

**FACTORS INFLUENCING CORPORATE SOCIAL RESPONSIBILITY SPENDING IN
KENYA: A CASE STUDY OF NSE 20 – SHARE INDEX COMPANIES**

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DECLARATION

I declare that this work has not been submitted for the award of a degree by this or any other university. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself

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ABSTRACT

Discussions revolving CSR have been on the rise, due to the increased need of business entities to be mindful of the environment in which they operate. This research was therefore conducted with an aim to determine whether the existence of tax incentives, and profitability of a company, influence a company's willingness to spend its funds on CSR projects. It also aimed to investigate the challenges faced by companies willing to invest their funds in CSR projects.

The research utilized a descriptive analysis research design, where the data collected was analyzed using value such as mean and standard deviation, and a test for reliability was also done using Microsoft Excel. The study found that tax incentives and profitability of a company, are drivers of CSR. It also proved that creating a balance between the expectations of shareholders and those of the society, financial inadequacy, the value system of managers and owners of companies, pose as challenges to companies willing to take up CSR projects.

The study recommended that the government should investigate the economic value of CSR incentives, not only tax incentives, since the research has established that companies would more likely spend funds on CSR projects if CSR was incentivized, rather than regulated. Research should be done on measures which companies can take, to manage the expectations of the shareholders and those of the society, to create a balance. Companies should also find alternative ways of being socially responsible, that are not financial, such that even profits are low, the companies still fulfil their duties to the society.

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LIST OF ABBREVIATIONS

CSR – Corporate Social Responsibility

NEMA – National Environment Management Authority

NSE – Nairobi Securities Exchange

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The main idea behind CSR is that businesses should not only focus on the economic aspect, but also on their social and environmental impact and contribution (Elkington 1994). Some scholars argue that the main responsibility of a business is to make a profit, looking at it from the point of a shareholder, but business ethics scholars however argue that CSR is an aspect that should be a priority to businesses (Mc Williams & Siegel, 2001)

Corporate social responsibility activities have always been viewed to be voluntary, but this does not mean that the government cannot come up with binding minimum standards or quality assuring procedures to be adhered to by companies. The latter however is an issue, since most companies have proved more likely to be involved in voluntary CSR activities, rather than CSR activities defined and imposed on them by policies (Barth 2007). The government has been seen to play a role in CSR since the impact of corporates, (private sector) can be used in achieving various social and environmental targets or objectives that the government has set. According to Liston-Heyes and Ceton (2007) CSR is concerned with redistributing corporate resources to public causes.

Carroll (1979) states that CSR has four main dimensions; economic, legal, ethical, and philanthropic. This research will mainly dwell on the legal, since the legal aspect of CSR deals with complying to existing laws laid out in a country's constitution and the economic aspect too. Most companies will give reports on how they have contributed to creation of jobs in the country, offering of scholarships to needy children, recycling of plastic, donating to charitable organizations, participating in environmental cleaning activities and many other activities, but at the same time accompany it will large scales of tax evasion, which leads to loss of millions of revenue to the government (this brings up the economic aspect), which in the long run affects the quality of life of a section of the population, especially the poor.

The government can however turn this around by using tax incentives, such as allowing companies to deduct expenses relating to CSR from their profits, like it does with capital allowances. This will have two benefits; companies will reduce the amount of tax evasion, avoidance and aggression, since part of the taxes they pay without the tax incentive is on income where the CSR expenses have not been deducted, and the second advantage is that companies will be more motivated to engage in CSR activities.

Conversations about CSR have been on the rise due to several reasons. Companies, due to globalization have increased in size, which comes with an increase in power too, some even having more power than some governments. Despite the increase in size and power, companies are not involved in activities that promote the common good of the people (Korten 1996). Change in corporate behavior also has a great effect on the society, since large companies are powerful engines for change. They can therefore lead the change towards a more sustainable society or be a major barrier. More companies are however becoming more aware of their socio-environmental role in the society and are even willing to collaborate with the public sector towards a common goal of sustainability (González & Martinez, 2004).

This research was therefore carried out with an aim to determine how tax incentives available for CSR and profitability influence CSR spending, and to determine the challenges facing companies willing to spend funds on CSR.

1.1.1 Corporate Social Responsibility

CSR has been defined by Friedman (1970) as earning a profit but at the same time not engaging in fraudulent activities or deception. Carroll (1979) however argued that CSR can be divide into four dimensions, which are economic, legal, ethical and the fourth dimension being philanthropic. Scherer and Palazzo (2008) added a political side to it, stating that corporates should contribute to the development and political cooperation among transnational leaders with an aim to solve issues affecting more than one region or country.

A company's economic responsibility involves activities such as fair compensation and remuneration to employees, reasonable returns to investors, fair prices to customers, job creation and payment of taxes. It also involves the responsibility of a business to be profitable. Legal responsibility involves abiding by the law and regulations governing the corporate's nature of business, which involves tax laws, health and safety laws, employment laws. Ethical responsibility involves acting morally in a way that demonstrates moral principles such as honesty, fairness, dignity, equality. An example is not hiring employees that are underage (child abuse), which may also fall under legal responsibility. The last dimension is philanthropic; the responsibility to give back to the society, which should be discretionary and not coerced. This includes activities such as donating to charitable organizations, building recreational facilities for the society, supporting

educational institutions, supporting and growing the talent of the members of the society (Carroll, 1979).

Visser (2007) stated in his study on 'CSR from an African perspective' that companies engage in CSR since it results in a good working environment for their businesses. He also states that CSR in Africa is driven by African values and beliefs and gives examples of *nnoboa* and *ubuntu*. *Nnoboa* which is from Ghana states that the strength of the people comes from unity. *Ubuntu* is of South African origin and it lays stress on humanity towards others, group solidarity, compassion, respect. Researchers have attested that CSR in Africa is viewed as philanthropy (giving back to the society) (Eweje 2006 & Ojo 2009).

CSR in developing countries is also affected by religion. A study by Williams and Zinkin (2005) stated that for the Muslim community, responsibility to the community is not placed on the company, but on the individual. This is because there is no limited liability in Islam, only unlimited liability. The study further explains this concept using Islam taxes, whereby it is the individuals who should be taxed, and not businesses. The importance of individual responsibility then replaces corporate responsibility.

Another factor affecting CSR in developing countries is the social-economic environment. In developing countries where the economic development is low, poverty is high, foreign investment is low, unemployment is high, the citizens and the government will appreciate more, economic contribution, or rather, it will be more appealing (*Corporate Citizenship in Developing Countries*, 2005). The four dimensions of CSR remain but the main difference between CSR in developed countries and developing countries is the emphasis given to each of these dimensions.

1.2 Problem Statement

There are two methods of controlling behavior, this is either through regulation, or through incentives (Woody & Ryznar, 2015). Governments have been seen introducing regulations, to promote CSR. One of the most regulated area is the environmental area, which is clearly seen in Kenya through existence of bodies such as NEMA. The other way a government can regulate CSR is through issuing of licenses or certificates, for example, before the approval of a construction,

one requires certificates from the architect, and from the structural engineer, who will ascertain the quality and structural stability of the building.

Governments can also regulate through disclosure requirements, where companies are expected to disclose their CSR performance in their annual reports. Social responsibility can also be impacted on companies through market forces, in specific a negative market reaction, such as reduced brand recognition or a negative impact on the company's reputation. Therefore, there exists a question on what best influences a company to take up CSR projects, whether it is external factors such as initiatives by the government, or internal factors such as incorporating CSR in the company's strategy.

Research has been done, but from the perspective of companies taking up CSR, as a means to achieve a particular goal such a brand differentiation, or to take advantage of tax credits and deductions, for cost savings, to enhance innovation and to ensure a sustainable future of the company. Mombeuil and Fotiadis (2017) conducted a study on the effect of CSR on customer perceptions, where CSR was seen as strategic tool to influence customer behavior. It also investigated whether CSR activities positively influenced consumer trust towards companies.

Poolthong and Mandhachitara (2009) investigated the impact of CSR on perceived service quality and brand effect. The aim of the research was to determine how CSR initiatives influence perceived service quality and brand effect in retail banking customers. The findings showed that CSR activities play an important role in the customer perception of service quality, which in turn influences brand effect.

Rashid (2018) conducted a research on the impact of CSR reporting on shareholder value. The aim of the research was to examine whether CSR reporting enhances a firm's economic performance. The study found that CSR reporting significantly affects a firm's performance, although a firm's economic performance does not influence CSR reporting.

From the above studies on CSR, most view CSR as a means to achieving a particular objective, which is a problem since researchers should instead examine ways in which more CSR involvement can be enhanced, with the purpose of positively impacting the environment in which the company operates, and not for personal gain. This study hence seeks to examine the factors that influence CSR spending in companies.

1.3 Research Objectives

The research will be centered towards these objectives:

1.3.1 General Objectives

- To determine the factors influencing CSR spending in Kenya.

1.3.2 Specific Objectives

- The tax incentives available to companies to influence CSR spending
- Profitability as a driver of CSR
- Challenges faced by companies willing to spend funds on CSR activities.

1.4 Significance of the Study

1.4.1 Academics

This research will be useful to academics, since it will add to the already existing body of knowledge. It will also provide a basis for further research on this topic, in a bid to find more solutions to this problem.

1.4.2 The Government

The information collected in this study will stimulate the agents of the government to consider ways in which they can create a balance between the CSR activities carried out by corporates (the private sector) and the projects carried out by the government in regard to CSR since the private sector has proven to do it more efficiently, to determine whether reduction of tax to companies is a good incentive or not.

1.4.3 Better Management

The research will bring to light challenges faced by companies willing to invest funds in CSR. The management of companies will therefore take measures to eliminate these challenges beforehand, to ensure that their responsibility to the society is not compromised.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter focused on reviewed literature on tax incentives available to influence CSR spending, profitability as a driver of CSR and touched on the challenges facing companies willing to invest their funds in CSR projects. It includes a theoretical review and an empirical review of existing literature about tax and CSR.

2.2 Theoretical Foundation

2.2.1 The Benefit Theory of Taxation

The main idea behind his theory is taxing individuals based on the benefits they get from the government. This is an old theory which was developed before the seventeenth century. Initially the benefit was only observed from two perspectives, one was the benefit of protection, that is life and property Hobbes (1962), and the other perspective was paying taxes as a price of peace, since one of the functions of the state was prevention of war. Hobbes (1962) did not measure the benefit according to the wealth or riches an individual had, but by the amount of the benefit consumed by the individual. The first revision was made by Smith (1776) who stated that all individuals had a responsibility to support the state, based on the revenue everyone got, under the protection of the state. In his version, the benefit is not the protection, rather the economic well-being. By his use of income as the measure of benefit, he is seen to lessen the distinction between the benefit theory and the ability-to-pay theory.

Mill (1848) disagreed with this theory stating that it was mainly based on the benefit of protection provided by the state, yet the state did much more than providing protection. His second reason was that it was not evident that the rich received more protection from the state, for it to demand higher taxes. His contradiction changed the principle of taxation from equality of taxation to equality of sacrifice, and he stated that there needed to be a minimum amount which was to be excluded from tax, if it was used to purchase necessities and not luxuries.

Wicksell and Lindahl who were economists further revised this theory, and introduced public goods, and economists would now analyze whether the benefits derived from the use of public goods surpassed the lost benefit arising from not satisfying private wants. The last development was by Brennan and Buchanan (1977) where they stated that the revenue-maximization behavior of the government was undesirable, and they recommended an introduction of constraints to limit

this power of the government. Some of the constraints they believe would limit the government from increasing taxation would be; citizens opting to rely on taxes that are benefit based, such that each tax can be pegged to public good or service, and the second constraint is taxes having a narrow base rather than an a wide base, limiting the government from increasing taxes since doing so would prompt citizens to avoid tax, which would be easy due to the narrow tax base.

2.2.2 The Ability Theory of Progressive Taxation

The ability to pay theory states that tax should be levied based on the person's ability to pay, meaning that high taxes should be levied on persons with higher income or profits and lower taxes on people with lower income or profits. The main principle upon which the tax imposed should conform to, is sacrifice. This is because the amount a person remits as tax, could have been used for other personal reasons (Kendrick, 1939).

The principle of taxation brings up three theories of progressive taxation; the equal, the equal-proportional, and the least-sacrifice theory. The equal sacrifice theory states that all taxpayers should make equal sacrifice in the payment of taxes. The equal-proportional sacrifice theory states that the sacrifice by the taxpayers should have an equal proportion to their income. The least-sacrifice theory is based on the group theory of taxation where the tax payers are divided into groups based on their income or wealth, tax is first on the very rich, until their income is reduced to that of the level below them, which is the rich. Once that is done, the rich are taxed, until their income is reduced to the level of the medium income earners. This theory therefore suggests reduction of high incomes through taxation. The theory behind these sacrifice theories is that the marginal utility of money reduces with an increase in its supply (Kendrick, 1939).

The sacrifice theory of progressive taxation also depends on the quantitative expression of that sacrifice. Illustrating using the equal-proportional theory, if it is based on income groups, the sacrifice in proportion to their income must therefore be measured, in order to impose a proportionally equal burden on all the other income groups (Kendrick, 1939)

This theory is relevant to my study since it is one of the theories that the government may use, when imposing a tax system. The theory is also in line with the vertical equity principle of taxation.

2.2.3 The Stakeholder Theory of CSR

Freeman (1984) described stakeholders as parties who impact a business of whom the business has an impact on. These include shareholders, employees, creditors, suppliers, customers, the government and the public. Ansoff (1965) used this theory to define the objective of the firm as creating a balance between the interests of all the stakeholders of a firm.

Freeman (1983) categorized the idea of stakeholders into two, having the corporate planning and business policy model and the CSR model. He described the corporate planning and business policy model as the section of the stakeholder concept that focusses on evaluating the approval of strategic decisions of the company by parties whose support is required for the company to be in existence. This is because the behavior of these various stakeholders, either positive or negative, needs to be considered before making strategic decisions. The company therefore strives to create a balance between the resources they have, and the environment in which they are operating. The stakeholders identified in this model are customers, suppliers, the shareholders and the public, and they are not considered to be conflicting in nature (Freeman, 1983).

The other section of the stakeholder concept, which is the CSR model, extends the corporate planning and business policy model by introducing parties of a conflicting nature, which are regulatory bodies and special-interest groups, who are interested in social issues. In this model, unlike the corporate planning and business policy model whose strategic plan is only dependent on the behavior of the stated stakeholders, allows the strategic plan to be influenced by changes in social demands of the special-interest groups and regulatory bodies (Freeman, 1983). Freeman (1983) stated that the importance of meeting stakeholder demands, depends on the level of stakeholder power.

This theory is important to my study since it shows the impact of different stakeholders in the environment in which the company operates, on the formulation and implementation of a firm's strategic plan.

2.3 Incentives for Companies to Engage More in CSR

Apart from incentives by the government to try and make companies engage more in CSR, in ways such as regulation, there are other ways of encouraging CSR in companies. Based on research on how to promote CSR in organizations, they came up with the following ways of doing so.

Turker (2018) believes that the drivers of CSR can be divided into three, that is the individual level, the organizational level, and the environmental level.

2.3.1 The Individual Level

The individual level mainly deals with top level managers. Under the individual drivers of CSR, Turker (2018) states that the social needs of individuals can be drivers of CSR, and gives examples such as the need to belong, the need for social relationships and feelings of belonging and the need for positive self-esteem. Therefore, a company ran by a manager or a CEO with these social needs will most likely engage in CSR, as compared to companies headed by people without these social needs. Moral drivers are also part of the individual level, whereby managers who care about meaningful existence, the wellbeing of the society and the environment, will most likely lead their companies into engaging more in CSR activities, as compared to managers who are not. There are also instrumental drivers of CSR, which reflect the managers' individual experiences and beliefs. If a manager has ego-driven intentions, need for control, or have self-centered motives, it may also act as a driver of CSR in a company, as an incentive by the manager. Other individual traits of a manager that may drive CSR are, the demographic characteristics; age, gender, education; leadership style of the manager, personality, value and ideologies.

2.3.2 The Organizational Level

Ownership, corporate culture, employees, board structures and strategy, are considered organization level variables. The role of the board of directors is to come up with a mission and a vision for the company, formulate policies for the company, review company goals and determine values that are to be upheld in the company among, any other responsibilities. Hung (2011) emphasizes on having a diversified board, to broaden their perspective. Hambrick et al (1996) stated that diversity is a double-edged sword, since on the positive side, it widens the perspective of the board, and on the negative side, too many differences can cause conflict. Diversity allows the board to discuss issues in depth, and improves decision making. A broadened perspective is

relevant for CSR since CSR decisions need to understand stakeholders' needs and wants (Rao and Tilt, 2016). Corporate culture is mainly the positive perception of CSR, and continuous involvement, by the employees of the company. Whoever starts or owns the business also has a big impact on how CSR is adopted by the company.

2.3.3 The Environmental Level

This level involves all the macroenvironment factors, which are; political factors, economic, social, technological, environmental and legal factors and the microenvironment factors too. One of the things the environmental level explains is public policy governance models for encouraging CSR. The first one is the partnership model, this is where different sectors partner together, to meet socio-employment challenges. In the UK and Ireland, they have a policy that encourages companies to help solve governance challenges that affect the community. Another model, that is in Austria, Belgium, France and Germany is one that has emphasis on sustainable development. The last model is the Agora model, which is the Mediterranean countries, and refers to creation of groups, for different social issues, to come to a common agreement.

2.3.4 Involving Employees in Defining and Advancing CSR

This can be done letting the employees form groups and letting them decide how to socially-responsibly distribute the resources. From a research done by Koch et al. (2019), there are different levels of participation. The first group is the employees who did not participate in CSR and had no intentions of doing so in the future. They had poor knowledge and low interest in CSR. The second group is those who participated indirectly, which is by talking to their colleagues about their willingness or desire to participate, but not actually doing so. The third group participated actively but were not emotionally involved. The last group had high levels of motivation and had a lot of knowledge on CSR.

The research also highlighted that not only the society benefits, but also the employees. Employees can acquire functional benefits, which is the acquisition of practical skills such as interpersonal skills, or the skill of work-life balance. The employees also get emotional benefits, such as pride from the CSR activities they participate in. meaning and morality benefits, such as personal development and positive self-perception (Koch, Bekmeier-Feuerhahn, Bögel, & Adam, 2019).

2.4 Fiscal Incentives Available to Companies to Invest In CSR

Woody and Ryznar, (2015) state that are two ways to use tax to promote CSR, these being; a tax deduction that reduces taxable income and a tax credit that reduces tax liability.

2.4.1 Tax Credits

They gave examples that the US uses to promote CSR. The US congress uses the Work Opportunity Tax Credit to promote employment of certain groups of people who have for a long time faced barriers to employment. The Indian employment tax credit also provides a credit if a member of a native American tribe is employed, or the spouse of such a member. After the recession in the year 2007, that resulted to an increase in the rate of unemployment, the Hiring Incentives to Restore Employment Act introduced a payroll tax exemption and an increase in the business tax credit for companies that employed unemployed people. The Activated Military Reservist Tax Credit supports employment of former members of the military by offering tax credits on any wages paid to employees who are National Guard Members, or reservists, when they are away on duty for more than thirty days. The Wounded Warrior Tax Credit offers tax credits to employers who employ former member of the army, with disabilities gotten when in service. There is also The Returning Heroes Tax Credit, which offers tax credits for employment of Gulf War- era II veterans. The stated tax credits relate to employment of less-advantaged groups.

There are also tax credits relating to investing in under-performing communities. The New Markets Tax Credit offers tax credits for any businesses or real-estate projects started in the low-income communities. This is with an aim to provide investment capital to low income earners. The Empowerment Zone and Renewal Community Employment Tax Credit offers tax credits for employment of individuals in empowerment zones or renewal communities. The Disabled Access Tax Credit provides tax credits for providing access to people with disabilities, for example provision of sign language interpreters, adaptive equipment and removal of architectural barriers.

2.4.2 Tax Deductions

The second category of tax incentives is deductions offered to corporates. The Charitable Contribution Tax Deduction allows corporates to deduct amounts donated to registered charitable

organizations. The Architectural Barrier Removal Tax Deduction allows companies to deduct any expenses relating to removing barriers, to make access easier for the elderly, and the disabled people. Examples are widening doors, installing ramps and modifying vehicles (Woody & Ryznar, 2015).

According to an article by PWC Middle East, the Ministry of Investment and Internal Cooperation, announced the launch of a competition where companies would compete based on their investment in social responsibility, especially the cultural development, scientific research and educational training. The winning company would get a set of tax incentives, by the General Authority for Investments.

Kasipillai and Rachagan, (2015) also review more CSR incentives that are used in other countries. In Australia, tax deductions are allowed for gifts or money given to specified charitable organizations, public institutions and other institutions such as universities and museums. China has high levels of pollution, where seven of its big cities are among the top ten most polluted cities in the world. The tax department has proposed an introduction of a pollution tax levy, to prompt companies to reduce the level of pollution, with pollutants such as fertilizers and pesticides. In New Zealand, CSR is promoted through tax rebates for individuals and tax deductions for companies, for donations made.

2.5 The Effects of Tax Incentives on CSR Investment

Tax incentives can be used to move sectors from public funding to private funding (Mystica & Alexander, 2015). For example, when more of the contributions made to public institutions such as schools or hospitals come from the private sector and not the public sector, this could reduce the government expenditure, thus reducing the national debt over time.

Tax incentives increase the willingness of corporates and individuals to engage in CSR. According to a study commissioned by The City of London Corporation and Big Society Capital, it was found that most people were more likely to engage in CSR related activities, in the presence of a motivation, such as a tax incentive. It was stated that the absence of a tax incentive can be viewed as a hinderance to investing in CSR for companies and individuals willing to invest in CSR (Mystica & Alexander, 2015).

Tax incentives encourage investment in underperforming communities, such as the low-income communities, and promotes the empowerment of under-privileged groups in the society such as the disabled, the unemployed and the veterans of war. The examples of these incentives are The New Markets Tax Credits, Empowerment tax credits and The Activated Military Reservist Tax Credit (Woody & Ryznar, 2015). This promotes inclusion of all members of different groups in the society.

For companies to take advantage of these tax incentives, they need to reduce tax avoidance. This is because avoiding tax, which can either be done through trading in exempted goods, change of location to countries with low tax rates, or through using cash transactions instead of using electronic methods when trading, among many other ways of tax avoidance, reduces the tax liability. Tax incentives will therefore not reduce tax liability that is non-existent. However, if a company has income, they will seek to reduce the tax liability and this can be done through taking advantage of the tax incentives (Woody & Ryznar, 2015).

2.6 Profitability as a driver of CSR

Trihermanto and Nainggolan (2018) conducted a research on corporate life cycle, CSR and dividend policy. The aim of the research was to determine the relationship between the three factors. The research provided evidence that large and profitable firms, with greater retained earnings, spent more funds on CSR compared to smaller, less profitable firms. The results of the research supported the argument that firm size and profitability positively affected the firm's CSR spending.

Research by Sun (2012) was conducted with the aim to determine the association between CSR and financial performance. The analysis of the data revealed a positive association between CSR and financial performance. The results of the research showed that firms that have better financial performance, also do better in CSR activities. Larger firms, due to higher visibility, greater resource access and better internal operating systems, demonstrated better CSR performance, in comparison to small firms.

2.7 Challenges Faced by Companies Wishing to Invest in CSR

One of the challenges experienced by companies is creating a balance between the expectations of the shareholders, and that of the society. This is because the main objective of a company is to maximize the wealth of shareholders. However, the society expects the company to act in an ethical

and honest manner. A company therefore has the economic responsibility to reduce its expenses in order to maximize profits. This should however not be at the expense of the well-being of the members of the society. Creating a balance therefore becomes hard sometimes.

CSR performance for SMEs is highly dependent on the manager/owner, and their value system. This is due to their size, and the fact that the managers are profit oriented. Therefore if the manager is not one to care about pollution, the enterprise will most likely not take up that responsibility of ensuring that they don't pollute the environment, or rather clean the waste before releasing it to the environment (Lincoln, 2017). This also brings up the challenge of bureaucratic processes when employees want approval of projects, but their value system differs from that of their managers.

Inadequate financial resources also limit a company's ability to engage in CSR, since economic resources are needed to fund these social projects. This is also due to the reason that a company's first duty is to its shareholders. A company can therefore not create additional expenses, without first ensuring that the wealth of its shareholders is maximized. This therefore creates a big challenge for managers who are socially responsible but cannot rally their organizations to engage in CSR related activities (Lincoln, 2017).

Political instability. This will cause governments of these countries to focus more on the restoration of peace, especially for countries that have been war-torn for a long time. Such governments are also seen to focus more on market reforms; which is a way of addressing poverty using economic development and market activity; commercial development and on the creation of jobs. Such governments therefore don't have their focus on incentivizing social responsibility, and even if they would wish to, they are in economically constrained circumstances (Julian & Ofori-dankwa, 2013).

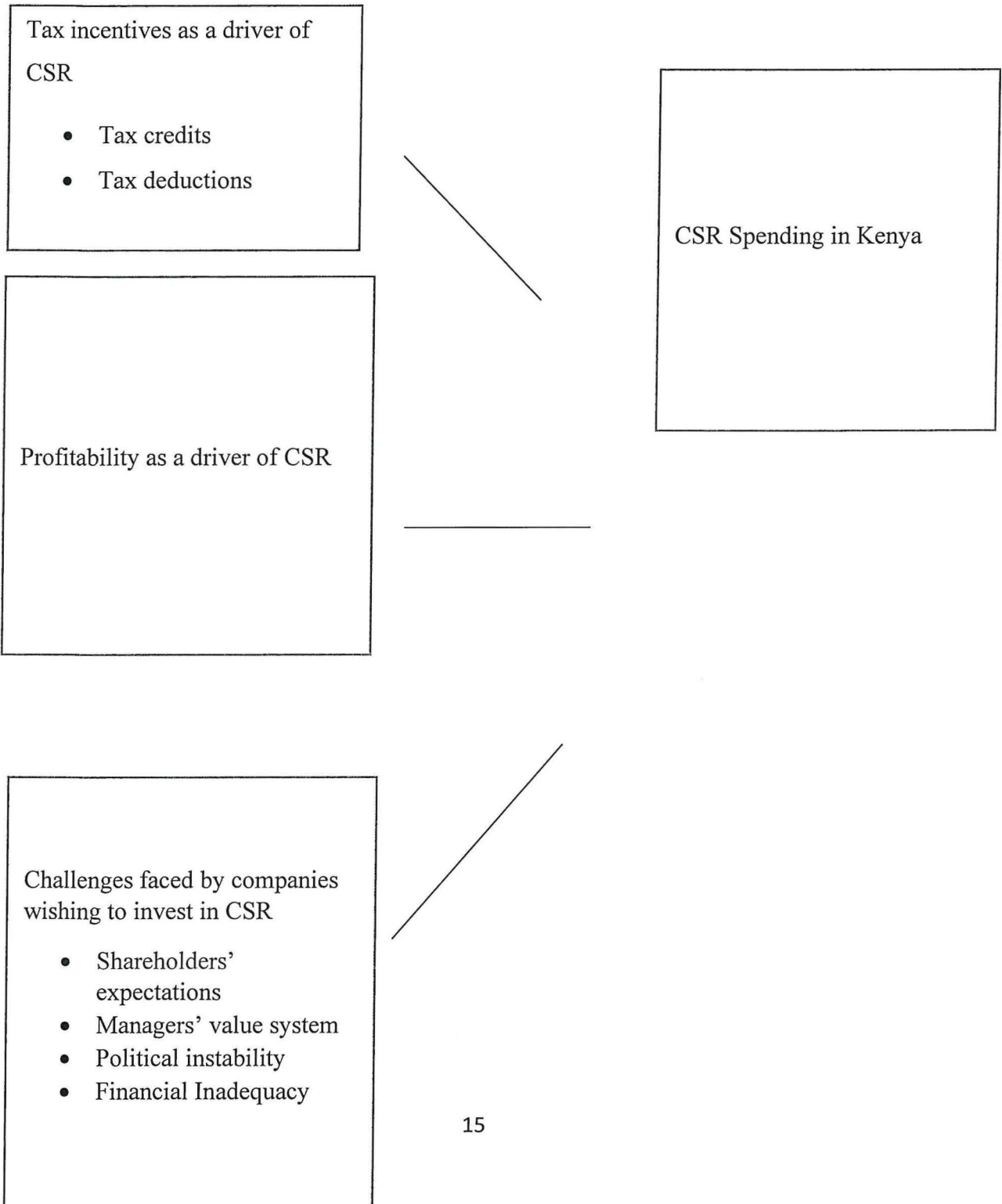
2.8 Conceptual Framework

This is a diagrammatical representation of the relationship existing between the variables in the study.

Figure 1: Conceptual Framework

Independent variable

Dependent variable



2.9 Research Gap

A lot of research has been done on the factors influencing CSR spending in companies

Rashid (2015) did a research on the influence of stakeholder power on CSR. He aimed at examining whether lenders' power and other attributes, influence CSR reporting in companies. The findings of the research were that the lenders' power or extent of borrowing, do not influence CSR spending. However, lenders' ability to monitor significantly and positively, influence CSR spending. The implications of this study were that; when multiple borrowing creates claim dilution problems, lenders are found to influence CSR spending

Jha and Aggrawal (2019) conducted a research on the impact of institutional pressures such as the local community, government, peers and media, on CSR implementation. The aim of the research was to determine to pressures of CSR implementation, and to understand how CSR can be incorporated in the business strategy better. The research aimed to validate a model that integrated the pressures, CSR, and financial performance. The findings of the research were that the institutional pressures were important for CSR implementation.

Dobbs and Staden (2016) did a research on the motivations for CSR reporting. The aim of this research was to investigate the reasons behind voluntary CSR spending. They aimed at getting insights into the internal systems, and views of the companies, to make better judgement of the intentions of the companies in reporting CSR projects. The findings of the research were that the community concerns and shareholder rights, were the most important factors that led the companies to report their CSR projects. The research also determined that the members of the senior management were the main drivers of CSR in companies, that external assurance of CSR reporting was not in place, and there were low levels of stakeholder engagement.

Based on the above research on this topic, I believe that there exists a gap, in the research of whether existence of tax incentives and profitability of a company, affect the willingness of a company to spend funds on CSR projects. This research will also add to the existing knowledge on tax incentives and profitability as drivers of CSR.

2.10 Chapter Summary

Based on the above review of literature, it is clearly seen that tax incentives are an effective incentive towards the promotion of CSR incorporates, and that the government can use these

incentives to change corporate behavior or attitude towards various aspects in the society. The incentives can either be tax credits or tax deductions and they can be used to reduce tax avoidance, increase private funding of projects, increase willingness of companies to engage in CSR and increase investment in under-performing parts of the community.

These variables will however be measured, to determine whether there is a relationship.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter was a guide on how the data for the study would be collected and analyzed with an aim to get accurate and dependable conclusions from the research. It discussed the research design, the population for the study and the sampling technique, data collection methods and the data analysis technique.

3.2 Research Design

A research design, according to Kerlinger (1986), is a plan, structure and strategy of investigation, that one formulates, to obtain answers to research questions or problem. The research design for this study was a descriptive design. A descriptive research design seeks to discover associations or relationships between or among selected variables (Dulock, 1993). This is an appropriate design since it uses both qualitative and quantitative data to investigate the variables of the study, to determine whether the independent variables influence CSR spending in companies.

3.3 Population and Sampling

Population is a well-defined group people, services, elements and events, groups of things, or households that are being investigated (Ngechu, 2004). The target population for this study was the companies listed on the NSE in Kenya, which are around sixty-one companies. The sample, which is a segment of the population, was selected using the Judgmental Sampling Technique, whereby the researcher targeted the group believed to be most reliable for the study. The judgmental sample will include the NSE 20 – share index companies, which are selected based on a weighted market performance.

3.4 Data Collection

The study made use of both primary and secondary data. Primary data was collected using a semi-structured questionnaire, since the respondents were given a chance to give their opinion about an issue (Fowler, 1993). The questionnaire collected information on the factors influencing CSR spending, in particular tax incentives and the profitability of a company. Data was also collected

on the general information about the company and their social responsibility. The secondary data was obtained from the financial statements of the companies in the sample.

3.5 Data Analysis

Data collected in this research was both quantitative and qualitative data, which was analyzed using descriptive statistics, which is a method of organizing data using tables and graphs, in this case bar graphs and tables were used, to present and analyze the data. The data was the summarized using mean and standard deviation.

Regression was used to quantify the relationship between the profitability of a company and CSR spending of that company. The independent variable will be denoted x , and the dependent variable y . The regression analysis model is as shown below;

$$Y = bx + a$$

Where:

Y = CSR spending

X = Profitability of the company

b = The profit coefficient

a = the intercept

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter is organized into various sections. The first section 4.2 discusses the general information collected from the respondents. The second part is the descriptive statistics of the information collected on the first objective which is on the tax incentives available to companies to influence CSR spending, the second objective which is on profitability as a driver of CSR and the third objective which is on the challenges faced by companies willing to spend funds on CSR and lastly regression analysis to test the relationship between profitability and CSR spending.

4.2 General information

The primary data was obtained from twenty questionnaires, that were issued to the NSE 20 – Share index companies. Out of the twenty companies, fourteen questionnaires were returned, which is a response rate of seventy percent (70%). There was no specificity to the respondents' gender or position in the company. There was a range of sectors in which the companies operate, which are, the aviation sector with only one company, which is a percentage of 7.14, electricity distribution (7.14%), insurance (7.14%), consumer goods companies, with two companies (14.29%), print broadcast and digital media (7.14%), telecommunication (7.14%) and banking and financial services with seven companies (50 %).

The range of existence of the companies was between twenty-six years to one hundred and seventeen years, with only four companies being above one hundred years (28.57%) and ten companies being below one hundred years (71.43%). All the fourteen companies had a monthly gross income of above one hundred and sixty million Kenya Shillings and the CSR perspective that the companies conform to is as below. (the companies would choose more than one perspective)

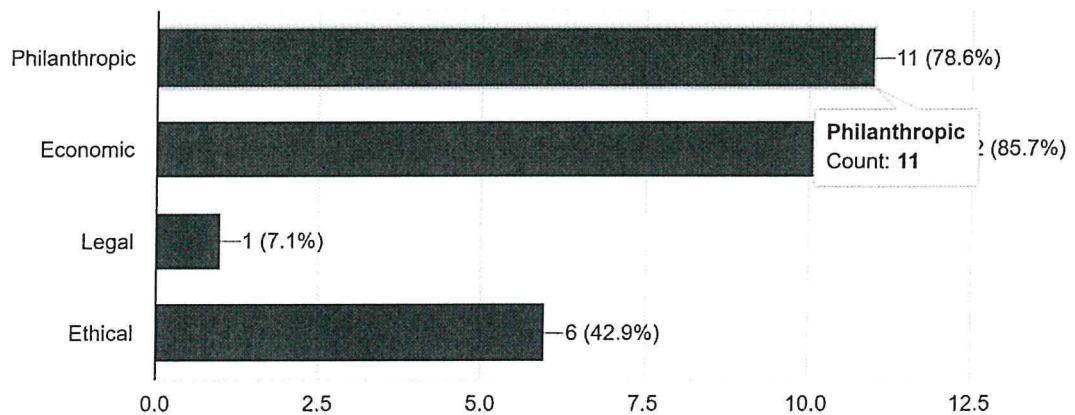


Figure 2: CSR perspectives of the respondents

All companies had been involved in CSR activities for more than ten years (percentage of 100%), with no respondents in the less than a year, 1 – 5 years and 6 – 10 years sections (0%). Information collected on the main drivers of CSR of the respondents is as shown below. Options offered were; ownership of the company, social needs and demographics of the board members and managers, environmental needs, benefits envisioned to be derived from involvement in CSR such company image and brand differentiation, societal pressure, legal requirement, philanthropy, surplus funds, existence of incentives such as tax incentives. (respondents could choose more than one driver)

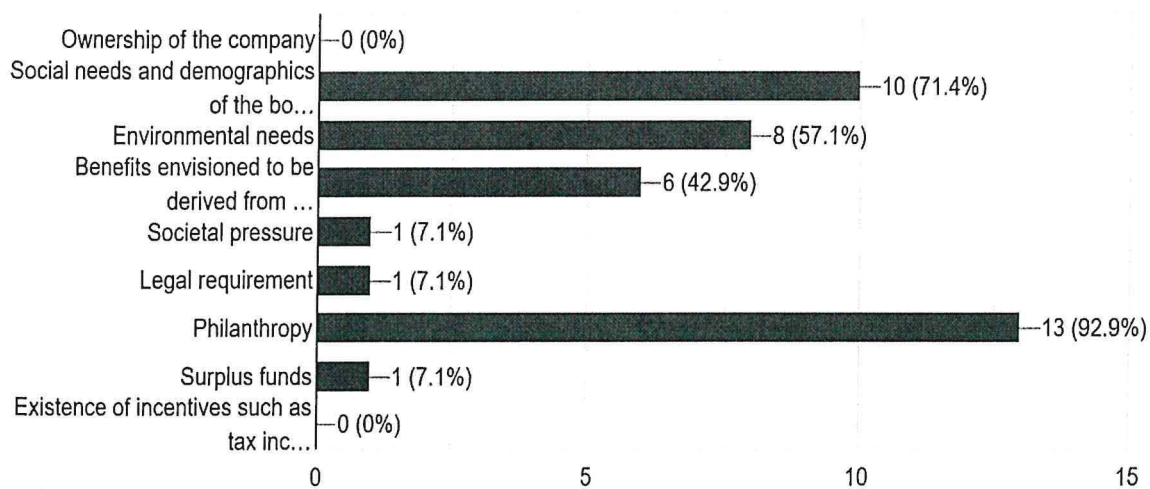


Figure 3: CSR drivers in companies

Other factors that were stated by the respondents as drivers of CSR are; to facilitate access to resources, social development of the communities in which they operate, CSR being a source of business in the long run, affordability of CSR projects, improving the lives of the society through development of talent in sport and art, consumer protection, improvement of renewable resources infrastructure, sound governance. The most frequently stated driver was social needs and/or development of the community, which was stated three times out of ten (30%).

Between incentivizing and regulating CSR, three out of fourteen respondents (21.4%) stated that the most effective way to influence companies to spend in CSR is by regulating it and eleven out of fourteen respondents (78.6%) stated that the more effective way is by incentivizing CSR. For all the companies, respondents stated that CSR is incorporated during the formation of the companies' strategy and all employees are involved in the CSR activities of the company. Twelve out of fourteen respondents (85.71%) stated that their companies had not reduced the amount of funds directed to CSR activities, and two out of fourteen respondents (14.29%), stated that their companies had reduced the amount of funds directed to CSR activities, and stated the reasons as cutting back costs and lack of perceived benefits.

4.3 Descriptive Statistics

4.3.1 Tax incentives as a driver for CSR

A Likert scale rating scale was used to measure the responses of the respondents, with the response options being; strongly agree, agree, neutral, disagree and strongly disagree (5,4,3,2,1 respectively). The aim of this section was to investigate whether existing tax incentives influence companies to spend more funds on CSR activities and whether introduction of more tax incentives would be a driver of CSR in the NSE 20-share index companies. Results of the survey revealed the results below.

35.7 % (response with the highest percentage) of the respondents agreed that tax incentives influence a company's willingness to spend on CSR. 21.4 % strongly agreed, 28.6% were neutral and 14.3% disagreed. On whether the respondents' companies preferred tax credits or tax deductions, most of the respondents had a neutral opinion on those issues, and the neutral response had a percentage of 57.1 %. 14.3 % of the respondents strongly agreed that high taxes are a big hinderance to CSR spending, due to reduced profits. 75 % of the respondents agreed and 7.1 % of

the respondents had a neutral opinion. 71.4 % of the respondents disagreed that payment of taxes was enough CSR, 21.4% had a neutral response while only one respondent agreed (7.1%). Further, analysis on whether existence of more tax incentives in Kenya would influence companies to spend more funds on CSR, revealed that 42.9% of the respondents strongly agreed, 50% agreed, while only 7.1% of the respondents disagreed.

Factor: Tax incentive	Response option	Frequency	Percent	Mean	Standard deviation
Tax incentives influence companies' willingness to spend on CSR	Strongly agree	3	21.4 %	3.6	6.54
	Agree	5	35.7 %		
	Neutral	4	28.6 %		
	Disagree	2	14.3 %		
	Strongly disagree	0	0		

Tax credits are preferred compared to tax deductions	Strongly agree	1	7.1 %	3.21	6.63
	Agree	3	21.4 %		
	Neutral	8	57.1 %		
	Disagree	2	14.3 %		
	Strongly disagree	0	0		
Tax deductions are preferred compared to tax credits	Strongly agree	0	0	2.86	6.49
	Agree	2	14.3 %		
	Neutral	8	57.1 %		
	Disagree	4	28.6 %		
	Strongly disagree	0	0		
High taxes are a big hindrance to CSR spending	Strongly agree	2	14.3 %	3.5	9.39
	Agree	9	75 %		
	Neutral	1	7.1 %		
	Disagree	0	0		
	Strongly disagree	0	0		
Companies view payment of taxes as enough CSR	Strongly agree	0	0	2.36	5.47
	Agree	1	7.1 %		

	Neutral	3	21.4 %		
	Disagree	10	71.4 %		
	Strongly disagree	0	0		
Existence of more tax incentives in Kenya would influence more spending on CSR	Strongly agree	6	42.9 %	4.29	10.11
	Agree	7	50 %		
	Neutral	0	0		
	Disagree	1	7.1 %		
	Strongly disagree	0	0		

Table 1: Tax incentives as a driver of CSR

4.3.2 Profitability as a driver of CSR

A Likert scale rating scale was used, with the response options being; strongly agree - 5, agree – 4, neutral – 3, disagree – 2, strongly disagree – 1, to measure the opinions, observations and beliefs of the respondents. This section collected data on profitability influencing the amount of funds that companies are willing to spend on CSR projects.

57.14.% of the respondents strongly agreed that profitability is a driver of CSR in their companies, 35.71% agreed while only one respondent (7.14%) disagreed. On whether CSR spending in the companies changed with change in profit, 7.14% of the respondents strongly agreed, 4.86% agreed, 21.43% had a neutral opinion, 21.43% disagreed and 7.14% strongly disagreed. Research on whether CSR projects were funded from the companies' reserves or from contributions by employees showed that 57.14% agreed that funding was from the companies reserves, and 71.43% disagreed that funding was from contribution by employees. Lastly, 35.71% of the respondents strongly agreed that when the companies' profits were low, their duty to their shareholders took priority over their duty to the society, 57.14% agreed, while 7.14% were neutral.

Factor: Profitability	Response option	Frequency	Percent	Mean	Standard deviation
Profitability is a main driver of CSR in the respondents' company	Strongly agree	8	57.14%	4.43	11.39
	Agree	5	35.71%		
	Neutral	0	0		
	Disagree	1	7.14%		
	Strongly disagree	0	0		

CSR spending in the companies changes with change in profit	Strongly agree	1	7.14 %	3.21	6.41
	Agree	6	42.86 %		
	Neutral	3	21.43 %		
	Disagree	3	21.43 %		
	Strongly disagree	1	7.14 %		
CSR spending is from the companies' reserves	Strongly agree	0	0	2.79	6.46
	Agree	8	57.14%		
	Neutral	3	21.43 %		
	Disagree	3	21.43 %		
	Strongly disagree	0	0		
CSR spending in the companies is from contributions by employees	Strongly agree	0	0	2.5	5.77
	Agree	3	21.43 %		
	Neutral	1	7.14 %		
	Disagree	10	71.43%		
	Strongly disagree	0	0		
In years when profits are low, the companies' duty to their shareholders takes priority over the companies' duty to the society	Strongly agree	5	35.71%	4.29	10
	Agree	8	57.14%		
	Neutral	1	7.14 %		
	Disagree	0	0		
	Strongly disagree	0	0		

Table 2: Profitability as a driver of CSR

4.3.3 Challenges facing companies willing to spend funds on CSR

A Likert scale rating scale was used, with the response options being; strongly agree - 5, agree - 4, neutral - 3, disagree - 2, strongly disagree - 1. This section collected data on the challenges faced by companies willing to spend their funds on CSR projects. On the challenge of creating a balance between shareholders' expectations and those of the society, 42.86 % strongly agreed to this being a challenge and 57.14% agreed to this being a challenge. On the value system of the managers and owners of companies being a challenge, 50 % strongly agreed, while 50% agreed. 21.43 % strongly agreed that inadequacy of financial resources is a challenge. 57.14% agreed and 14.3 % of the respondents had a neutral response. 57.14% agreed that political instability is a

challenge, 28.6 % were neutral and 14.3% of the respondents disagreed on political instability being a challenge facing companies willing to spend their funds on CSR.

Factor: Challenges facing companies	Response option	Frequency	Percent	Mean	Standard deviation
Creating a balance between the expectations of the shareholders and those of the society is a challenge	Strongly agree	6	42.86 %	4.43	10.85
	Agree	8	57.14%		
	Neutral	0	0		
	Disagree	0	0		
	Strongly disagree	0	0		
CSR spending is mainly influenced by the value system of the managers and owners	Strongly agree	7	50 %	4.5	9.9
	Agree	7	50 %		
	Neutral	0	0		
	Disagree	0	0		
	Strongly disagree	0	0		
Inadequacy of financial resources	Strongly agree	3	21.43 %	3.86	8.77
	Agree	8	57.14%		
	Neutral	2	14.3 %		
	Disagree	0	0		
	Strongly disagree	1	7.14 %		
Political instability as a challenge, since the government does not have the chance to focus on incentivizing CSR	Strongly agree	0	0	3.43	8.53
	Agree	8	57.14%		
	Neutral	4	28.6 %		
	Disagree	2	14.3 %		
	Strongly disagree	0	0		

Table 3:Challenges affecting companies willing to spend funds on CSR

4.4 Regression analysis

Regression analysis was also conducted, to test the relationship between profitability and CSR spending, with profitability as the independent variable and CSR spending as the dependent variable.

SUMMARY OUTPUT	
<i>Regression Statistics</i>	
Multiple R	0.997840112
R Square	0.99568489
Adjusted R Square	0.995145501
Standard Error	67535096.21
Observations	10

The multiple of R of 0.99 indicated a strong positive relationship between the two variables, since it is close to 1. The R-Square of 0.99 showed that 99% of the values analyzed fit the regression analysis model. The standard error was however very high and showed that the data points fell far from the regression line.

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	8.41936E+18	8.41936E+18	1845.950221	9.49679E-11
Residual	8	3.64879E+16	4.56099E+15		
Total	9	8.45585E+18			

The equation that was derived from the coefficients was as shown below;

$$Y = 8.523x + (-78530717.17)$$

Where;

Y = CSR spending

X = Profitability of the company

8.523 = The profit coefficient

78530717.17 = the intercept

Using the equation, the differences observed between the actual and estimated value of CSR spending were because the independent variables are never perfect predictors of the dependent variables.

4.5 Chapter conclusion

In this chapter, the researcher was able to present, interpret and analyze the data that was collected, in order to address the research objectives. She established that tax incentives are a driver of CSR

spending. She established that CSR spending depends on a company's profits, and that there is a strong positive relationship between profitability and CSR spending. She also determined that the identified challenges, posed as actual challenges to companies willing to spend on CSR.

CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter will include a summary of the conclusions of the study, with attention to each specific objective, the recommendations that the researcher offers, the limitations of the study and the areas of further study of this research.

5.2 Tax incentives available to companies to influence CSR spending

With reference to the first objective, the research was aimed at investigating whether tax incentives have an impact on a company's willingness to spend funds on CSR. Based on the findings and the analysis conducted, this study established that tax incentives influence a company's willingness to spend their funds on CSR projects. However, the research couldn't determine whether companies prefer tax credits or tax deductions. It was also established that most companies found high taxes a hinderance to CSR spending, due to reduced profits, and companies did not regard payment of taxes as enough CSR, which could either be under the legal or economic perspective of CSR. Companies conformed to the social and philanthropic perspectives of CSR.

The research also established that an existence of more tax incentives in Kenya would influence more CSR spending. This was also in line with another factor that the research investigated, on the more effective way of influencing CSR spending. The research revealed that companies would more likely spend their funds on CSR if it was incentivized, rather than having CSR as a legal requirement. Sullivan (2006) however stated that tax incentives only help the economy if the economic benefits of the tax incentives, outweigh their economic costs. This may therefore explain why governments fail to introduce more tax incentives to influence CSR spending, because the tax incentives don't seem, to have an economic benefit.

5.2 Profitability as a driver of CSR

The findings of the research established that profitability is a driver of CSR in companies, with most funding coming from the reserves of the companies, rather than contribution from the employees. Some companies were however found to have initiatives, where not only the companies funded the CSR project, but also the employees contributed financially. For example, Barclays Bank, which had an initiative called Shilling for Shilling Initiative, where employees co-sponsored the CSR projects together with the bank.

The research also established that CSR spending of companies changes with change in profits. There was however a substantive number of respondents that did not agree, and this could be attributed to companies who had external sponsors to fund their CSR projects, and CSR did not therefore affect their profits, especially CSR activities involving philanthropic acts such as donations or community development, in comparison to ethical acts such as fair employee remuneration.

The conflict of interest of shareholders of a company, and that of the society was also determined by this research. It was found that in years when profits were low, the company's duty to its shareholders took precedence over the duty of the company to the society. This was in line with a research by Barnea and Rubin (2010) which better explained the conflict. It stated that, CSR spending may be in line with the firm's value maximization if it is a response to change in the preferences of the company's stakeholders. However, the managers of the company may have over-invested in CSR, to improve their reputations as global citizens. Conflict therefore arose since the managers did not bear the cost of this act but was rather borne by the shareholders.

5.3 Challenges faced by companies willing to spend funds on CSR projects

Based on the findings of the research, creating a balance between the expectations of the shareholders and those of the society was determined to be a challenge as explained in the preceding paragraph. The value system of the managers and owners of the companies was also determined to be a challenge, since they are the developers of the strategy of a company. This is in line with the research by Turker (2018) who divided the drivers of CSR into three categories, one of them being the individual level, which touched on CSR being influenced by the demographics, social needs and value system of the top-level managers.

Inadequacy of financial resources was also determined to be a challenge facing companies willing to spend funds on CSR, this was complemented by the findings that most companies fund their CSR projects from their reserves. Political instability was however not backed by enough evidence as a challenge. The challenge can however be the absence of perceived economic value of the tax incentives, as earlier explained.

5.4 Recommendations

Based on the findings of the research, the government should investigate the economic value of CSR incentives, not only tax incentives, since the research has established that companies would

more likely spend funds on CSR projects if CSR was incentivized, rather than regulated. This will lead to introduction of more CSR incentives in future.

Research should also be done on measures which companies can take, to manage the expectations of the shareholders and those of the society, to create a balance. Companies should also find alternative ways of being socially responsible, that are not financial, such that even profits are low, the companies still fulfil their duties to the society. In addition, companies should disclose the exact amounts of funds spent on CSR, in their financial statements.

5.5 Limitations of the study

The researcher encountered various challenges within the course of the research, one of them being the complexity of the data collection process in some of the NSE – 20 share index companies, who were not willing to share information about the company, despite the presence of official documentation. Most respondents were also not willing to answer the open-ended questions, which could be due to the busy nature of their occupations. This however affected the accuracy of the information collected.

5.6 Areas of further study

Further research should be conducted on the monetary value of the existing tax incentives, to find conclusive evidence that tax incentives benefit the companies taking advantage of them and to enable researchers determine the relationship between the tax incentives and CSR, using reliability tests. Studies should also be conducted on which tax incentives companies prefer, between tax credits and tax deductions, since that was not established by this research.

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QUESTIONNAIRE

The purpose of this study is to examine the factors influencing Corporate Social Responsibility (CSR) spending in Kenya. This questionnaire asks about your company's CSR practices and your beliefs based on observations you have made. It will be a combination of both close and open-ended questions. Your responses will be anonymous and will not be linked to you personally. Your participation is entirely voluntary and will be much appreciated.

PART I: GENERAL INFORMATION

1. Name of the organization

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2. In which sector does your company operate?

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3. For how long has your company been in existence?

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4. What is the organization's monthly gross income?

- Below Ksh 10,000,000
- Ksh 10,000,000 – Ksh 60,000,000
- Ksh 60,000,000 – Ksh 110,000,000
- Ksh 110,000,000 – Ksh 160,000,000
- Over Ksh 160,000,000

5. What perspective of CSR does your company mainly conform to?

- Philanthropic
- Economic
- Legal
- Ethical

PART II: CSR SPENDING OF A COMPANY

6. For how long has your company been involved in CSR projects?

- Less than a year
- 1 – 5 years
- 6 – 10 years

- Over 10 years

7. What is the main driver of CSR in your company?

(can tick more than one but indicate priority using numbers)

- Ownership of the company
- Social needs and demographics of the board members and managers
- Environmental needs
- Benefits envisioned to be derived from involvement in CSR such as company image and brand differentiation.
- Societal pressure
- Legal requirement
- Philanthropy
- Surplus funds
- Existence of incentives such as tax incentives

8. What other factors do you think would influence a company to spend its funds on CSR activities?

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9. Which is the more effective way to influence companies to engage in CSR?

- By incentivizing CSR
- By having legal requirements.

10. Is CSR incorporated during the formulation of your company's strategy by the board?

- Yes
- No

11. Are employees in your company involved in CSR?

- Yes
- No

12. Has your organization reduced the amount of funds directed to CSR activities over the years?

- Yes
- No

13. If yes, what caused the reduction?

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PART III: TAX INCENTIVES AS A DRIVER FOR CSR

Please tick the most appropriate answers that best describe the company’s reasons for spending funds on CSR.

Please answer all the questions.

Tax incentives as a driver for CSR	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Tax incentives influence my company’s willingness to spend on CSR					
Tax credits are preferred compared to tax deductions					
Tax deductions are preferred compared to tax credits					
High taxes are a big hinderance to spending on CSR due to reduced profits.					
My company views payment of taxes as enough CSR.					
Existence of more tax incentives in Kenya would influence more spending on CSR.					

Based on your company’s CSR projects, how best do think a tax incentive would benefit the company if there isn’t one already?

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PART IV: PROFITABILITY AS A DRIVER FOR CSR

Profitability as a driver of CSR	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Profitability is a main driver of CSR spending in my company.					
CSR spending in my company changes with changes in profits.					
CSR spending in my company is from the company's reserves.					
CSR spending in my company is from contributions by employees.					
In years when profits are low, our duty to our shareholders is priority compared to our duty to the society.					

How else do you think profitability may affect a company's ability and willingness to undertake CSR projects?

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PART V: CHALLENGES FACED BY COMPANIES WILLING TO SPEND ON CSR PROJECTS

Challenges faced by companies willing to spend on CSR	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Creating a balance between expectations of shareholders and those of the society is a challenge.					
CSR spending is mainly influenced by the value system of the owners or managers.					
Inadequacy of financial resources is one the main challenges for companies who wish to spend funds on CSR projects.					
Political instability is a challenge since the government does not have the chance to focus on incentivizing CSR.					

What other factors do you think may pose a challenge to your company and/or other companies willing to undertake CSR projects?

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