entrepreneurship training to the community boosts the firm's acceptability (mean=4, standard deviation=0.501). The average mean of the responses on statements pertaining to Corporate Philanthropy was 4.04 and average standard deviation was 0.6 implying that all respondents agreed with the statements. The results concurs with Adeyanju (2012) who contends that socially responsible business practices are discretionary actions in support of social causes aimed at improving community well-being and include human rights, training and development of local labor, and contributing expertise to communities.

Table 3: Descriptive Statistics on Corporate Philanthropy

Corporate Philanthropy	Mean	Standard Deviation
The firm allocates finances towards poverty eradication programs	4.27	0.271
Women empowerment programs increases the market reachability of the firm	4.05	0.423
Investing in community skills development enhances awareness of the firm's activities	3.92	0.798
Allocating resources to training and development programs to local communities enhances the firm's relationships	3.98	1.003
Entrepreneurship training to the community boosts the firm's acceptability	4	0.501
Average	4.04	0.6

4.2.4 Financial Performance

Financial performance was assessed using market share, sales volume and profit before tax. First respondents were provided with aspects of financial performance of the manufacturing firm as a result of CSR initiatives. They were requested to indicate the levels of performance of their respective firms in the indicated areas using a scale of 1-5 where 1- Very Low, 2-Low, Moderate, 4-High and 5-Very High. The results presented in table 4 shows that respondents indicated that the firm's performance in areas of profit and market share was moderate as shown by average response

mean of 3.67 and 3.87 respectively. In areas of expenditure on CSR and CSR impact on financial performance, respondents indicated low as shown by average response mean of 3.34 and 3.45 respectively. In areas of expenditure on training and development for staffs, respondents indicated high as shown by a response 4.03. An average response mean of 3.67 on the performance indicators imply that the CSR initiatives moderately impacted on the various financial indicators.

Table 4: Descriptive Statistics on Financial Performance

Performance Indicator	Mean	Standard Deviation
Profits	3.67	1.213
Market share	3.87	0.892
Expenditure on CSR	3.34	1.038
Expenditure on training and development for staffs	4.03	0.512
CSR impact on financial performance	3.45	0.949
Average	3.67	0.921

The study further sought to establish the changes in Return on Equity of the firms under study. The results presented in figure 2 shows that the levels of Return on Equity for the listed manufacturing firms was varying from 2016 to 2020. According to the results, the firms witnessed a ROE of 1.09 in 2016 which increased to 1.38 in 2017. This was followed by a decline in 2018 to 0.98 and a steady increase in both 2019 and 2020 which recorded 1.99 and 2.07 respectively.

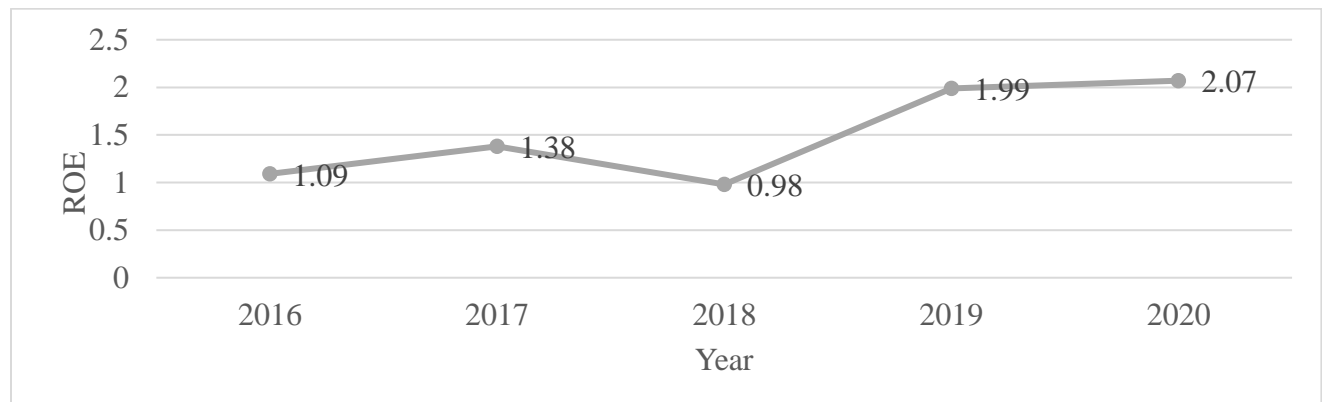


Figure 2: Return on Equity

4.3 Inferential Statistics

4.3.1 Correlation Results

The correlation analysis results presented in table 5 shows that environmental responsibility positively and significantly correlates with financial performance of listed manufacturing firms in Kenya. This is shown by a correlation value of 0.214 and correlation significance value of 0.009 which is less than 0.05. The results bears implications that enhancing environmental responsibility initiatives in the course of running the firm's operations leads to enhanced levels of financial performance. The results concurs with Juhmani (2014) who noted that a component of corporate environmental responsibility is in environmental disclosures through the performance of environmental accounting which is dependent upon a number of factors including firm size, financial leverage, profitability, firm age, and the size of the audit firm. The correlation analysis results also shows that CSR initiative on public education positively but insignificantly correlates with financial performance of listed manufacturing firms in Kenya. This is shown by a correlation value of 0.116 and correlation significance value of 0.083 which is less than 0.05. The results bears implications that enhancing CSR Initiative on Public Education in the course of running the firm's operations leads to enhanced levels of financial performance to insignificant levels. The results concurs with McWilliams and Siegel (2011) who noted that CSR activities especially those related and associated with education are important in facilitating the relationship between the rural stakeholders and the firm especially the manner in which the rural people who are also poor hold or perceive the firm. The correlation analysis results further shows that corporate philanthropy positively and significantly correlates with financial performance of listed manufacturing firms in Kenya. This is shown by a correlation value of 0.277 and correlation significance value of 0.003 which is less than 0.05. The results bears implications that enhancing corporate philanthropy in the course of running the firm's operations leads to enhanced levels of financial performance. The results concurs with Adeyanju (2012) who contends that socially responsible business practices are discretionary actions in support of social causes aimed at improving community well-being and include human rights, training and development of local labour, and contributing expertise to communities.

Table 5: Correlation Analysis

		Environmental Responsibility	CSR Initiative on Public Education	Corporate Philanthropy	Financial Performance
Environmental Responsibility	Pearson Correlati on Sig. (2-tailed)	1			
CSR Initiative on Public Education	Pearson Correlati on Sig. (2- tailed)	0.131**	1		
Corporate Philanthropy	Pearson Correlati on Sig. (2- tailed)	0.131**	0.322**	1	
Financial Performance	Pearson Correlati on Sig. (2- tailed)	0.214*	0.116*	0.277*	1
	N	74	74	74	74

4.3.2 Multiple Regression Analysis

The study conducted a multiple regression analysis aiming at assessing how independent variables relates with the dependent variable. The study adopted a 95% confidence interval in conducting the regression analysis. The results outlined in table 6 shows existence of a moderate relationship between environmental responsibility, CSR initiative on public education and corporate

philanthropy and financial performance of listed manufacturing firms in Kenya as shown by R-value of 0.648. The results further shows that environmental responsibility, CSR initiative on public education and corporate philanthropy account for 41.9% in variations of financial performance of listed manufacturing firms in Kenya. 58.1% is accounted by other indicators not included in the study.

Table 6: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.648 ^a	0.419	0.382	1.0489341

a. Predictors: (Constant), Environmental Responsibility, CSR Initiative On Public Education and Corporate Philanthropy

The statistical significance of the model relating independent variables with the dependent variable was assessed through ANOVA. The results outlined in table 7 shows that the model was statistically significant. This was justified by comparing the F-critical value and F-calculated value. The F-critical value from the F-Statistics table at (3, 70) and at 0.05 significance level was 2.74 while the F-calculated value was 17.989. F-critical value is less than F-calculated value.

Table 7: ANOVA (Model Significance)

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	98.768	3	32.9227	17.9890	0.01341 ^b
Residual	128.111	70	1.8302		
Total	226.879	73			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Environmental Responsibility, CSR Initiative On Public Education and Corporate Philanthropy

The model coefficient results framed in table 8 shows that there exist a positive and huge impact of ecological obligation on monetary execution of recorded assembling firms in Kenya. This is shown by a beta worth of 0.197 and critical worth of 0.0122 which is under 0.05. The outcomes suggests that rising Environmental Responsibility with one unit results to 0.197 units expansion in the degrees of monetary execution of recorded assembling firms in Kenya. The outcomes counts

with Lorwood (2012) discoveries in his learn about the connection among CSR and monetary execution of portable communication firms in Kenya that CSR drives bears a huge impact on the monetary execution of the firm. The results also shows that there exist a positive but insignificant influence of CSR Initiative on Public Education on financial performance of listed manufacturing firms in Kenya. This is shown by a beta value of 0.101 and significant value of 0.0743 which is greater than 0.05. The results implies that increasing CSR Initiative On Public Education with one unit results to 0.101 units increase in the levels of financial performance of listed manufacturing firms in Kenya. The results concurs with Gichohi (2014) findings in his study on the effects of Corporate Social Responsibility on Financial Performance which established that CSR had a positive but insignificant effect on financial performance. The results further show that there exist a positive and significant influence of Corporate Philanthropy on financial performance of listed manufacturing firms in Kenya. This is shown by a beta value of 0.271 and significant value of 0.0136 which is less than 0.05. The results implies that increasing Corporate Philanthropy activities with one unit results to 0.271 units increase in the levels of financial performance of listed manufacturing firms in Kenya. The results are consistent with Li *et al.*, (2020) findings on his study on the effect of corporate philanthropy on corporate performance which revealed that corporate philanthropy positively associated with corporate financial performance and corporate social performance.

Table 8: Model Coefficients

Predictors	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	2.718	0.169		16.0828	0.1331
Environmental Responsibility	0.197	0.121	0.142	1.6281	0.0122
CSR Initiative On Public Education	0.101	0.169	0.074	0.5976	0.0743
Corporate Philanthropy	0.271	0.102	0.228	2.6568	0.0136

The optimal regression model becomes:

Financial Performance of Listed Manufacturing Firms = 2.718 + 0.271(Corporate Philanthropy) + 0.197(Environmental Responsibility)

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

The analysis results contributed to conclusions that Environmental Responsibility influences financial performance of listed manufacturing firms in Kenya to a positive and significant level. Consequently, the results further established that Environmental Responsibility practices such as undertaking corporate environmental initiative which enables the firm to reduce expenses, undertaking initiatives to reduce both air and water pollution, adopting environmental friendly production to reduce costs and modifying methods of production to reduce waste disposal costs bears a positive and significant influence on financial performance of listed manufacturing firms in Kenya. The analysis results also contributed to conclusions that CSR Initiative on Public Education influences financial performance of listed manufacturing firms in Kenya to a positive but insignificant level. Consequently, the results also established that CSR Initiative on Public Education such as practices such as endeavoring on leadership training programs, sponsoring needy children to school, donating learning materials to schools, and involvement in construction of educational facilities to schools bears a positive and significant influence on financial performance of listed manufacturing firms in Kenya. The analysis results further contributed to conclusions that Corporate Philanthropy influences financial performance of listed manufacturing firms in Kenya to a positive but insignificant level. Consequently, the results also established that Corporate Philanthropy practices such as allocating finances towards poverty eradication programs, having women empowerment programs which increases the market reachability of the firm, investing in community skills development thus enhancing awareness of the firm's activities, allocating resources to training and development programs to local communities thus enhancing the firm's relationships and having entrepreneurship training to the community which boosts the firm's acceptability bears a positive and significant influence on financial performance of listed manufacturing firms in Kenya..

5.2 Recommendations for the Study

The study advises management of listed manufacturing firms to improve their environmental responsibility activities as part of their CSR in operating the firm's operations, as this practice has a good and significant impact on listed manufacturing firms' financial performance in Kenya. This can be attained through undertaking corporate environmental initiative which enables the firm to reduce expenses, undertaking initiatives to reduce both air and water pollution, adopting environmental friendly production to reduce costs and modifying methods of production to reduce waste disposal costs. The study also advises management of publicly traded manufacturing firms to improve their CSR Initiative on Public Education in their day-to-day operations, as the practice has a favorable but insignificant impact on the financial performance of publicly traded manufacturing enterprises in Kenya. This can be accomplished through pursuing leadership development programs, sponsoring poor children to attend school, contributing learning resources to schools, and participating in the construction of educational facilities. The study also recommends the management of listed manufacturing firms to enhance their activities on Corporate Philanthropy in running the operations of the firm since the practice positively and

significantly influences financial performance of listed manufacturing firms in Kenya. The firms can achieve this through as allocating finances towards poverty eradication programs, having women empowerment programs which increases the market reachability of the firm, investing in community skills development thus enhancing awareness of the firm's activities, allocating resources to training and development programs to local communities thus enhancing the firm's relationships and having entrepreneurship training to the community which boosts the firm's acceptability.

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