EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON ORGANIZATIONAL PERFORMANCE: A CASE OF SONY AND CHEMELIL SUGAR FACTORIES, KENYA

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Abstract

The purpose of this study was to investigate the effect of corporate social responsibility on organizational performance. Four specific objectives formed the basis of the study; to establish the effects of philanthropic, ethical, economic and legal activities on organization performance. The study adopted descriptive statistics. Further multiple regression analysis was conducted. The findings of the study revealed that; effects of economic activities on organizational performance established the fundamental condition or requirement of existence, businesses have an economic responsibility to the society that permitted them to be created and sustained; effects of legal activities revealed that it has constructive effects on organizational performance because there is established minimal ground rules under which businesses are expected to operate and function; effects of ethical activities on organization performance strongly agreed that it has positive effects on organization performance in that the present context the subject of organizational ethics has assumed a particular importance simply because corporations establish a dependent relationship with the society where they belong to, their image toward their stakeholders can be seen as an imperative matter; effects of philanthropic activities on organizational performance do support that it has a role on organization performance as it was established that the very important role in stimulating philanthropy by business sector is by establishing stimulating tax measures, which encourage the business sector to invest more funds in general beneficial purpose through donations and sponsorships. The study concludes that CSR activities in firms cannot operate in isolation from other elements of the business. It is important that all the functional area strategies and capabilities, including full support from management in order to be consistent with the business unit goals and strategies, firms to be competitive, companies have to strive to achieve greater coordination and collaboration of corporate social responsibility approaches required in its management.

Keywords: Corporate social responsibility, Organizational performance, Philanthropic activities, Ethical activities, Economic activities, Legal activities

Introduction

Corporate Social Responsibility is when organizations or institutions undertake activities that will both benefit the society in which it operates and thus making profits also as an organization. (Khanifar, Nazari,
CSR operates under four responsibility levels; which are the economic, legal, ethical and philanthropic which must all be accomplished in order of priority. Economic responsibilities by being profitable, creating good and safe working conditions and providing quality products; Legal responsibilities by complying with laws and regulations; Ethical responsibilities by doing what is right beyond the requirement of law by conducting their businesses in just, accountable and transparent manner and philanthropic responsibilities by voluntarily supporting the society by contributing resources to better their well-being.

According to Wood et.al, (2006). CSR responsibilities were done by corporation by own choice and not by any regulations imposed from political authorities. They acted through self interest in engaging in this activities as they were considered a separate part of societies which had to act within the legal framework.

Demand from government and customers to organizations on ethical behaviour lead also to engagement in CSR activities. Therefore organizations have tried to incorporate CSR as part of their business strategies and mandate. (Kashyap et al., 2006).

Companies with sound CSR activities developed good corporate image and increased loyalty from the customers and employees. Research has shown that companies that care for the environment and exhibit good CSR practices increased consumer purchase preference in addition to increased investment appeal (Gildea, 1994).

In Europe, the concept of CSR has been important in fostering development and innovation. European nations have tried to promote CR through the launch of the European Alliance for CSR which have invited many parties/firms to express their support and act as an umbrella to new and existing initiatives.

In South Africa, CSR has played a key role in most of the companies especially in the mining sector. It has been shaped by international bodies. The presence of many multinationals in South Africa has also contributed highly in the high trends in CSR practice (Margolis & Walsh, 2013).

Coal of Africa (COAL) coal mining and Development Company have also engaged in different initiatives to demonstrate its commitment with local communities by promoting local employment through its coking coal project which was expected to generate more direct and indirect jobs to the people on South Africa.

Kenya has been faced with so many economic, cultural, social, and environmental challenges that have influenced the rapid growth in CSR practices in many organizations in order the help and improve the welfare of the people in the Society. Muthuri et al., (2011). Key issues to do with health and medical provision for example in prevention and treatment of HIV/AIDS. CSR has been considered to be a key role in improving the corporate image of organizations. For example companies such as Toyota Kenya has been supporting the Mater Heart to run in the past years organize and run these exercise meant to raise funds towards providing heart surgery to needy children from all over Kenya. The funds from the exercise is used to perform surgery as well as in the screening and education campaigns on Rheumatic Heart Disease in different countries.

Sugar Industry in Kenya

According to (Kenya Sugar Board Strategic Plan 2010 – 2014). Industrial sugarcane farming was introduced in Kenya in 1902. In pursuit of the above goals, the Government established five additional factories in the 1960s and 1970s: Muhoroni (1966), Chemelil (1968), Mumias (1973), Nzoia (1978), and South Nyanza (1979). Later, several more were to come on stream: West Kenya (1981), Sony Sugar Factory
(2006) and Kibos Sugar & Allied Industries (2007), bringing the total number of milling companies to ten (10). The two older factories ceased operations: Ramisi sugar factory collapsed in 1988 and Miwani sugar factory was put under receivership.

Kenya Sugar Board (KSB) previously know us Kenya Sugar Authority (KSA) was established through an act of Parliament of 2001. Its core mandate being to develop and promote the sugar industry, Coordinate activities of individuals and organizations in the industry and facilitate equitable access to the benefits and resources of the industry by all interested parties.

Statement of the problem

Different organizations in an attempt to improve their performance engage in different CSR activities. Sugar factories have engaged in CSR activities in order to improve the livelihoods of the people within the areas in which they operate. It is not clear however which form of CSR activities have the greatest impact on performance. A number of studies have been done with varied results in the subject of CSR. For example Pauline (2012) on Challenges of implementing CSR strategies at the Johnson’s and Johnson in Kenya found out that Johnson and Johnson in itself did not participate in implementation of CSR initiatives but rather worked with partners by providing funding and support systems to ensure its success.

Kemboi et al., (2015) on effects of CSR practices on employee job satisfaction evidence of Commercial banks in Kenya found out that pay and benefits are motivating factors to employees job satisfaction and that organizations should provide allowances to employees participate in social responsibilities. Chemwile (2017) on relationship between strategic CSR practices and the performance of Companies listed in Nairobi Securities Exchange in Kenya found out that there is high Performance when CSR practices are moderated by organizations size. However, several questions still remain unanswered as to which form of CSR activities affects organizational performance. The study therefore sought to answer the questions; which is the effect of CSR activities on organizational performance of Sony and Chemelil Sugar factories.

Objectives of the study

The general objective of this study was to find out the effect of corporate social responsibility activities on organizational performance. The specific objectives of the study were to:

i. To establish the effects of philanthropic activities on organizational performance
ii. To establish the effects of ethical activities on organizational performance
iii. To establish the effects of economic activities on organizational performance
iv. To establish the effects of legal activities on organizational performance

Conceptual framework
Research Methodology

The study used descriptive design. It was found appropriate for carrying out a holistic, in depth and comprehensive investigation where much emphasis was placed on the analysis of the effect of CSR on organizational performance of the two sugar companies. The target population of the research was two Sugar factories in the Western region, Chemelil and Sony Sugar. Sample size for this study was 132 respondents drawn from the target population of 200 respondents using to Krejcie, (1970), table for determining sample size from a given population. Stratified random sampling technique was used for this study. It involved diving population into homogenous sub groups and then taking a sample in each subgroup. Data was collected by use of structured questionnaires self-administered to the respondents. This was preferred because of their simplicity in administration and analysis. Data was analyzed by use of descriptive statistics where all questionnaires received were analyzed and items in the questionnaire coded to facilitate data entry in form of frequency tables and percentages. Further multiple regression analysis was conducted in order to assess the effect the effect of CSR activities on organizational performance.

Findings and Discussions

Philanthropic activities

The study sought to establish the effects of philanthropic activities on organizational performance in Sony and Chemelil Sugar Company. The findings of the study are discussed below as explored by the questionnaire that was issued.
The respondents’ views on the effects of philanthropic activities on organizational performance in Sony and Chemelil Sugar Company had varied agreeing on table 1 above. For the case of donations, a mean of 4.6000 and std. deviation of 0.50262, for the case of employee Volunteerism, a mean of 4.3000 and std. deviation of 0.47016. For the case of sponsorships for individual and groups, a mean of 4.7500 and standard deviation of 0.44426. For the case of charity events, for example cleaning of the environment, a mean of 4.5000 and standard deviation of 0.51299 and for the case of contributes resources to support culture, arts, sports etc a mean of 4.4000 and std. deviation of 0.50262. The finding shows that most of the respondents do support that philanthropic activities has a role on organization performance in Sony and Chemelil Sugar Company. It was found out that most respondents strongly agree that the very important role in stimulating philanthropy by business sector is by establishing stimulating tax measures, which encourage the business sector to invest more funds in general beneficial purpose. This can be through donations and sponsorships. These two forms of investment in the framework of policy of socially responsible economy as crucial for solving problems in the community and society in which the company works. In order for the practice of socially responsible economy to develop, it is necessary to have stimulating tax policy.

The study found that philanthropic activities has a major role on organization performance of a firm. These findings relate with the findings of Noam (2011) argues that corporate philanthropy is a potential source of other-oriented, extrinsic value since it entails the ethical benefit of supporting others in need, it’s also means of gaining social status and, as such, can be a source of self-oriented, extrinsic value. “A discretionary responsibility of a firm that involves choosing how it will voluntarily allocate resources to charitable or social service activities in order to reach marketing and other business-related objectives of which there are no clear social expectations as to how the firm should perform (Ricks, 2005).”

Ethical activities

The study sought to establish the effects of ethical activities on organizational performance in Sony and Chemelil Sugar Company. The findings of the study are discussed below as explored by the questionnaires that were issued to the respondents.
Table 2. Effects of Ethical activities on Organizational Performance

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company conducts its business in a fair an objective manner</td>
<td>4.450</td>
<td>.51042</td>
</tr>
<tr>
<td>Company operate and conduct its affairs within the ethical standards of the society</td>
<td>4.650</td>
<td>.48936</td>
</tr>
<tr>
<td>Company does not compromise ethical norms of the society in order to achieve corporate goals</td>
<td>4.400</td>
<td>.50262</td>
</tr>
</tbody>
</table>

N=100

The respondents’ views on the effects of ethical activities on organizational performance in Sony and Chemelil Sugar Company had varied agreeing on table 2 above: For the case of company conducts its business in a fair an objective manner a mean of 4.4500 and std. deviation of 0.51042, for the case of company operate and conduct its affairs within the ethical standards of the society a mean of 4.6500 and std. deviation of 0.48936 and for the case of company does not compromise ethical norms of the society in order to achieve corporate goals a mean of 4.4000 and std. deviation of 0.50262. From the findings it can be noted that majority of the respondents strongly agreed that ethical responsibilities has positive effects on organization performance in that the present context the subject of organizational ethics has assumed a particular importance. Because corporations establish a dependent relationship with the society where they belong to, their image toward their stakeholders can be seen as an imperative matter. There is a growing public interest on this subject, since the recognition that the lack of ethics often deteriorates performance and capabilities in many organizations. "It is known that firms should be profitable in order to survive. The author considers that ethical compliance mechanism help develop and build corporate reputation and so contribute to corporate stability and growth since they instill confidence both inside and outside of the organization.

The study found that ethical activities has constructive effects on organization performance of an organization. This is supported by Peterson (2002) has studied the relationship between unethical behaviour and the nine dimensions of the ethical climate questionnaire. The ethical climate refers to the share perception of what is ethically correct behaviour. The nine-dimensional model comprises three ethical standard categories; egoism, benevolence and principal and three sources of moral reasoning; individual, local and cosmopolitan. The ethical standards can be identified as the maximization of self-interest maximizing the interest of many people and the adherent to a universal standard of belief. The source could be employee’s self-determined ethical beliefs, the organization’s standard and policies or external to the individual and the organization The cross classification of the three ethical standards with the three referents produces nine theoretical dimensions of the ethical work climate.

Economic Activities
The study sought to establish the effects of economic activities on organizational performance in Sony and Chemelil Sugar Company. The findings of the study are discussed below as explored by the questionnaire that was issued.

**Table 3. Effects of Economic Activities on Organizational Performance**

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit maximization</td>
<td>4.3000</td>
<td>.47016</td>
</tr>
<tr>
<td>Investment</td>
<td>4.7500</td>
<td>.44426</td>
</tr>
<tr>
<td>Paying off debt</td>
<td>4.5000</td>
<td>.51299</td>
</tr>
<tr>
<td>Firm risk</td>
<td>4.6000</td>
<td>.50262</td>
</tr>
</tbody>
</table>

**N=100**

The respondents’ views on the effects of economic activities on organizational performance in Sony and Chemelil Sugar Company had varied agreeing on table 3 above. For the case of profit maximization, a mean of 4.3000 and std. deviation of 0.47016, for the case of investment, a mean of 4.7500 and std. deviation of 0.44426. For the case of paying off debt, a mean of 4.5000 and standard deviation of 0.51299 and for the case of firm risk, a mean of 4.6000 and std. deviation of 0.50262. The finding shows that most of the respondents do support that economic activities has a role on organization performance in Sony and Chemelil Sugar Company. It was found out that most respondents strongly agree that the fundamental condition or requirement of existence, businesses have an economic responsibility to the society that permitted them to be created and sustained. At first, it may seem unusual to think about an economic expectation as a social responsibility, but this is what it is because society expects, indeed requires, business organizations to be able to sustain themselves and the only way this is possible is by being profitable and able to incentivize owners or shareholders to invest and have enough resources to continue in operation. In its origins, society views business organizations as institutions that will produce and sell the goods and services it needs and desires.

The study found that economic activities has a major role on organization performance of a firm. These findings relate with the findings of McWilliams and Siegel (2000) who argues that together with industry, firm size is used as an explanatory variable in most studies on profitability. It is hypothesized to be weakly negatively correlated with profitability. Size has been found to be related not only to firm profitability but also to a firm’s CSR performance. Larger firms seem to implement CSR principles more often, possibly due to the fact that they can afford allocating more resources to the adoption of CSR standards. According to Burke et al. (1986), as they grow, firms attract more attention from stakeholders and hence are under more pressure to comply with CSR principles.

**Legal activities**

The study sought to establish the effects of legal activities on organizational performance in Sony and Chemelil Sugar Company. The findings of the study are discussed below as explored by the questionnaires that were issued to the respondents.
The respondents’ views on the effects of legal activities on organizational performance in Sony and Chemelil Sugar Company had varied agreeing on table 4 above: For the case consumer protection rights as a mean of 4.5000 and std. deviation of 0.51299, for the case of people promoted based on their credentials not discrimination for example race, gender and religion a mean of 4.8000 and std. deviation of 0.41039 and for the case of environmental protection a mean of 4.3000 and std. deviation of 0.47016. From the findings it can be noted that majority of the respondents strongly agreed that legal responsibilities has constructive effects on organization performance for example the society has not only sanctioned businesses as economic entities, but it has also established the minimal ground rules under which businesses are expected to operate and function. These ground rules include laws and regulations and in effect reflect society’s view of codified ethics in that they articulate fundamental notions of fair business practices as established by lawmakers at federal, state and local levels. Businesses are expected and required to comply with these laws and regulations as a condition of operating. It is not an accident that compliance officers now occupy an important and high level position in company organization charts.

The study found that legal activities has constructive effects on organization performance of an organization. This is supported by Peterson (2002) who illustrates the manner in which the social contract has been conducted, particularly on behalf of corporations during the past a hundred years, that makes the issue of corporate social responsibility so prominent and important nowadays. It may be that the reason behind the misconduct of the social contract is the different understanding and explanations developed around the notion of CSR. The social contract is just one plausible explanation of what is CSR. Many competing arguments that justify the nature and scope of CSR have been developed over the years, all of which have resulted in offering different discourses of the notion.

**Regression Analysis**

The researcher conducted a multiple regression analysis so as to assess the effects of corporate social responsibility activities on organizational performance in Sony and Chemelil Sugar Companies. The researcher applied the statistical package SPSS, to enter and compute the measurements of the multiple regressions for the study as presented below.
Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (organization performance in Sony and Chemelil Sugar Companies) that is explained by all the 4 independent variables (philanthropic activities, economic activities, legal activities and ethical activities). The four independent variables that were studied, explain 75.2% of variance to investigate the effects of corporate social responsibility on organization performance in Sony and Chemelil Sugar Companies as represented by the $R^2$. This therefore means that other factors not studied in this research contribute 24.8% of variance in the dependent variable. Therefore, further research should be conducted to investigate the effects of corporate social responsibility on organization performance in Sony and Chemelil Sugar Companies.

**Table 5. Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.608*</td>
<td>.782</td>
<td>.896</td>
</tr>
</tbody>
</table>

**Source: Research, 2018**

a. Predictors: (Constant) effects of philanthropic activities, economic activities, legal activities and ethical activities.

b. Organization Performance in Sony and Chemelil Sugar Companies.

The F critical at 5% level of significance was 3.56 since F calculated is greater than the F critical (value 16.478) this shows that the overall model was significant. The significance is less than 0.05, thus indicating that the predictor variables, explain the variation in the dependent variable which is the affects organization performance in Sony and Chemelil Sugar Companies. If the significance value of F was larger than 0.05 then the independent variables would not explain the variation in the dependent variable.

**Table 6. ANOVAa**

<table>
<thead>
<tr>
<th>ANOVAa</th>
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<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>-------</td>
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<tr>
<td>1</td>
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</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant) philanthropic activities, economic activities, legal activities and ethical activities.

b. Organization Performance in Sony and Chemelil Sugar Companies.
The regression equation \( Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 \) was interpreted to mean
\[ Y = 7.978 + 0.270X_1 + 0.032X_2 + 0.305X_3 + 0.391X_4 \]
\( Y = \) Organization Performance in Sony and Chemelil Sugar Companies

\( X_1 \) is ethical activities, \( X_2 \) is philanthropic activities, \( X_3 \) is economic activities and \( X_4 \) is legal activities.

According to the equation, taking all factors (Philanthropic activities, economic activities, legal activities and ethical activities) constant at zero, overall organization performance in the firms will be 7.978. The data findings also show that a unit increase in ethical activities will lead to a 0.270 increase organization performance of the firms; a unit increase philanthropic activities will lead to a 0.032 increase in organization performance of the firms; a unit increase in economic activities, will lead to a 0.305 increases in organization performance of the firms and a unit increase in legal activities will lead to a 0.391 increase in organization performance of the firms. This means that the most significant variable is legal activities followed by economic activities.

**Summary, Conclusions and Recommendations**

**Summary of the Findings**

The general objective of this study was to find out the effects of corporate social responsibility activities on organizational performance in Sony and Chemelil Sugar Company. The study answers the study research questions.

**Effects of philanthropic activities on organizational performance**

According to research question four which sought to answer the effects of philanthropic activities on organizational performance 80% of the respondents do support that philanthropic activities has a role on organization performance in Sony and Chemelil Sugar Company. It was established that the very important role in stimulating philanthropy by business sector is by establishing stimulating tax measures, which encourage the business sector to invest more funds in general beneficial purpose. This can be through donations and sponsorships. These two forms of investment in the framework of policy of socially responsible economy as crucial for solving problems in the community and society in which the company works. In order for the practice of socially responsible economy to develop, it is necessary to have stimulating tax policy.
Effects of ethical activities on organizational performance

According to research question three which sought to answer the effects of ethical activities on organizational performance 75% of the respondents strongly agreed that ethical responsibilities has positive effects on organization performance in that the present context the subject of organizational ethics has assumed a particular importance simply because corporations establish a dependent relationship with the society where they belong to, their image toward their stakeholders can be seen as an imperative matter. There is a growing public interest on this subject, since the recognition that the lack of ethics often deteriorates performance and capabilities in many organizations. It is known that firms should be profitable in order to survive. Ethical compliance mechanism help develop and build corporate reputation and so contribute to corporate stability and growth since they instill confidence both inside and outside of the organization.

Effects of economic activities on organizational performance

According to research question one which sought to answer the effects of economic activities on organizational performance the study managed to answer 70% of the respondents do support that economic activities has a role on organization performance in Sony and Chemelil Sugar Company. It was established that the fundamental condition or requirement of existence, businesses have an economic responsibility to the society that permitted them to be created and sustained. At first, it may seem unusual to think about an economic expectation as a social responsibility, but this is what it is because society expects, indeed requires, business organizations to be able to sustain themselves and the only way this is possible is by being profitable and able to incentivize owners or shareholders to invest and have enough resources to continue in operation. In its origins, society views business organizations as institutions that will produce and sell the goods and services it needs and desires.

Effects of legal activities on organizational performance

According to research question two which sought to answer the effects of legal activities on organizational performance 72% of the respondents strongly agreed that legal responsibilities has constructive effects on organization performance for example the society has not only sanctioned businesses as economic entities, but it has also established the minimal ground rules under which businesses are expected to operate and function. These ground rules include laws and regulations and in effect reflect society’s view of codified ethics in that they articulate fundamental notions of fair business practices as established by lawmakers at federal, state and local levels. Businesses are expected and required to comply with these laws and regulations as a condition of operating. It is not an accident that compliance officers now occupy an important and high level position in company organization charts.

Conclusions

This study intended to find out the effects of corporate social responsibility activities on organizational performance in Sony and Chemelil Sugar Company. Therefore, it can be concluded that emphasis on implementation of corporate social responsibility activities is very important and ensuring continuous organization performance of firms which in turn enhances service delivery to the organization, customers and its community. It can be concluded that corporate social responsibility activities in firms cannot operate in isolation from other elements of the business. It is important that all the functional area strategies and capabilities, including full support from management in order to be consistent with the business unit goals and strategies. The study concludes that in order for firms to be competitive, companies have to strive to achieve
greater coordination and collaboration of corporate social responsibility approaches required in its management. The study also concludes that firms should advance to four dimensions of corporate social responsibility activities which include; philanthropic activities, ethical activities, economic activities and legal activities that positively impact on corporate social responsibility. This plays a major role in facilitating growth and profitability of firms in Kenya. In a bid to formulate new strategies for companies, should evaluate the existing structures to find out whether they are sustainable or need reviews to ensure effective corporate social responsibility with key in enhancing their organization performance.

**Recommendations**

The study established that firms should ensure continuous improvement of policies and strategies in order to enhance implementation of corporate social responsibility activities. However, the senior management in most firms are doing less implementation in issues regarding corporate social responsibility, since less research has been undertaken in order to continuously improve methods of its management and control. The study therefore recommends that the senior management should always ensure continuous and intensive research and development in order to ensure maximum exploitation of activities used for managing and controlling corporate social responsibility in order to enhance organization performance, this will greatly contribute to easy attainment of their goals and objectives. The study also established that polices used by firm are outdated and lack effective policy framework in which should govern the implementation and execution of corporate social responsibility. This has become a major challenge to companies in the process of implementing these strategies; however, the study recommends that the management should come up with effective policy framework and measures to help in guiding the implementation of corporate social responsibility. This will enable a rapid growth and development of firms while enhancing relationship with communities.

**Suggestions for Further Research**

This study looked at four independent variables in which it included philanthropic activities, ethical activities, economic activities and legal activities and the study found out that philanthropic activities contributes up to 80%, ethical activities contributes up to 75%, legal activities contribute up to 72% while economic activities contributes up to 70% of organizational performance in Sony and Chemelil Sugar Company. However, from the findings above the study suggests that further research on legal activities and majorly on economic activities should be carried out in order to totally explore its effects on organizational performance in manufacturing sector.

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Pauline (2012). Challenges of implementing CSR strategies at the Johnson’s and Johnson in Kenya


