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Effect of Investors and Local Communities Corporate Social Responsibility Programmes on Performance of Style Industries Limited in Nairobi

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Abstract

Corporate Social Responsibility (CSR) is about how a business entity gives back to its stakeholders in a sustainable and acceptable manner. It is therefore imperative that businesses run their operations within the precepts of the law of the land in which they operate and other regulations prescribed by authorities like business associations and government agencies. However, Darling Kenya limited have not fully implemented the CSR operations. There is need to quantify the exact benefits that accrue from every CSR activity in order to justify the performance of style industries limited in Nairobi, Kenya. The study focused on the effect of investors and local communities corporate social responsibility on the performance of style industries limited in Nairobi, Kenya. The target population for the study was 540 employees of the style industries in all the four areas of Mwingi, Rongo, Muranga and Nairobi. The sample size selected was 162 employees. Questionnaires were used to collect data that was analyzed using descriptive and inferential statistics. A multiple linear regression analysis model was used to test the relationship between the investors and local communities CSR Programmes and performance. The study found that Investors CSR and Local Communities CSR had a significant and positive relationship with Performance of manufacturing companies in Nairobi. The study recommended that industries should cultivate investors and local communities CSR for performance improvement.

Keywords: *Investors, Local communities, Corporate Social Responsibility, Performance and Style Industries Limited*

1.0 Introduction

1.1 Background of the Study

Businesses worldwide are faced with the challenge of responding to the needs of their external environment in a manner that adds value to their operations. It is imperative that businesses run their operations within the precepts of the law of the land in which they operate and other regulations prescribed by authorities like business associations and government agencies (Baker, 2011). The organization is also expected to treat their employees with dignity and within the existing labour laws. The customers expect organizations to produce quality goods and services while the shareholders expect a return on their investment. The communities' expectations conflict with the shareholders demands because in most cases community investments do not guarantee returns to the organizations. Nonetheless, organizations cannot afford to ignore the communities partly due to government regulations and also due to the long term benefits that accrue from such investments (Baker, 2011).

Style Industries Limited (SIL), the leading manufacturers of darling highest quality hair additions and cosmetics for everyday woman in African origin has embarked on a project of empowering disadvantaged girls in Kenya. This is through management and its research and development department (R&D) in safeguarding and implementing community development programmes in different parts of the country which so far included four sponsored training centres; Muranga training centre, Mwingi training centre, Rongo training centre and Nairobi training center at Likoni branch in industrial area.

Correspondingly, Darling is the leading brand in the hair industry manufactured by Style Industries Limited in fourteen African countries which its clientele consist of young girls and women of various age groups. It is a company that prides in the production of the highest quality hair additions, designed to satisfy the desire, taste and aspirations for beauty in every woman (Holme & Watts, 2000). The company has been recognized worldwide in creativity and innovations with its outstanding fashions and designs whose vision and mission is to be a constant world leader in the manufacturing of highest quality hair additions, with great care being put into the look that meet the needs and style of the everyday woman of African origin; while providing an existing, competitive, safe and friendly environment for its employees (Holme, & Watts, 2000). Despite the company participating in CSR activities with the aim of improving the social and living standards, the participation rate is still very low.

1.2 Statement of the Problem

Style Industries have not fully implemented the CSR operations. The CSR policies are not clearly defined and consistently aligned to the prevailing market conditions. CSR programs focus mostly on reputation and have only limited connection to the business, making them hard to justify and maintain over the long run. Therefore, at Darling Kenya, there is need to quantify the exact benefits that accrue from every CSR activity in order to justify the performance. It is also increasingly becoming imperative for Darling Kenya Limited to align every CSR activities to its strategic intent so that the CSR resources can contribute to the attainment of the company's objectives (Gustavson, 2008). The benefits that accrue from CSR programs are usually expected to be in line with the overall purpose of existence of the firm that is expressed in a plan of action for allocating resources effectively.

Several studies have been conducted to establish the link between CSR and strategy of organizations. Muriuki (2008) conducted a study on the CSR link to strategy among mobile telephone service providers. Ominde (2006) studied the link between CSR and Corporate Strategy among listed companies on the Nairobi Stock Exchange. These empirical studies have demonstrated that no study has so far focused on Darling Kenya; therefore this study was conducted so as to bridge the gap.

1.3 Specific Objectives

- i. To establish the effect of investors CSR programmes on performance of Style Industries limited in Nairobi.
- ii. To examine the effect of local communities CSR programmes on performance of Style Industries Limited in Nairobi.

1.4 Research Hypothesis

- i. H₀₁: There is no significant relationship between investors CSR programmes and performance of Style Industries Limited in Nairobi.
- ii. H₀₂: There is no significant relationship between local communities CSR programmes and performance of Style Industries Limited in Nairobi.

2.0 Literature Review

2.1 Theoretical Review

The theories that informed the study include social contracts theory and stakeholder theory.

2.1.1 Social Contracts Theory

According to the social contracts theory, businesses must not just act in a responsible manner because it is in their commercial interest, but because it is how society expects the business to behave. Society is a series of social contracts between members of society and society itself. (Gray, 1996). Managers are therefore expected to take decisions in an ethical manner. In 1999 Donaldson and Dunfee developed an integrated social contracts theory as a way for managers to use their discretion to make decisions but to ensure the effects of their decisions do not have negative effects on others. The community therefore expects the business to provide some support to the community under given circumstances. The contract is not written as contracts are generally known, but it is a 'silent' agreement. The business only gets to feel the consequences when they fail to do what is expected. It is a societal expectation. This theory can be linked to gaining and maintaining legitimacy as explained by Suchman (1995) in the legitimacy theory.

2.1.2 Stakeholder Theory

The traditional definition of a stakeholder is "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984). Friedman (2006) states that the organization itself should be thought of as a grouping of stakeholders and the purpose of the organization should be to manage the interests, needs and viewpoints of stakeholders. This stakeholder management is thought to be fulfilled by the managers of a firm. The managers should on the one hand manage the corporation for the benefit of its stakeholders in order to ensure their

rights and the participation in decision making. Stakeholders include Customers, employees, local communities, suppliers, distributors and shareholders.

Management should ensure they balance the multiple claims of conflicting stakeholders (Freeman, 1997). The value of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services (Clarkson, 1995). Stakeholder theory is based on two ethical principles, Principle of corporate rights and the principle of corporate effects". The principle of corporate rights means that the corporation and its managers may not violate the legitimate rights of others to determine their future. Principal of corporate effects on the other hand is about responsibility for consequences. Corporations and its managers are responsible for the effects of their actions on others. Therefore stakeholder theory supports the need for corporate social responsibility by corporations.

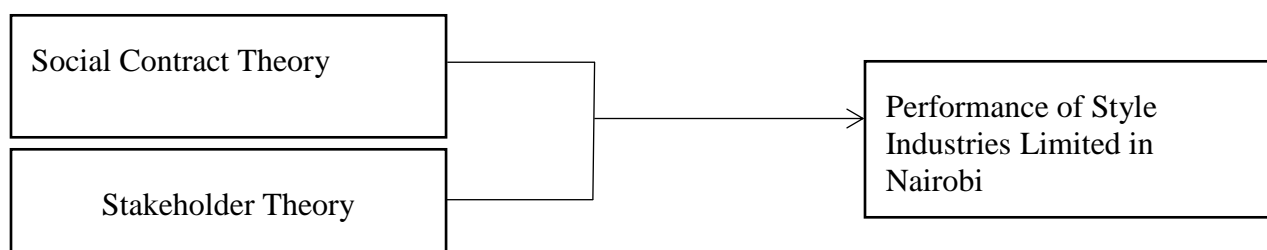


Figure 1: Theoretical Framework

2.2 Empirical Review

Obusubiri (2006) in a study on CSR and portfolio performance found out that there was a relationship between CSR and portfolio performance. He found that companies that were ranked high in CSR performed better than their counter parts that ranked low. Possibly it could be because of the good image that comes with being known for the good things that a company does which makes investors prefer them because of the good reputation. Good CSR behavior has a reputational benefit for the practicing firm.

A study by Gathungu and Ratemo (2013) revealed that disclosure of the CSR activities by organizations was used as a measurement tool of performance in the sense that the investment in CSR activities was an indication of the level of resources available and more especially the value that the organization had ascribed to the beneficiaries of the programs. Though CSR was considered part of the operations of an organization, its impact on the organization's financial performance was slightly different from that of other functions such as production, finance, selling and distribution. Therefore, if it would not be possible to establish a clear relationship between CSR and corporate performance, the social and environmental responsibility of the organization was likely to remain at the level of empty mission statements and isolated add-on activities which in turn would affect the performance of the organization. The study revealed that CSR practices were aligned with the strategic intent and that generally the CSR programs met the expectations of employees, investors and local communities.

Okoth (2012) found out that CSR was good for the financial performance of large and medium size banks and had no effect on the Return on Assets (ROA) of small banks. The researcher realized that CSR had a positive and significant effect on ROA and Return on Equity

(ROE) for all commercial banks when aggregated. However, when classified on the basis of market size, the study revealed that CSR improved financial performance of large and medium size banks while the effect on ROA of small banks was insignificant. This study concluded that CSR had a positive effect on financial performance of large and medium size banks and no significant effect on the financial performance of small banks. The researcher concluded that it was not in the interest of shareholders for small banks to engage in CSR activities as doing so could only drain their wealth without any return.

Porter (2011) observes that businesses recognize the imperative for the private sector to ensure long-term markets for their services and products hence presents the business community the right vehicle for promoting its commercial interests, while at the same time giving back to the community. He confirms that CSR is a rapidly growing field, and corporations, organizations, stakeholders, and advocates are engaging in CSR activities in increasing numbers. He concludes that there is tremendous variety and innovation in CSR activities, and new approaches and alliances are continually evolving but each CSR adherent's approach is guided by its own mission, vision, or position in the marketplace hence the general consensus is that CSR adds strategic business value and enables companies to integrate with society and maintain their integrity while pursuing profits.

Nadezhda (2007) holds that many companies do not yet make a clear distinction between giving, sponsorship and socially-responsible activities. He cites the most widespread forms of socially-responsible activities to include the direct provision of funds and support targeting health, qualification and other social needs of staff, non-financial support in the form of free products or services and investment in energy efficiency and environmental protection. The three approaches to CSR that emanate from these activities include caring for company staff and their families, social activities benefiting the local community and activities with a long term social impact, such as social investment.

Ongolo (2012) investigated the relationship between CSR and market share of supermarkets in Kisumu City for the period 2006 to 2010. He sought to determine the factors that motivated the practice of CSR amongst supermarkets in Kisumu City. The findings revealed that there was a strong relationship between CSR and market share. Institutions that had invested more on CSR had high sales revenue. The researcher also realized that there was a positive correlation coefficient between market share index and CSR. Larger supermarkets preferred education, water and sanitation while the other supermarkets preferred to support to the less fortunate in society as their CSR activities.

2.3 Conceptual Framework

The study focused on the relationship of investors, local community CSR programmes on performance of Style Industries Limited in Nairobi. Each of the variable had corresponding indicators that could be basis for measurement. This was represented on figure 2.

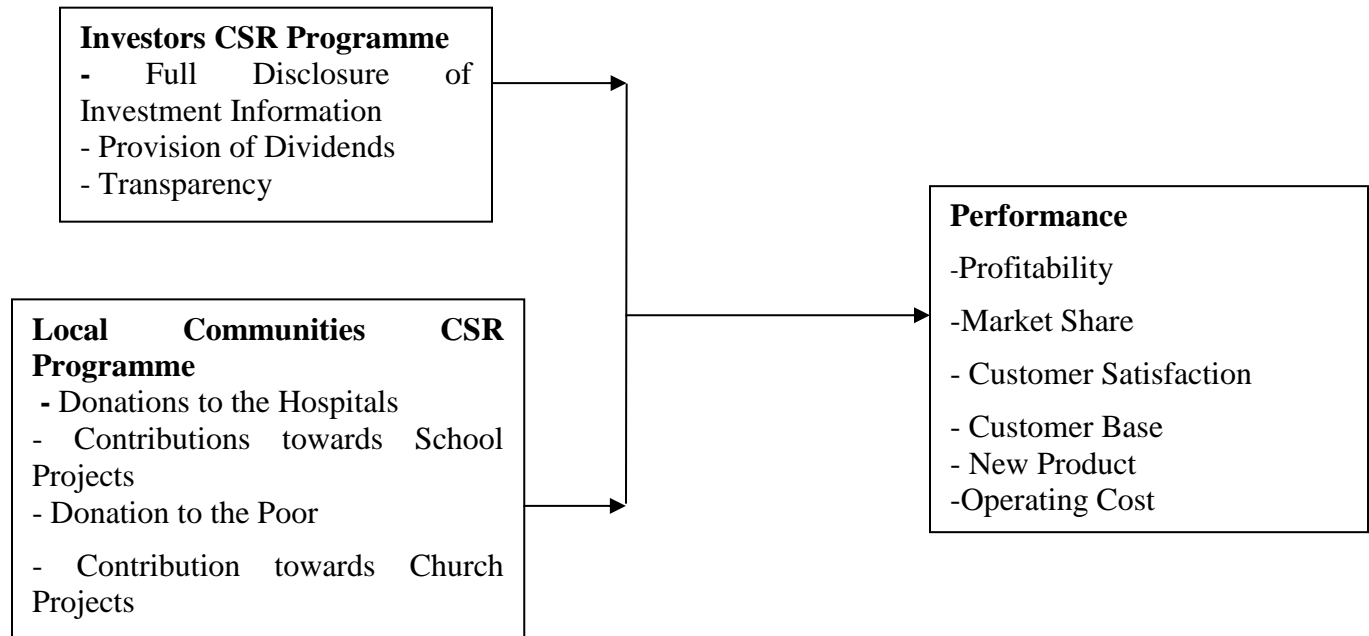


Figure 2: Conceptual Framework

3.0 Research Methodology

The study employed a descriptive and causal research design. The study target population were 540 employees of the style industries in all the four areas of Mwingi, Rongo, Muranga and Nairobi. The sample size selected was 162 employees. Data was collected through the administration of the questionnaires and analyzed using descriptive and inferential statistics. A multiple regression model was used to test the significance of the influence of the investors and local communities CSR programmes on the performance. The multiple regression model was presented as below.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + e$$

Where:

Y = Performance

X₁ = Investors CSR Programme

X₂ = Local Communities CSR Programme

β_0 represents the constant

e error term

4.0 Results and Findings

4.1 Response Rate

A total of 162 employees were issued with the questionnaires, however 135 questionnaires were returned and ascertained as complete. The result of the analysis of the respondents was presented

on Table 1. This represented an overall successful response rate of 83.34%. According to Mugenda and Mugenda (2003) a response rate of above 50% is adequate for a descriptive study. Based on the assertions, 83.34% response rate was considered very good for the study conclusion.

Table 1: Response Rate

Response	Frequency	Percent
Returned	135	83.34%
Unreturned	27	16.66%
Total	162	100.00%

4.2 Descriptive Statistics

4.2.1 Investors CSR

In this study, Investors CSR was measured by five questions focusing on voluntary disclosure of information, rewards for best practice, information provision on investment opportunities available and transparency and accountability to investors. The respondents were asked to give their opinion regarding investors CSR. The analysis on state of investors CSR was presented on Table 2.

Table 2: Investors CSR

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
The company does a voluntary disclosure of information to the investors, and this has led to the profitability of the company.	6.7%	17.8%	4.4%	31.1%	40.0%	3.8	1.3
The company encourages and rewards best practice in investor communications, both online and print, and this has led to the profitability of the company	11.1%	11.1%	8.9%	22.2%	46.7%	3.8	1.4
The firm has a board committee who are charged with a mandate of ensuring that investors are offered full and correct information on investment opportunities available within the firm	6.7%	4.4%	15.6%	35.6%	37.8%	3.9	1.1
The firm has a department which is charged with a responsibility of advising investors who are interested in investing in the firm	6.7%	8.9%	17.8%	24.4%	42.2%	3.9	1.2
The board emphasize on transparency and accountability investors' practices	11.1%	4.4%	8.9%	33.3%	42.2%	3.9	1.3
Average						3.9	1.3

Results on Table 2 revealed that 71.1 % agreed that their company does a voluntary disclosure of information to the investors, and that had led to the profitability of the company with the resource facilitation by the management within the county government, 68.8% agreed that their company encouraged and rewarded best practice in investor communications, 73.4% agreed that their firm

had a board committee who were charged with a mandate of ensuring that investors were offered full and correct information on investment opportunities available within the firm, 66.6% of the respondents agreed that their firm had a department which was charged with a responsibility of advising investors who were interested in investing in the firm, while 75.2% of the respondents agreed that their board emphasized on transparency and accountability investors' practices. On a five-point scale, the average mean of the responses was 3.9 which meant that majority of the respondents agreed with most of the statements; however, the answers were varied as shown by a standard deviation of 1.3.

4.2.2 Community CSR

Community CSR was measured by five questions focusing on community, church, health centers, schools and market baggers contribution/donating. The respondents were asked to give their opinion regarding community CSR. The analysis on community CSR was presented on Table 3.

Table 3: Community CSR

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev.
Our firm commits to making a contribution/donating a percentage of revenues to the community based on product sales	4.4%	4.4%	11.1%	33.3%	46.7%	4.13	1.07
Our company donates a certain amount of revenue to churches	4.4%	8.9%	17.8%	42.2%	26.7%	3.78	1.08
Our company donates a certain amount of revenue to community health centre	4.4%	11.1%	17.8%	26.7%	40.0%	3.87	1.19
Our company donates a certain amount of revenue to schools within the community	8.9%	11.1%	13.3%	31.1%	35.6%	3.73	1.29
Our company engages the beggars to market their services and in return pays them.	0.0%	0.0%	15.6%	44.4%	40.0%	4.24	0.71
Average						3.95	1.07

From the results on Table 3, 80.0 % agreed that their firm contributed a percentage revenue to the community based on product sales, 68.9% agreed that their firm donated to churches, 66.7% of the respondents agreed that their firm donated part of their revenue to health centers, 66.7% of the respondents agreed that their firm made donations to schools, while 84.4% of the respondents agreed that their company engaged the beggars to market their services and in return pays them. On a five-point scale, the average mean of the responses was 3.95 which meant that majority of the respondents agreed with most of the statements; however the answers were varied as shown by a standard deviation of 1.07.

4.3 Correlation Analysis

The study established the association between investors CSR, local communities CSRR and performance on style industries. Results were presented on table 4.

Table 4: Correlation Matrix

		Performanc e	Investor CSR	Community CSR
Performance	Pearson			
	Correlation	1.000		
Investor CSR	Pearson			
	Correlation	.279**	1.000	
Local Communities CSR	Sig. (2-tailed)	0.001		
	Pearson			
	Correlation	.390**	0.07	1.000
	Sig. (2-tailed)	0.000	0.419	

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

Results indicated that Investors CSR programmes were positively and significantly related with Performance of style industries as supported by ($r=0.279$, $p=0.001$). Similarly, results showed that Community CSR programmes and Performance of style industries were positively and significantly related ($r=0.390$, $p=0.000$).

4.4 Hypothesis Testing

Regression analysis were performed on the study variables; investors CSR and local communities CSR. Results were then presented in Tables 5, 6 and 7. Table 5 presents the fitness of model used in the regression model in explaining the study phenomena. Investors CSR and local communities CSR were found to be satisfactory variables in explaining the performance of style industries. This was supported by coefficient of determination or the R square of 34.8%. This means that investors CSR and local communities' programmes explain 34.8% of the variations in the target variable which was performance of style industries. This results further meant that the model applied to link the relationship of the variables was satisfactory.

Table 5: Model Fitness for the Regression

Indicator	Coefficient
R	0.590
R Square	0.348
Adjusted R Square	0.328
Std. Error of the Estimate	0.405

Table 6 provided the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Additionally, the results imply that the investors CSR and local communities' programmes were good predictors of performance. This was supported by an F statistic of 17.342 and the reported $p < 0.05$ which was less than the conventional probability of 0.05 significance level.

Table 6: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	11.420	4	2.855	17.372	.000
Residual	21.364	130	.164		
Total	32.784	134			

Regression of coefficients results in Table 7 shows that investors CSR and performance of style industries were positively and significantly related ($r=0.168$, $p<0.000$). The hypothesis was tested by using the ordinary least square regression. The acceptance/rejection criterion was that, if the p value is less than 0.05, the H_1 is not rejected but if it's greater than 0.05, the H_1 fails to be accepted. Results in Table 7 above show that the p-value was $0.000<0.05$. This indicated that the alternative hypothesis was not rejected hence there is a significant relationship between Investor CSR and the Performance of Style Industries. This finding was consistent with that of Obusubiri (2006) in a study on CSR and portfolio performance found out that there was a relationship between CSR and portfolio performance. He found that companies that were ranked high in CSR performed better than their counter parts that ranked low. Possibly it could be because of the good image that comes with being known for the good things that a company does which makes investors prefer them because of the good reputation. Good CSR behavior has a reputational benefit for the practicing firm.

Similarly, results showed that Community CSR and performance of style industries were positively and significantly related ($r=0.201$, $p<0.05$). The hypothesis was tested by using the ordinary least square regression. The acceptance/rejection criterion was that, if the p value is less than 0.05, the H_1 is not rejected but if it's greater than 0.05, the H_1 fails to be accepted. Results in Table 7 show that the p-value was $0.000<0.05$. This indicated that the alternative hypothesis was not rejected hence there is a significant relationship between Investor CSR and the Performance of Style Industries. Anlesinya (2014) holds that many companies do not yet make a clear distinction between giving, sponsorship and socially-responsible activities. He cites the most widespread forms of socially-responsible activities to include the direct provision of funds and support targeting health, qualification and other social needs of staff, non-financial support in the form of free products or services and investment in energy efficiency and environmental protection. The three approaches to CSR that emanate from these activities include caring for company staff and their families, social activities benefiting the local community and activities with a long term social impact, such as social investment.

Table 7: Regression of Coefficients

Variable	B	Std. Error	Beta	t	Sig
(Constant)	1.051	.382		2.754	.007
Investor CSR	.168	.044	.274	3.854	.000
Local Communities CSR	.201	.041	.349	4.908	.000

Thus the optimal model of the study is;

$$Y = 1.051 + 0.168X_1 + 0.201X_2$$

Where

X₂= Local Communities CSR Programme

Y= Performance of Style Industries

X₁= Investor CSR Programme

5.0 Conclusion

The study concluded that Investors CSR support and commitment played a crucial role in any performance of style industries. It had great power to influence investment behavior within the organizations. Through long term strategic vision, Investors CSR can encourage the investors to learn and participate in Industries potential investments. The study also concluded that local Communities CSR had a positive and significant effect on the performance of style industries. The social and environmental responsibility of the organization is to remain at the level of mission statements and add-on activities which in turn would positively affect the performance of the organization.

6.0 Recommendations

The study recommended that the industries should encourage and support investors CSR in all their undertakings. Investors play an important role in provision of funding support to the organization and any motivational CSR towards them will improve the style industries performance. The study also recommended for the development of favorable Local Communities CSR. Industries should strive to ensure that the surrounding locals are fully compensated for their presence around the industries. Social empowerment will be key factor for the locals as it will improve the firms' performance in the long run.

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