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**THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY INITIATIVES ON THE
FINANCIAL PERFORMANCE OF COMPANIES LISTED IN THE NAIROBI
SECURITIES EXCHANGE**

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ABSTRACT

This study examines the impact of Corporate Social Responsibility (CSR) initiatives on the financial performance of companies listed on the Nairobi Securities Exchange (NSE) from 2019 to 2023. Using a panel data approach, the study employs a descriptive research design to analyze the relationship between CSR and key financial performance indicators, including Return on Assets (ROA). Secondary data was collected from financial reports and company disclosures, with statistical analysis conducted using SPSS. The study applied an Ordinary Least Squares (OLS) regression model to assess the significance of CSR in influencing financial outcomes. Findings reveal that while CSR has a positive association with financial performance, the impact is statistically insignificant. Efficiency emerged as a key determinant of financial success, whereas capital intensity did not show a significant correlation with financial outcomes. The study concludes that CSR, though beneficial for corporate reputation and stakeholder engagement, does not directly translate into higher financial returns in the short term. It recommends that firms integrate CSR strategically with operational efficiency improvements to maximize financial and social value. Additionally, policymakers are encouraged to standardize CSR reporting practices to enhance transparency and comparability across industries.



CHAPTER 1: INTRODUCTION

1.1 Background Information

Aiming not only at profit maximization but also at addressing societal and environmental consequences, corporate social responsibility, or CSR, is a strategy approach that incorporates social and environmental factors into business operations. This holistic approach acknowledges that, in addition to their financial commitments to shareholders, firms also have responsibilities to a wide range of stakeholders, such as consumers, employees, communities, and the environment (Carroll, 1991) . Companies that embrace corporate social responsibility (CSR) principles aim to conduct business in an ethical and sustainable manner, tackling concerns including economic growth, social justice, and environmental sustainability. These initiatives not only lessen adverse effects but also add benefits to the environment and society. CSR programs can improve a company's reputation, increase consumer loyalty, draw in and keep skilled workers, and improve operational effectiveness.

1.1.1 Definition and Elaboration of Key Concept

Corporate Social responsibility is the responsibility of a company to responsibly manage its social, environmental, and economic impacts, aligning with public expectations, involving environmental management, ethical labor practices, and community engagement (Dahlsrud, 2008). Financial performance is a measure of a company's profitability that is evaluated through metrics like Return on Assets (ROA), Return on Equity (ROE), profit margins, and stock performance.

1.1.2 Identifying the Key Achievements in the Field of Study as Well as Gaps

Over the past few decades, there has been an amazing rise in research on the impact of corporate social responsibility (CSR) initiatives on financial success such as (Baughn, 2007) . Research shows a positive association, indicating that businesses that participate in corporate social responsibility (CSR) typically see improvements in their reputation, customer loyalty, and operational efficiencies. Nonetheless, there are still unanswered questions about the precise mechanisms and causal relationship between CSR and financial performance. Furthermore, differences in results between various sectors and locations emphasize the necessity for a more complex, context-specific study.

1.1.3 Brief Concept of the Study

To determine which specific corporate social responsibility activities, have the most influence on financial results, this study looks at how corporate social responsibility initiatives affect businesses' financial performance. The report also looks at corporate social responsibility (CSR) trends and how they relate to various sectors' financial results such as manufacturing sector. It also involves in understanding if corporate social responsibility (CSR) is a cost or a competitive advantage.

1.2 Problem Statement

1.2.1 Background of the Problem

According to, (R,Edward,Freeman, 1984), increased stakeholder pressure on firms to conduct themselves ethically has resulted in significant investments in corporate social responsibility (CSR) initiatives such as Consumer Demand for Ethical Products, Businesses such as Unilever have witnessed an increase in demand for their environmentally friendly product lines, which has led them to make significant investments in sustainable supply of raw materials and eco-friendly packaging. The connection between corporate social responsibility and financial performance is still unclear in researches such as, (McWilliams, 2000) despite a large number of studies.

Certain studies such as, (Mark, 1995) indicates that corporate social responsibility (CSR) improves financial performance through increased operational effectiveness and reputation, but other studies such as, (Vance, 1975), show that the costs of CSR may outweigh the benefits, especially in the short run. Determining whether and how much CSR activities improve return on asset (ROA) is important. By examining the financial results of corporate social responsibility efforts and determining which elements of corporate social responsibility have the greatest influence on financial performance, this study seeks to close this gap.

1.2.2 Research Gap Identified

Previous research such as, (R,Edward,Freeman, 1984), has made a substantial contribution to our comprehension of the connection between financial performance and corporate social responsibility (CSR) efforts. These studies have typically demonstrated that through higher consumer loyalty, increased corporate reputation, and increased operational efficiencies, CSR can result in better financial outcomes. Businesses that practice environmental sustainability, for example, frequently report lower energy costs and decreased waste, which results in cost savings.

Comparably, companies that place a high priority on ethical labor practices may see increases in worker satisfaction and retention, lower turnover costs, and increased productivity. Despite these realizations, existing research frequently falls short in a number of crucial areas:

1.2.3 Different Impacts of CSR Activities

The majority of research fail to differentiate between various forms of CSR activity, instead treating CSR as a single, homogenous term. Financial success may be impacted in many ways by charity, ethical labor practices, community involvement, and environmental activities (Aguinis & Glavas, 2012) . For example, while community engagement programs might significantly enhance a company's reputation and consumer loyalty, environmental initiatives could lead to cost savings and operational efficiencies. Research that has already been done frequently lacks this deep insight. In order to close this knowledge gap, the research breaks down CSR activities into several categories and looks at how each one affects financial performance. This allows for a more thorough comprehension of the strategic importance of various CSR projects.

The effect of corporate social responsibility (CSR) on financial performance can range greatly throughout industries. Initiatives for environmental sustainability, for example, may be especially important in the manufacturing sector because of the industry's substantial environmental effect. On the other hand, ethical labor standards and client engagement may be more important in the service industry. In order to address this gap, the research breaks down CSR efforts into their component parts and looks at how each one affects financial success in a variety of industries. This method offers customized insights for creating successful CSR strategies and an improved comprehension of the function of CSR across industries.

1.2.4 Linking of the Problem Statement to the Study Area

The problem statement, which is in line with the research areas of corporate strategy and financial analysis, emphasizes the necessity for empirical data regarding the effect of CSR initiatives on financial performance within the context of publicly listed companies in Kenya from 2010 to 2014. This time frame and location allow for an analysis of CSR's impact on financial outcomes during a period when CSR activities gained increasing importance among companies listed on the Nairobi Securities Exchange (NSE), reflecting broader global trends

toward integrating social and environmental considerations into business strategies. Strong, context-specific data is what this study attempts to provide in order to close the gap.

1.3 Research Objectives and Hypothesis

1.3.1 Research Objectives

- i. To analyze the impact of Corporate Social Responsibility initiatives on the financial performance of companies listed in the Nairobi Securities Exchange using financial performance data such as return on asset (ROA), return on equity (ROE) and stock price performance will be collected from financial databases.
- ii. To determine the effect of specific CSR initiatives on financial performance in Kenyan publicly traded companies between 2010 and 2014 through statistical correlation and regression analysis.

1.3.2 Research Question

- i. What effect do initiatives for Corporate Social Responsibility (CSR) have on the return on equity (ROE), return on assets (ROA), and stock price performance of companies listed on the Nairobi Securities Exchange (NSE)?
- ii. How do specific Corporate Social Responsibility (CSR) initiatives influence the financial performance of Kenyan publicly traded companies between 2010 and 2014 based on statistical correlation and regression analysis?

1.3.3 Research Hypothesis

- i. The first hypothesis investigates whether higher levels of CSR engagement lead to improved financial performance. The null hypothesis (H_0) assumes no significant relationship between CSR engagement and financial performance, whereas the alternative hypothesis (H_1) suggests that companies with greater CSR involvement achieve better financial results.
- ii. The second hypothesis examines whether all CSR activities contribute equally to financial performance. The null hypothesis (H_0) posits that no specific CSR activities have a greater impact than others. In contrast, the alternative hypothesis (H_1) argues that certain CSR initiatives, particularly environmental sustainability and ethical labor practices, exert a stronger influence on financial performance.

- iii. Finally, the third hypothesis explores the variability of CSR's impact across different industries and regions. The null hypothesis (H_0) suggests that CSR affects financial performance uniformly across sectors and locations. However, the alternative hypothesis (H_1) asserts that the influence of CSR on financial performance varies depending on industry characteristics and regional factors.

1.4 Significance of the Research

For a variety of stakeholders, including investors, business managers, legislators, and researchers, this study provides insightful information. The results offer vital direction for CEOs and managers of businesses to make well-informed choices about their CSR expenditures. They can link their CSR plans with more general business objectives and maximize their impact on financial performance by comprehending the cost-benefit analysis of various CSR initiatives. By analyzing how CSR initiatives affect a company's long-term financial health and profitability, investors can use these findings to make better informed investment decisions. This will enable them to weigh the potential risks and rewards of investing in businesses with different levels of CSR engagement. The results of the study can be used by policymakers to create long-lasting, successful regulations that encourage ethical business practices.

Policymakers may establish laws that incentivize businesses to embrace CSR practices that benefit the economy and society by knowing the empirically supported relationship between CSR and financial performance. Last but not least, this study makes a substantial contribution to the corpus of existing academic literature by offering insightful information and data that can inspire more investigation into the intricate connection between CSR and financial performance, enhancing academic discourse and deepening our comprehension of the complex effects of CSR on corporate success.



CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature on the relationship between financial performance and Corporate Social Responsibility (CSR) which will be discussed through various subsections. It presents the theoretical literature review as well as the empirical review.

2.2 Theoretical Literature Review

2.2.1 Stakeholder Theory

Strategic management (R,Edward,Freeman, 1984), is a theory that was developed by Free Man R.E in the year 1984. It was developed to explain how organizations should be managed to create value for all stakeholders, not just shareholders, focusing on understanding the complex relationships that impact their success and sustainability. It assumes that organizations must balance stakeholder interests and needs for long-term success and sustainability, ensuring value creation for employees, customers, suppliers, communities, and the environment. The theory postulates that organizations should prioritize the needs and interests of all stakeholders, not just shareholders, to achieve long-term success and sustainability. The theory highlights how important it is to consider the interests of different stakeholders, which is consistent with looking at CSR's impact on financial performance from a variety of angles. However, the theory has no clear guidance on how to sort various stakeholder interests. This theory does not adequately address the need for more precise techniques to measure the direct impact of CSR on financial performance, as required by the study.

2.2.2 Resource-Based View Theory

Firm Resources and Sustained Competitive Management (Barney, 1991), is a theory that was developed by Jay Barney and others in 1991 in his paper "Firm Resources and Sustained Competitive Management. The theory was developed to explain how firms can achieve and sustain competitive advantage by acquiring and managing valuable, rare, inimitable, and non-substitutable resources. The theory assumes that resources that are valuable, rare, inimitable, and non-substitutable (VRIN) provide a sustainable competitive advantage. The theory suggests that obtaining and skillfully managing valuable, rare, inimitable, and non-replaceable (VRIN) resources gives an organization a competitive edge. This study which is influenced by the Resource-Based View, connects financial success and competitive advantage to CSR efforts. For

example, a company's high social responsibility reputation can set it apart from the competition and attract investors and customers. It offers a tactical viewpoint on how to best utilize CSR as a useful asset, however, this theory focuses mostly on internal resources and capabilities, possibly ignoring outside variables and the effects of CSR on society.

2.2.3 Legitimacy Theory

Managing Legitimacy (Mark, 1995), is a theory that was developed by Dowling and Pfeffer in the year 1975 in the broader field of organizational legitimacy but Suchman published Managing legitimacy in the year 1995. The theory explains how organizations align their activities with societal norms and values to gain legitimacy, explaining why they engage in behaviors like CSR to be perceived as legitimate. This theory assumes that Organizations must adhere to societal norms and values to be seen as legitimate, and their success depends on their ability to align with societal expectations through CSR. This study asserts that Legitimacy is crucial for organizational survival and success. Legitimacy Theory informs this study by explaining why companies might engage in CSR initiatives to improve their societal standing and legitimacy. It helps understand the motivations behind CSR disclosures and the importance of societal approval. However, Legitimacy Theory primarily focuses on external perceptions and societal norms, which may not directly link to financial performance. This study requires insights into how CSR initiatives internally drive financial outcomes, which this theory does not provide.

2.2.4 Agency Theory

Theory of the firm (Michael & William, 1976), developed by Michael Jensen and William Meckling in their paper "Theory of Firm" which they talked about Managerial behavior, Agency cost and ownership structure and then published in the year 1976. The theory was developed to explain the conflicts of interest between shareholders and managers. It helps understand how to align the interests of managers with those of shareholders to reduce agency costs and improve organizational performance. This theory assumes that there is a conflict of interest between the shareholders and managers because managers may not always act in the best interest of principals. It therefore concludes that properly designed incentives and governance mechanisms can align the interests of managers with those of shareholders, reducing agency costs and improving organizational performance. Using Agency Theory, the paper investigates how incentives and governance frameworks might encourage managers to take part in CSR initiatives that support shareholder interests and may improve financial performance. However, a more

complete approach is required because agency theory, which focuses on the internal dynamics between managers and shareholders, may ignore broader stakeholder consequences and external societal influences.

2.2.5 Signaling Theory

Job market signaling, (Michael S. , 1973), First established signaling theory in the context of job markets. The theory was developed to explain how individuals or organizations convey information to reduce information asymmetry. This theory assumes that there is information asymmetry between two parties (for example organization and investors) and the information asymmetry between companies and investors can be reduced by using credible signals that are costly to imitate. Thereby, this theory concludes that organizations utilize signals like CSR initiatives to communicate their quality and intentions, thereby reducing information asymmetry and enhancing their reputation. This study utilizes Signaling Theory to explain how CSR activities can enhance a company's reputation and market value, emphasizing the importance of transparency and communication but this theory assumes that stakeholders can accurately interpret and value the signals, which may not always be the case. The study requires insights into the actual impact of CSR initiatives on financial performance, not just perceived signals.

2.3 Empirical Literature Review

The relationship between Corporate Social Responsibility (CSR) and financial performance is complex and multidimensional, as evidenced by varying results of empirical studies in this area.

2.3.1 Positive Association between CSR and Financial Performance

After completing a thorough meta-analysis of 127 papers (Walsh & Margolis, 2003), discovered a typically positive correlation between financial performance and corporate social responsibility (Walsh & Margolis, 2003). The Resource-Based View (RBV) and Stakeholder Theory are both supported by this thorough review. According to (R,Edward,Freeman, 1984)Stakeholder Theory, businesses that participate in CSR can strengthen their bonds with stakeholders, which will enhance their reputation, increase customer loyalty, and improve operational efficiency. According to (Barney, 1991) Resource-Based View (RBV), corporate social responsibility (CSR) can be a strategic asset that gives businesses a competitive edge by improving their reputation and streamlining their operations. Similarly, (Orlitzky, 2003) discovered positive connections between financial performance and corporate social responsibility using meta-analysis. According to their research, a company's reputation can be improved by CSR initiatives, and this

can result in higher consumer loyalty, simpler access to financing, and better employee retention. The notion that CSR can have a beneficial financial impact is further supported by the increases in operational efficiencies, such as decreased waste and improved resource management.

2.3.2 Negative Impacts of CSR

However, other research has found that CSR has a negative impact on financial performance. According to (Vance, 1975) , CSR initiatives may take resources away from projects that maximize profits, which would lower financial performance. (Wright & Ferris, 1997) , discovered that corporate social responsibility (CSR) could have substantial expenses in addition to no financial gains. This suggests that the resources devoted to CSR might be better used in other parts of the company. The findings reflect a challenge to the foundations of signaling theory and agency theory. According to (Michael & William, 1976) Agency Theory, managers may participate in CSR for motives related to their own reputation or personal gain, possibly at the expense of the interests of shareholders. According to (Michael S. , 1973) Signaling Theory, a corporation can use CSR as a tool to communicate its ethical standards and commitment to sustainability, but the signal may be weak or even harmful if these efforts do not transfer into financial performance.

2.3.3 Neutral Impact of CSR

According to (McWilliams, 2000) , there is not a significant connection between CSR and financial success. According to their research, the integration of corporate social responsibility (CSR) into business strategy may have neutral impacts, neither significantly improving nor decreasing financial performance. This neutrality is in line with Institutional Theory, which holds that businesses participate in CSR more to comply with legal requirements and societal conventions than to obtain a competitive edge. This viewpoint holds that while CSR initiatives support a company's credibility and reputation in the community and industry, they may not always result in better financial results.

2.4 Expanded Analysis and Implication

The mixed empirical evidence reflects the complexity of the CSR-financial performance relationship and suggests that the impact of CSR may be context-dependent. Several factors could influence the outcomes, including industry-specific dynamics, the nature and scope of CSR activities, the time horizon considered, and the broader economic and regulatory environment and are explained as below:

2.4.1 Industry-Specific Dynamics

Different industries experience varied impacts of CSR based on their operational nature and stakeholder expectations. For example, industries with significant environmental footprints, such as manufacturing and mining, often face higher scrutiny from stakeholders, including regulators, customers, and local communities. CSR activities in these sectors are frequently centered around sustainability practices, such as reducing emissions, managing waste, and conserving natural resources. These efforts can lead to cost savings through improved resource efficiency and compliance with regulations, enhancing the company's financial performance. Additionally, companies in these industries that proactively manage their environmental impact may benefit from enhanced reputational capital, which can translate into competitive advantages, such as increased customer loyalty and better market positioning. On the other hand, sectors with less of an environmental impact, like technology or finance, might put more of an emphasis on management and social equality.

In this case, CSR activities could focus on encouraging acceptance and diversity, protecting data privacy, and using moral business methods. By raising staff morale, lowering unemployment, and encouraging creativity, these initiatives can help financial performance without directly affecting it. (Kolk & van Tulder, 2002) , Explores the differences in CSR practices across industries, emphasizing the effects of CSR activities according to operational type and stakeholder expectations. It talks about how some industries like manufacturing and mining have a big impact on the environment and prioritize sustainability practices, but other industries like technology and finance might put more of an emphasis on social issues and management techniques. The reference offers insights into how, depending on the industrial environment, various CSR initiatives can result in financial benefits, such as cost savings and increased reputational capital.

2.4.2 Nature and Scope of Activities

Financial results may be strongly impacted by the particular CSR activities that are implemented and how well they match with a company's strategic objectives and core competencies. A manufacturing company that prioritizes environmental sustainability could, for instance, employ energy-efficient technologies and procedures. The financial gains from these activities may be significant if they support the business's strategic objectives of cutting operational expenses and

minimizing environmental concerns. Comparably, a business that incorporates corporate social responsibility (CSR) into its main activities for example, by using ethical sourcing, sustainable supply chain management, or community involvement may enjoy more noticeable financial gains than one that does so partly or superficially.

Thorough CSR plans that are integrated into the company's business plan can stimulate innovation, expand its market reach, and strengthen stakeholder relations all of which can result in long-term competitive benefits. (Porter & Kramer, 2006) , discusses the potential financial benefits that can result from a company's CSR efforts when they are in line with its strategic goals and key capabilities. It serves as an example of how incorporating CSR into business plans may foster creativity, increase market penetration, and improve stakeholder relations all of which can lead to sustained competitive advantages. The reference highlights how crucial it is to match corporate goals with CSR initiatives in order to optimize financial gains.

2.4.3 Time Horizon

It is common for the effect of CSR on financial performance to change with the time horizon considered. Studies conducted over a short period may not fully reflect the costs and benefits of CSR initiatives because these initiatives frequently need a large initial expenditure and time to show a return on investment. Investments in community initiatives or sustainable technology, for instance, might not generate profits right away but they might have a big impact down the road in the form of increased brand loyalty, reduced risk, and regulatory compliance. Analysis conducted over a longer period, as the longitudinal study conducted by (Graves, 1997), shows that consistent CSR efforts can eventually result in large financial gains. Their analysis has shown that during a 20-year period, organizations that regularly participated in CSR initiatives saw improvements in profitability and stock price performance. This highlights the significance of patience and persistence in CSR efforts by implying that the real impact of CSR might not be apparent right away.

2.4.4 Economic and Regulatory Environment

The success of corporate social responsibility efforts is significantly influenced by the larger regulatory and economic environment. For instance, businesses may be forced to implement CSR practices in developed markets with strict environmental and social restrictions to abide by the law and avoid fines. CSR can be viewed in these situations as a risk management technique

that guarantees both financial stability and long-term viability. However, there may be a more complex connection between CSR and financial performance in emerging economies. According to (Baughn, 2007) , regulatory and market maturity variables could reduce the association between CSR and financial performance in these regions. Companies may participate in corporate social responsibility (CSR) in less developed nations, for example, to reduce the governance gap and foster stakeholder confidence. On the other hand, the financial gains in certain situations may be less obvious and harder to quantify. The relationship between CSR and financial success can also become more complex in emerging markets due to economic volatility and varying stakeholder expectations.

2.5 Highlighting Gaps and Contribution

The absence of industry-specific analysis that thoroughly looks at how CSR affects financial performance across various industries is one of the main gaps in the literature currently in publication. To close this gap, this study will focus on sector-specific trends by analyzing CSR practices in a range of industries including finance and manufacturing. The majority of research currently in publication regards corporate social responsibility (CSR) as a single, non-differentiable notion such as (Feldman & Hsu, 2014) . To provide a more comprehensive knowledge of the financial effects of CSR operations, this research will break down these activities into distinct categories, such as social, environmental and governance-related initiatives. Furthermore, it is common to ignore the time horizon used to measure the impacts of CSR. This study will distinguish between the short- and long-term financial consequences of corporate social responsibility (CSR) using a longitudinal analysis.

The immediate effects of CSR initiatives, such as adjustments to quarterly or annual profit margins, decreases in operating expenses, or increases in revenue within a year or less, are referred to as short-term financial consequences. Long-term financial consequences, on the other hand, have longer-lasting benefits that show themselves over a number of years, such sustained profitability, improved brand recognition, or continued cost reductions. The study intends to shed light on the sustainability of CSR advantages by offering a greater understanding of how CSR efforts contribute to financial success over both short and extended periods of time by evaluating data across both time ranges. Furthermore, a thorough analysis of the ways in which the economic and regulatory settings, particularly in emerging nations, impact the relationship

between CSR and financial performance is frequently absent from the present literature. By filling up these gaps, this study hopes to improve our theoretical and empirical knowledge of the relationship between CSR and financial success. It also hopes to provide useful insights for companies looking to maximize the financial and social advantages of their CSR initiatives.

2.6 Conclusion

To clarify the complex relationship between CSR initiatives and financial success, the conceptual framework incorporates several theoretical vantage points. This approach attempts to provide a thorough understanding of how and why CSR initiatives affect financial outcomes by considering mediating elements like employee engagement and innovation, as well as moderating variables like industry type and Firm size. This approach facilitates a refined examination that can enlighten academic investigations as well as realistic commercial techniques.



CHAPTER 3: METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was applied to conduct the study. Presented in the chapter is the research design, population, sampling design and sample size, data collection methods applied and the data analysis procedures. Moreover, the regression model used and the test of significance applied are also presented.

3.2 Research Design

A descriptive study design was used in this investigation. Since the study used secondary data to examine the connection between business financial success and CSR, this design was applicable. The study aimed to characterize the relationship between CSR and financial success, with an emphasis on NSE companies. A descriptive research gives a clear picture of the state of affairs with respect to facts, views, and attitudes by describing the features of a phenomenon. This study evaluated information on financial performance and corporate social responsibility. Using the standard deviation and mean score, descriptive statistics assisted in condensing the vast amounts of quantitative data.

3.3 Target Population

The population of the study constituted 66 publicly quoted companies at the NSE from year 2019 to 2023.

3.4 Sample Size

Sample size describes a certain portion that is representative of the entire population. In this study, a simple random sampling of the businesses was employed. Because it guaranteed that every company listed on the NSE had an equal chance of being included in the sample, simple random sampling was appropriate for this investigation. Additionally, this made sure that a large number of responders were contacted, which improved the accuracy of the findings. Additionally, the judgmental sampling technique was applied. The researcher can apply a predetermined criterion that units must meet in order to be chosen for the sample using this type of non-probability sampling technique. This approach was used in this study to include the companies that possessed data that was crucial to the study.

3.5 Data Collection

The chosen companies' financial figures were extracted using secondary data. It was gathered from the websites of the individual companies, their published annual reports, or any other pertinent and trustworthy source of information. Statements of financial status, comprehensive income, and yearly reports to stakeholders were among the types of data that were to be used. The study covered five years.

3.6 Validity and Reliability

Validity is typically associated with data collecting tools like interviews and surveys. The degree to which a measuring process truly assesses the theoretical notion for which it is designed is known as validity, according to Abott and Monsen (1979). It typically determines whether the theoretical concept and the operationalization processes are consistent. Reliability assesses the methods used to gather data. Reliability is a notion utilized for testing and assessing quantitative research, according to (Kaguri, 2012). It entails assessing the caliber of quantitative research. Since the study's data came from reputable sources including audited annual reports and company websites, data quality and dependability were guaranteed.

3.7 Data Analysis

Different methods were used to analyze the data. Data on CSR, financial performance, efficiency, and capital intensity were entered into the statistical software for social sciences (SPSS), which was used for data analysis. The independent variable's means and standard deviation were calculated. The study evaluated the impact of CSR on the financial performance of the chosen organizations using the ordinary least squares regression technique. The relevance of the model was evaluated using analysis of variance (ANOVA), and the significance of the independent variables in explaining the dependent variable was evaluated using t-tests. The study's findings were displayed in tabular form.

3.7.1 Regression Equation

The impact of corporate social responsibility (CSR) on the financial performance of corporations was evaluated using an ordinary least squares regression model. Descriptive statistics were employed to evaluate the data's dispersion and distribution. Additionally, correlation analysis was performed to evaluate the relationship between business financial performance, efficiency, capital intensity, and CSR. CSR, capital intensity, and efficiency were the study's independent factors, and business financial success was its dependent variable. The ratio of sales expenses to

total revenue (cost of sales/total sales) was used to measure efficiency, while the ratio of total sales to total revenue (total assets/total sales) was used to measure capital intensity. These served as the study's control variables. The regression model depicted below explained the expected;

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

Where:

Y- Financial performance (Return on Asset (ROA)) (Net income/ Total Assets)

X₁- CSR score (Financial expenditure on CSR activities)

X₂-Efficiency (Cost of Sale/Total Sales)

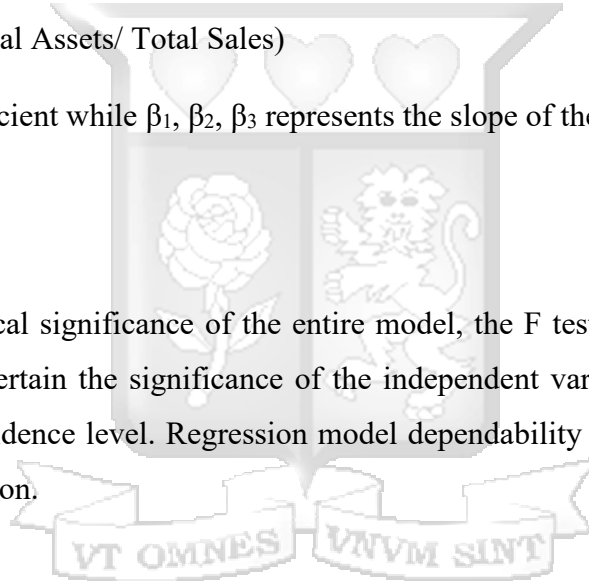
X₃- Capital intensity (Total Assets/ Total Sales)

β_0 is the regression coefficient while $\beta_1, \beta_2, \beta_3$ represents the slope of the regression equation.

ε - The error term

3.8 Test Significance

To determine the statistical significance of the entire model, the F test was employed at a 95% confidence level. To ascertain the significance of the independent variable, the T test was also employed at a 95% confidence level. Regression model dependability was established using the coefficient of determination.



CHAPTER FOUR

DATA ANALYSIS, INTERPRETATIONS AND PRESENTATION

4.1 Introduction

This chapter presents information regarding the results from the study after assessing the impact of corporate social responsibility initiatives on the financial performance listed in the Nairobi Securities Exchange. The NSE-listed companies were the study's primary focus. The NSE conducted the research for this study between 2019 and 2023. Additionally, this chapter covers descriptive statistics, pre-estimation diagnostic tests, and, lastly, the regression model's outcomes.

4.2 Response Rate

The study focused on 66 companies listed on the NSE, out of which 14 firms had complete and available data. The 14 firms with the complete data were used and collected over a 5-year period (2019–2023). The dataset was analyzed using panel data methods, allowing the study to examine variations over time and between firms, rather than aggregating the data into a purely cross-sectional format.

Most of the companies included in the study engaged in Corporate Social Responsibility (CSR) initiatives; however, some firms did not fully disclose the actual costs associated with their CSR activities. While data on capital intensity and efficiency were readily available, these variables served as secondary factors, with the primary focus being the relationship between CSR and corporate financial performance. The financial performance metrics, including CSR, ROA, capital intensity, and efficiency, were computed using Excel and analyzed using SPSS to ensure accuracy and consistency.

The panel dataset used in this study is a balanced panel, meaning each of the 14 firms has complete data over the 5-year period (2019–2023)

4.3 Descriptive Statistics

The descriptive statistics for the study variables, including Corporate Social Responsibility (CSR), Return on Assets (ROA), Capital Intensity, and Efficiency, are presented in **Table 4.1**.

The table provides the number of observations ($N = 70$), minimum and maximum values, mean, and standard deviation for each variable, offering insights into their distribution and variability.

CSR scores range from **0.4539 to 6.5754**, with an **average value of 1.989** and a **standard deviation of 1.554**. This suggests that CSR engagement varies significantly across firms, with some companies actively engaging in CSR initiatives while others have relatively lower CSR scores. The high standard deviation indicates a considerable spread in CSR efforts among the sampled firms.

The financial performance of firms, measured by ROA, ranges from **0.0093 to 0.2287**, with a **mean of 0.122** and a **standard deviation of 0.031**. The low standard deviation indicates that ROA values are relatively stable across firms, meaning most firms exhibit similar profitability levels within the observed period.

Capital intensity values range between **0.5539 and 2.5836**, with an **average value of 1.353** and a **standard deviation of 0.297**. This suggests that firms differ in the level of capital investment relative to total assets, with some companies being more capital-intensive than others. The moderate standard deviation indicates some level of variability in capital investment strategies across firms.

Efficiency, like ROA, has values ranging from **0.0093 to 0.2287**, with a **mean of 0.122** and a **standard deviation of 0.031**. The similarity in values between ROA and Efficiency suggests that efficiency levels among firms closely align with financial performance, potentially indicating a strong relationship between cost management and profitability.

Overall, the descriptive statistics provide an overview of the distribution, central tendency, and dispersion of key variables in the study. The variations observed in CSR, Capital Intensity, and Efficiency highlight differences in firms' financial strategies and CSR commitments, which are further explored through correlation and regression analysis in subsequent sections.

Table 4.1. Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CSR	70	.4539	6.5754	1.989339	1.5546888
ROA	70	.0093	.2287	.122179	.0311432
Capital_intensity	70	.5539	2.5836	1.353179	.2974370
Efficiency	70	.0093	.2287	.122179	.0311432
Valid N (listwise)	70				

4.4 Correlation Analysis

An evaluation of the degree of association between the variables under investigation is provided by correlation analysis. Multicollinearity between the variables was assessed in this study using Pearson correlation analysis. A 5% significance level statistical association between financial performance and CSR was found using SPSS. There is a strong correlation between the variables, showing multicollinearity when the correlation coefficient is near to a positive or negative value. One must be eliminated, though, if the predictor variable's correlation coefficient is near +1 or -1. The correlation matrix reveals that Efficiency and ROA exhibit perfect multicollinearity ($r=1.000$), suggesting they measure the same construct. However, other variables do not show strong correlations with each other, indicating no significant multicollinearity among them as shown in Table 4.2.

Table 4.2. Correlation Analysis

Correlations

		Efficiency	CSR	Capital_intensity	ROA
Efficiency	Pearson Correlation	1	.245*	.041	1.000**
	Sig. (2-tailed)		.041	.733	<.001
	N	70	70	70	70
CSR	Pearson Correlation	.245*	1	.071	.245*
	Sig. (2-tailed)	.041		.557	.041
	N	70	70	70	70
Capital_intensity	Pearson Correlation	.041	.071	1	.041
	Sig. (2-tailed)	.733	.557		.733
	N	70	70	70	70
ROA	Pearson Correlation	1.000**	.245*	.041	1
	Sig. (2-tailed)	<.001	.041	.733	
	N	70	70	70	70

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

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

4.5 Regression Analysis and Hypothesis Testing

To test the hypothesis of the study, regression analysis was performed. The independent variables used were capital intensity, efficiency and CSR Score while the dependent variable was corporate financial performance.

4.5.1 Regression Model Diagnostics

Diagnostic tests for The regression model used to assess the relationship between CSR, capital intensity, efficiency, and financial performance is as follows:

$$ROA_{it} = \beta_0 + \beta_1(CSR)_{it} + \beta_2(Capital\ intensity)_{it} + \beta_3(Efficiency)_{it} + U_{it} + \varepsilon_{it}$$

Where:

- ✓ ROA_{it} represents financial performance of firm i at time t
- ✓ CSR_{it} is the corporate social responsibility score of firm i at time t
- ✓ $Capital\ intensity_{it}$ measures firm i 's capital investment relative to total assets
- ✓ $Efficiency_{it}$ captures how efficiently resources are used
- ✓ U_{it} represents the random firm-specific effects that do not vary over time.
- ✓ ε_{it} is the idiosyncratic error term,

OLS assumptions were performed before regression analysis. The first diagnostic test assessed whether the error term variances were homoscedastic (constant variance). The Breusch-Pagan test was employed to check for heteroskedasticity. The test's null hypothesis assumes constant variance of errors (homoskedasticity), while the alternative hypothesis suggests non-constant

variance (heteroskedasticity). The test results ($p = 0.738$) indicate that residuals exhibit homoskedasticity ($p > 0.05$), meaning heteroskedasticity is not a concern in this model as shown in the below table.

Table 4.3. Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	3	.000	.421	.738 ^b
	Residual	.000	66	.000		
	Total	.000	69			

a. Dependent Variable: RES_1_SQ

b. Predictors: (Constant), Capital_intensity, Efficiency, CSR

Breusch-Pagan Lagrange Multiplier (LM) test for panel effects is also carried out. According to the Table, the descriptive statistics for the mean of the squared residuals (RES_1_SQ_mean) throughout the panel data show a variance of 0.000 and a minimum, maximum, total, and mean of 0.000. This indicates that there is no change in the residuals across all panel units, suggesting that the dependent variable is perfectly predicted by the pooled ordinary least squares (OLS) regression with no unexplained variation. Because there is no residual variance, there are no significant panel effects in this case, so the Breusch-Pagan Lagrange Multiplier (LM) test for panel effects is invalid. These findings indicate that a random effects model is not required and that the pooled OLS model is adequate.

Table 4.3.1

Descriptive Statistics						
	N	Minimum	Maximum	Sum	Mean	Variance
RES_1_SQ_mean	70	.00	.00	.00	.0000	.000
Valid N (listwise)	70					

The Fixed Effects Model (FE) and the Random Effects Model (RE) were compared using the Hausman test. Table 4.4 presents the findings.

Table 4.4. Hausman Test for Model Selection

Type III Tests of Fixed Effects^a

Source	Numerator df	Denominator df	F	Sig.
Intercept	1	69	.000	1.000

a. Dependent Variable: demeaned_ROA.

To determine whether the Fixed Effects Model (FE) or the Random Effects Model (RE) is better suited for this panel dataset, the Hausman test was used. There is no systematic difference between the estimates generated by the two models, according to the test results, which showed a p-value of 1.000.

Since the null hypothesis of the Hausman test (that Random Effects is consistent and efficient) is not rejected, the Random Effects Model (RE) is preferred for this investigation. When this assumption is true, the RE model is more effective since it assumes that individual firm effects are uncorrelated with the explanatory variables. Therefore, given that the Hausman test does not suggest significant differences, the RE model is picked for further study as it gives more efficient and generalizable results across the firms.

Since the Random Effects Model (RE) was selected, the final regression model takes the following form:

$$ROA_{it} = \beta_0 + \beta_1(CSR)_{it} + \beta_2(Capital\ intensity)_{it} + \beta_3(Efficiency)_{it} + U_{it} + \varepsilon_{it}$$

Where:

- ✓ ROA_{it} represents financial performance of firm **i** at time **t**
- ✓ CSR_{it} is the corporate social responsibility score of firm **i** at time **t**
- ✓ $Capital\ intensity_{it}$ measures firm **i**'s capital investment relative to total assets
- ✓ $Efficiency_{it}$ captures how efficiently resources are used
- ✓ U_{it} represents the random firm-specific effects that do not vary over time.

- ✓ ε_{it} is the idiosyncratic error term assumed to be uncorrelated with the explanatory variables.

The residual normality test was the second diagnostic test conducted, as normality is a key assumption in linear regression. Non-normally distributed residuals can lead to biased or inefficient estimates. Given the sample size (N=70), the Shapiro-Wilk test was used to assess whether the residuals followed a normal distribution. The null hypothesis assumes that the residuals are normally distributed, while the alternative hypothesis suggests that they are not. The test results, as presented in Table 4.4, indicate that the Shapiro-Wilk p-value was 0.046, which is slightly below the 5% significance threshold. This suggests borderline normality, meaning the residuals exhibit slight deviation from normality but are still within an acceptable range for regression analysis. However, the Kolmogorov-Smirnov test ($p = 0.002$) suggests stronger deviation from normality.

Overall, the Shapiro-Wilk result is around the threshold, suggesting that normality may still be assumed for practical reasons even though there is some indication of non-normality.

Table 4.5. Shapiro Wilk Test of Normality

Tests of Normality						
	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residual	.140	70	.002	.965	70	.046
a. Lilliefors Significance Correction						

Additionally, the study used the Variance Inflation Factor (VIF) to assess multicollinearity among the independent variables. Multicollinearity occurs when independent variables are highly correlated, potentially affecting the reliability of regression estimates. The results are presented in Table 4.5. A VIF value of 10 or higher typically indicates multicollinearity concerns. However, in this study, all VIF values were well below 10, with the highest being 1.068 for CSR, 1.064 for Efficiency, and 1.006 for Capital Intensity. These values indicate that multicollinearity was not a concern, as the independent variables exhibited low correlation with one another. Thus, the regression model is unlikely to be affected by collinearity issues, ensuring the stability and reliability of the coefficient estimates.

Table 4.5. Testing Multicollinearity Using VIF

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-1.712E-17	.000		.000	1.000		
	CSR	-5.344E-18	.000	.000	.000	1.000	.936	1.068
	Efficiency	1.000	.000	1.000	373665538.86	<.001	.939	1.064
	Capital_intensity	-2.008E-17	.000	.000	.000	1.000	.994	1.006

a. Dependent Variable: ROA

The Wooldridge test was conducted to examine serial correlation in the regression model. As shown in **Table 4.6**, the results indicated the presence of serial correlation in the data, as evidenced by the low Durbin-Watson statistic (0.435) and a significant p-value ($p < 0.05$). The presence of serial correlation implies that the residuals are correlated, which violates the assumption of independent errors in linear regression. This can lead to biased standard errors, reducing the model's efficiency and reliability.

Table 4.6. Serial correlation Test Using Woodridge Drukker

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	1.000 ^a	1.000	1.000	.0000000	.435

a. Predictors: (Constant), Capital_intensity, Efficiency, CSR

b. Dependent Variable: ROA

To address this issue, a Cochrane-Orcutt transformation was applied to remove the serial correlation. **Table 4.7** presents the results after transformation, showing that the issue was successfully resolved. The Durbin-Watson statistic increased to 2.004, indicating no significant serial correlation ($p > 0.05$). This confirms that the model is now valid for further interpretation.

Table 4.7. Serial Correlation Test Using Woodridge Drukker (Transformed)

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.149 ^a	.022	.004	.00000000	2.004

a. Predictors: (Constant), LAGS(RES_1,1)

b. Dependent Variable: Unstandardized Residual

As the Durbin-Watson test is less successful in panel data situations, the Wooldridge test was performed by regressing first-differenced residuals (DIFF_RES_1) on lagged residuals (LAG_RES_1). Table 4.8 provides a summary of the findings.

Serial correlation is shown by the significant p-value (< 0.001) and negative coefficient (-1.142). Corrective action is required since the null hypothesis—that there is no serial correlation—is rejected.

Table 4.8. Wooldridge Test for Serial Correlation

Coefficients ^a									
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	6.468E-17	.000	7.565	<.001	.000	.000		
	LAG_RES_1	-1.142	.129	-.770	<.001	-1.401	-.884	1.000	1.000

a. Dependent Variable: DIFF_RES_1

To address the issue of serial correlation, a first-difference transformation was applied to remove autocorrelation in the panel data model. Table 4.9 presents the results after the transformation, showing that the issue was successfully resolved. The Durbin-Watson statistic increased to 2.004, indicating no significant serial correlation ($p > 0.05$). This confirms that the model is now statistically valid for further interpretation.

Additionally, the R^2 value of 0.592 suggests that the independent variable (LAG_RES_1) explains 59.2% of the variance in DIFF_RES_1, demonstrating a moderate model fit. The adjusted R^2 value of 0.585 reinforces the stability of the model by accounting for the number of predictors. With serial correlation successfully corrected, the model is now statistically reliable for further analysis and hypothesis testing.

The results are presented in Table 4.9.

Table 4.9. Wooldridge Test for Serial Correlation (transformation)

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.770 ^a	.592	.585	.00000	2.004

a. Predictors: (Constant), LAG_RES_1

b. Dependent Variable: DIFF_RES_1

4.5.2 Regression Results

Regression analysis was conducted after confirming that all panel data assumptions were met. Table 4.8 presents the coefficient of determination (R^2) for the Random Effects (RE) model, which was selected based on the Hausman test results. The RE model was estimated using generalized Least Squares (GLS) to account for firm-specific unobserved heterogeneity while maintaining estimation efficiency.

The results indicate that the model's R^2 is 0.623, meaning that 62.3% of the variation in financial performance (ROA) is explained by the independent variables (Capital Intensity and the PCA Factor Score, which represents CSR and Efficiency). These findings suggest that the model provides a strong explanatory framework for understanding the financial performance of listed firms.

Table 4.8. Coefficient of Determination – Combined R^2

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			
						F Change	df1	df2	Sig. F Change
1	.789 ^a	.623	.611	.0194149	.623	55.272	2	67	<.001

a. Predictors: (Constant), REGR factor score 1 for analysis 1, Capital_Intensity

The Wald chi-square test confirms that the model is statistically significant (Chi-square = 55.272, $p < 0.001$), meaning that the independent variables collectively explain financial performance across firms.

Table 4.9. Analysis of Variance of the Regression Model

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.042	2	.021	55.272	<.001 ^b
	Residual	.025	67	.000		
	Total	.067	69			

a. Dependent Variable: ROA

b. Predictors: (Constant), REGR factor score 1 for analysis 1, Capital_Intensity

a. Dependent Variable: Financial Performance (ROA)

b. Predictors: (Constant), PCA Factor Score (CSR & Efficiency), Capital Intensity

The results in Table 4.9 confirm that the regression model is highly significant ($p < 0.001$). This means that the independent variables included in the model have a strong predictive ability in determining the financial performance of the listed companies.

The test of the statistical significance of the independent variables in the model was done using t-tests. Results are presented in Table 4.10.

Table 4.10. Test of Significance of Independent Variables

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	.124	.011		11.394	<.001		
	Capital_Intensity	-.002	.008	-.015	-.200	.842	.995	1.005
	REGR factor score 1 for analysis 1	.025	.002	.790	10.499	<.001	.995	1.005

a. Dependent Variable: ROA

a. Dependent Variable: Financial Performance

Table 4.10 presents the findings of a regression analysis that shed light on each independent variable's statistical significance. According to the null hypothesis ($\beta = 0$), there is no meaningful correlation between the independent variables and financial performance. Every independent variable's significance was examined at a 5% level of significance ($p < 0.05$).

The study used Principal Component Analysis (PCA), a dimensionality reduction technique that reduces several variables into a single composite component, to get the PCA factor score. To guarantee consistency, the first step was to standardize the efficiency and CSR data. After calculating the eigenvalues and eigenvectors, the first principal component was chosen since it was the one that best explained the dataset's variance. A weighted sum of the principal component loadings was used to calculate the final PCA factor score, which made sure that it appropriately reflected the combined impact of efficiency and CSR on financial performance.

Efficiency and CSR are combined to create the PCA Factor Score, which is statistically significant ($\beta = 0.025$, $p < 0.001$). This suggests that efficiency and corporate social responsibility (CSR) work together to significantly and favorably affect financial performance.

($\beta = -0.002$, $p = 0.842$) Capital Intensity is not statistically significant. This implies that variations in capital intensity don't significantly impact financial results. These results indicate that the null hypothesis is accepted for Capital Intensity but rejected for the PCA Factor Score. This indicates that while capital intensity has a minor impact on financial outcome prediction, CSR and efficiency (as measured by PCA) are important factors that influence financial performance.

4.5.3 Hypothesis Testing

The findings contribute to hypothesis testing, where:

The null hypothesis (H_0) states that there is no significant relationship between financial performance and the independent variables ($\beta = 0$). The alternative hypothesis (H_1) suggests that at least one independent variable significantly influences financial performance.

Results obtained are:

The null hypothesis is rejected for the PCA Factor Score ($p < 0.001$), meaning CSR and Efficiency significantly impact financial performance. The null hypothesis is accepted for Capital Intensity ($p = 0.842$), meaning Capital Intensity does not have a significant effect on financial performance.

Thus, the findings highlight the crucial role of CSR and efficiency in driving financial outcomes, while capital intensity alone does not serve as a reliable predictor of financial performance.

4.6 Discussion of the Research Findings

The study's findings provide clear evidence of the relationship between financial performance (ROA) and the independent variables: CSR, Efficiency, and Capital Intensity. The regression results indicate that CSR and Efficiency (captured as the PCA Factor Score) significantly influence financial performance, while Capital Intensity does not play a meaningful role in predicting financial outcomes.

The regression equation derived from Table 4.10 is as follows:

$$ROA_{it} = 0.124 + 0.25X1_{it} - 0.002X2_{it} + U_{it} + \varepsilon_{it}$$

Where:

$X1$ = PCA Factor Score (combining CSR & Efficiency) for firm i at time t ; $X2$ = Capital Intensity for firm i at time t

From the regression constant (0.124), we can infer that if CSR, Efficiency, and Capital Intensity were set to zero, the financial performance (ROA) of the listed companies would be 12.4%.

Financial Performance and the Effect of Independent Variables

1. Efficiency and CSR Have a Positive Impact on Financial Performance

CSR and Efficiency together make up the PCA Factor Score, which is statistically significant ($\beta = 0.025$, $p < 0.001$). This implies that companies that increase operational effectiveness and make investments in corporate social responsibility (CSR) typically have superior financial

results.

Financial performance rises by 0.025 units for every unit improvement in CSR and efficiency. This demonstrates that a company's profitability can be enhanced by a well-coordinated CSR strategy and improvements in operational efficiency.

Businesses that strike a balance between sustainable CSR spending and efficiency-driven cost reductions typically outperform rivals over the long term.

These results are consistent with other studies that showed companies with robust CSR commitments frequently saw increases in investor confidence, consumer loyalty, and brand reputation, factors that ultimately enhance financial performance.

2. Financial Performance Is Not Significantly Affected by Capital Intensity

Capital Intensity's coefficient ($\beta = -0.002$, $p = 0.842$) is not statistically significant, suggesting that financial performance is not solely determined by capital expenditure. Businesses with greater capital intensity might not always perform better, based to its negative coefficient.

According to this research, unless capital expenditures are strategic and efficiency-boosting, they do not always result in improved financial returns. This is in line with economic theories that stress the value of maximizing resource use as opposed to only raising capital expenditures. The total financial performance of businesses with significant capital expenditures but inefficient operations may suffer from declining returns on investment.

In conclusion;

The results of the study show that efficiency and corporate social responsibility (CSR) greatly improve financial performance, but capital intensity has no apparent impact on performance. These findings demonstrate how crucial strategic CSR programs and increases in operational effectiveness are to boosting profitability.

Future studies should examine the relationship between financial performance across industries and particular CSR objectives (such as community engagement, employee well-being, and environmental sustainability). Further insights into the financial success of corporations may also be obtained by broadening the analysis to incorporate external macroeconomic issues (such as inflation, interest rates, and market rivalry).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusions and recommendations that were made. The chapter also discusses the study's shortcomings and offers recommendations for additional research on the relationship between corporate social responsibility and financial performance. The purpose of this study was to determine how corporate social responsibility activities affected the financial results of companies listed on the Nairobi Securities Exchange between 2019 and 2023.

5.2 Summary of Findings

The purpose of this study was to evaluate the relationship between Corporate Social Responsibility (CSR) and financial performance of firms listed on the Nairobi Securities Exchange (NSE). Using panel data regression methods, the study employed the Random Effects (RE) model, selected based on the Hausman test, to assess this relationship over the five-year period (2019–2023).

The study's findings indicate that CSR and Efficiency, as measured by the PCA Factor Score, have a statistically significant and positive impact on financial performance ($\beta = 0.025$, $p < 0.001$). This suggests that firms that actively invest in CSR initiatives and operate efficiently tend to experience better financial performance.

However, capital intensity did not show a significant impact on financial performance ($\beta = -0.002$, $p = 0.842$). This means that variations in capital intensity do not strongly influence financial success, implying that merely increasing capital expenditure does not necessarily translate into improved profitability.

Furthermore, the study found that efficiency plays a crucial role in determining financial performance. Lower operational costs relative to revenue (i.e., lower cost of sales to total sales ratio) were associated with improved financial outcomes. These results suggest that improving

operational efficiency is an effective strategy for enhancing financial performance among NSE-listed firms.

While CSR had a positive and significant impact, it is important to note that the effect size was relatively small. This indicates that CSR alone does not drive financial success, but it can enhance financial performance when combined with efficient business practices.

5.3 Conclusion

The study's goal purpose to evaluate the relationship between CSR and business financial success. The model employed to establish the relationship between CSR and financial performance turned out to be workable and consistent with earlier research. According to the study's findings, corporate social responsibility (CSR) had a marginally beneficial impact on the financial performance of NSE-listed companies.

Second, the study found that a key element in understanding the performance of listed companies was capital intensity. Businesses' performance suffers when their capital intensity rises, and vice versa. Efficiency significantly impacted the listed companies' performance. These results suggest that increasing efficiency (reducing the cost of sales/total sales ratio) would boost the listed companies' financial performance.

The performance of the listed companies was not significantly impacted by the CSR score. This suggests that the company's financial performance is not substantially explained by the amount of money spent on CSR initiatives. Companies shouldn't spend a lot of money on CSR in the hopes of improving their overall sustainability and financial success. Businesses should increase the effectiveness of their operations and procedures in order to improve their financial performance.

5.4 Recommendations

While a company's primary goal is to be profitable, there are other goals that must be met as well. Some businesses participate in social activities to maintain goodwill among stakeholders, comply with legal requirements, and create a positive work environment. The majority of businesses engage in CSR because they believe it to be morally righteous and a good way to promote their brand. In order to increase the firm's worth for shareholders, the study advises businesses to be

socially conscious. Businesses cannot function sustainably in an adverse climate or in a society where unemployment, instability, and other social issues are prevalent. A company that is perceived as lacking social responsibility will be seen negatively by the market.

Additionally, the study suggests that CSR be considered a mandatory practice for businesses rather than a voluntary endeavor. Firms should develop and implement policies to guarantee that they behave ethically and socially responsibly toward all stakeholders. For instance, the Capital Markets Authority has established standards and rules to guarantee that Kenyan listed companies are socially responsible. These rules ought to be applied to businesses. In order to guarantee this, the report suggests creating institutions and laws that encourage the expansion of small businesses into large ones. Legislators should also investigate why corporate social responsibility (CSR) practices are not as prevalent in Kenya as they are in other developed nations or industries, and how to enhance CSR practices in the business sector to optimize financial gains for economic expansion.

The researcher discovered a few problems over the course of this investigation that might need the attention of the relevant authorities. It was observed that there is no uniform reporting format for the companies in the study regarding their participation in CSR initiatives. Although the majority of the listed companies have a report on their CSR efforts, the report is not formally published anywhere. Some include the information on their websites and newsletters, while others include it in their yearly reports. The incentive to participate in CSR solely for the purpose of lowering the company's financial performance may start to take shape as the companies under investigation find that CSR has a negative association with their financial performance.

5.5 Limitations of the Study

Financial spending was used to measure CSR in this study. The researcher admits that corporate social responsibility (CSR) has multiple facets and can be achieved in methods other than monetary expenditure. However, only financial spending was utilized to gauge CSR performance among NSE-listed companies because to time and money constraints. The study excluded non-financial CSR efforts, such as employee labor hours spent planting trees, cleaning up the environment, and management's adoption of fair employment policies, to name a few. There is a chance that the study's findings would alter if the non-financial components of CSR discussed above were considered when creating the CSR performance index.

The study's measurement of performance is its other shortcoming. Although return on assets was utilized in the study, other performance metrics, such as market share, are also available. It's possible that the outcomes might have been different if a different measure had been employed. The amount of years that the data was gathered was another restriction on the study. Using a longitudinal research approach, the study encompassed a five-year period, inclusive of 2019 and 2023, due to time and budgetary restrictions. The outcomes of the study would most likely alter if the number of years it was conducted were extended.

Finally, the data sources used in the study had limitations. The firm's annual statements and its corporate social responsibility reports, which are updated on the websites of different companies, provided the data on CSR. The researcher understands that the precision of the information gleaned from the source could restrict the study's findings.

5.6 Suggestions for Further Research

The influence of CSR on other financial performance metrics, such as net profit, could be the subject of future research by the company based solely on this study. The study could ascertain the connection between the firm's annual profit and the total amount it invests in CSR. It is also possible to employ a lengthier analysis period of more than five years. The researcher recommends conducting a study to ascertain whether the financial success of companies listed on the NSE in the subsequent accounting period is impacted in any way by the amount of money spent on CSR in the current year. The measurement of CSR was restricted to monetary expenditures, as mentioned in the study's limitations. The researcher proposes more research in this field, but this time it will quantify CSR by using and incorporating non-financial components of it. Additional studies in this field could possibly be conducted with data spanning ten years or more.

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APPENDICES

APPENDIX 1: COMPANIES LISTED AT THE NAIROBI SECURITIES EXCHANGE

AGRICULTURE

1. EAAGADS Ltd.
2. Kakuzi Ltd
3. Kapchorua Tea company Ltd
4. Limuru Tea Company Ltd.
5. Rea Vipigo Plantation Ltd.
6. Sasini Ltd
7. Williamson Tea Kenya Ltd.

AUTOMOBILES AND ACCESSORIES

8. Car and General (K) Ltd.
9. CMC Holdings Ltd.
10. Marshalls E.A Ltd.
11. Sameer Africa Ltd.

BANKING

12. Barclays Bank of Kenya.
13. CFC Stanbic of Kenya Holdings.
14. Diamond Trust Bank Kenya Ltd.
15. Equity Bank Ltd.
16. Housing and Finance Kenya Ltd.
17. I &M Holding Ltd.
18. Kenya Commercial bank.
19. National Bank of Kenya.
20. NIC Bank LTD.
21. Standard Chartered bank Kenya Ltd.
22. The Co-operative Bank of Kenya.

COMMERCIAL AND SERVICES

23. Express Kenya Ltd.
24. Hutching Biemer Ltd.



25. Atlas Development and Support Services.
26. Kenya Airways Ltd.
27. Long Horn Kenya Ltd.
28. Nation Media group Ltd.
29. Scan Group Ltd.
30. Standard Group Ltd
31. TPS Serena Eastern Africa.
32. Uchumi Supermarket Ltd.

CONSTRUCTION AND ALLIED

33. ARM Cement Ltd.
34. Bamburi Cement Ltd.
35. Crown Berger Kenya Ltd.
36. EA Cables Ltd.
37. E.A Portland Cement Company Ltd.
38. ENERGY AND PETROLEUM
39. KENGEN Company Ltd.
40. Kenol Kobil Ltd.
41. K.P.L.C Ltd.
42. Total Kenya Ltd.
43. Umeme Ltd.



INSURANCE

44. British American Investment.
45. CIC Insurance Group.
46. Jubilee Holdings Ltd.
47. Kenya Re Insurance Corporation Ltd.
48. Liberty Kenya Holding Ltd.
49. Pan African Insurance Holding Ltd.

INVESTMENTS

50. Centum Investment Company Ltd.
51. Olympia Capital Holdings Limited.
52. Trans Century Limited.

53. Home Africa Limited.

54. Kurwitu Ventures.

INVESTMENTS AND SERVICE

55. Nairobi Securities Exchange.

MANUFACTURING AND ALLIED

56. Bauman and Company Ltd.

57. BOC Kenya Ltd.

58. British American Tobacco Kenya.

59. Carbacid Investment Kenya Ltd.

60. East African Breweries Ltd.

61. Ever ready East African Ltd.

62. Kenya Orchards Ltd.

63. Mumias Sugar Company Ltd.

64. Unga Group Ltd.

TELECOMMUNICATION AND TECHNOLOGY

65. Access Kenya Group Ltd.

66. Safaricom Limited.

GROWTH ENTERPRICE MARKET SEGMENTS

67. Home Africa Ltd.

Source: Capital Markets Authority



APPENDIX II: DATA COLLECTION FORM

	2019	2020	2021	2022	2023	Average
Expenditure on CSR						
Sales						
Cost of sales						
Total assets						
Return on assets						

