Community Development Costsand Financial Performance of Sugar Manufacturing Companies in Kenya

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ABSTRACT:- Engaging in corporate social responsibility and their disclosures are common in recent business setting around the globe. Corporate social responsibility has become more significant over the past decades, and the validity of research on how it is associated with firm performance remains uncertain and incomplete. Many public and private Sugar manufacturing firms in Kenya have been facing poor financial performance, and some are closing up, even after receiving funding from the government. Consequently, this study aimed to establish the effects of corporate social responsibility cost on financial performance of sugar manufacturing companies in Kenya. The specific objectives of this study were; to assess the effect of community development costs on financial performance of sugar manufacturing companies in Kenya, to examine the effect of environmental responsibility costs on financial performance of Public and private sugar manufacturing companies in Kenya, and to evaluate the effect of economic responsibility on the financial performance of sugar manufacturing companies in Kenya. The study was guided by the stakeholder theory, Legitimacy theory and theory of the firm. The study adopted a correlation research design. The study's target population was 12 sugar manufacturing companies in Kenya. Census sampling technique was used to select all the 12 sugar manufacturing companies in Kenya. A secondary data collection sheet was used to document information from audited financial statements of the companies downloaded from website from 2012 to 2021. Panel Data was analyzed using descriptive and inferential statistics. Multiple regression analysis indicated that community development costs, economic responsibility costs and environmental responsibility costs had a significant effect on financial performance with a coefficient of -0.2146, -0.2896, -0.2728 and p-value of 0.006, 0.000and 0.000. The study depicted that corporate social responsibility had a significant effect on financial performance with an R^2 of 0.29. Therefore, the study concluded that corporate social responsibility improvement improves financial performance. The study recommended that management of sugar companies should provide more funds to community development costs, policy makers should develop strategic policies that would enhance the practice of economic social responsibility, respond to environmental demands for cleaner environment.

Keywords:Community Development: Financial Performance: sugar manufacturing companies in Kenya.

I. INTRODUCTION:

Corporate social responsibility costs refer to expenses a firm uses to make corporate decisions and a toward a goal mainly outside the entity's direct economic and technical interest. For almost a century, academics and professionals have been interested in understanding the idea of corporate social responsibility. Early 1920s, academics pushed businesses to use CSR as a foundation for performance improvement. CSR suffered as a result of World War, when businesses had to make drastic costs cuts and deal with declining profits. Business firms didn't start embracing CSR until the early 1950s (Nave & Ferreira, 2019).Corporate social responsibility costs are a precarious aspect of boosting Sugar manufacturing companies' financial performance as it helps in enhancing public perception, raising brand awareness and recognition, giving businesses an edge over rivals, boosting customer engagement, and increase firms' revenues. Despite the firms incurring this costs, they still incur many losses as there is no customer and employee engagement.

Statement of the problem

Corporate social responsibility is vital for the success of all firms. It improves the public image, increases brand awareness and recognition, brings added advantage over competitors, increases customer engagement and increases firms' profits (Konya, 2018)**.** However, despite adopting corporate social responsibility in the sugar firms, many still suffer heavy losses while others have been closed. The statement of comprehensive income for Nzoia Sugar Company reflected the operating loss of kshs.3.2 billion as at 30th June 2020 and kshs.3.6 billion as at 30th June 2019, they had spent on bursaries and other donations of kshs.245.8 million in 2019/2020 and kshs.376.1 million in 2018/2019, respectively. Sony sugar Company Ltd in their

audited financial statement for the period 2018/2019, reported an operating loss of Kshs.3.2 million (The Auditor General Report, 2020). A report by a task force on the sugar industry in Kenya in 2020 indicates that over the last decade, the sugar industry has faced a significant crisis as a result of the poorly managed liberalization process, which exposed the local industry to unexpected competition when ill-prepared (Sugar Task Force Report, 2020). Much of the studies have concentrated on corporate social responsibilityand financial performance, very limited on how general corporate social responsibility costs relates to financial performance has been done in the sugar manufacturing companies in Kenya. Therefore, the need to establish the effect of corporate social responsibility costs and financial performance of sugar manufacturing companies in Kenya.
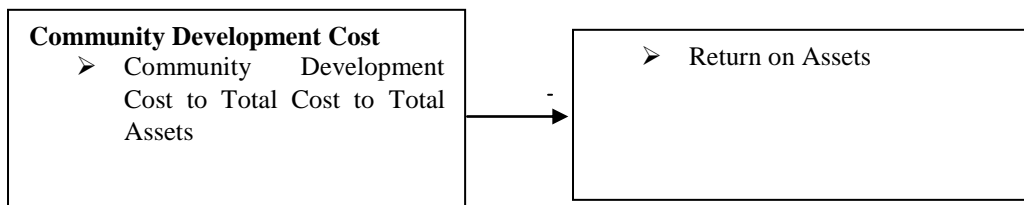
Objectives of the study

To assess the effect of Community Development Costson thefinancial performance of Sugar Manufacturing Companies in Kenya.

Conceptual Framework

Independent Variable   **Dependent Variable**

Community Development Cost ➢ Community Development Cost to Total Cost to Total Assets	‑ →	➢ Return on Assets

Theoretical Review

Stakeholder theory

Freeman and Reed, (1983) proposed this theory. Several groups for which a company should be accountable have been examined using the stakeholder theory of the corporation. They argued that a company is best understood as a web of relationships among various groups and individuals with a stake in or interest in the company's success. They argued that stakeholders are broken down into two categories: primary and secondary. The concept of "stakeholders" in stakeholder theory helps to expand the scope of what "corporate social responsibility cost" entails. The firm should assume numerous corporate social duties, which is the most important factor. More businesses are becoming socially responsible by proactively addressing stakeholder concerns and using the 14 strategic perspectives. In addition to investors, managers, workers, creditors, suppliers, retailers, customers, state and local governments, and citizens may all be considered stakeholders (Yang & Zhou, 2001).

The price of opportunistic behaviors, incentives, and monitoring is reduced since stakeholders are more focused on the corporation's best interests. The stakeholder mode, meanwhile, serves as an unspoken agreement between a business and its stakeholders (such as its workers, suppliers, and local community). Stakeholders' interests are safeguarded invisibly by the corporation, encouraging them to contribute more specialized assets (Zhang, 2008).

Managing stakeholder relationships well is not only crucial for a company's success in a capitalist system, but it's also the right thing to do because it involves weighing the values, options, and consequences for many people. When practitioners are given a description of management that places an emphasis on the creation, upkeep, and alignment of stakeholder relationships, they are better prepared to deliver value and avoid moral failings (Bidhan, Freeman, & Harrison, 2010).

It does not come cheap to embrace CSR ideals. Depending on the situation, these expenditures could be one-time or ongoing. Being socially responsible is an investment, so it seems to sense that it would also yield financial returns for a company to consider it a sustainable business strategy. When putting their money into a company, shareholders want to ensure they are getting the best potential return on their investment. That's why it's imperative that ethical practices also yield financial gains. An organization can't maintain a policy that indefinitely results in cash outflows. Because of these considerations, a business will have an easier time establishing long-term partnerships with its various stakeholder groups (Njue, 2017).

By applying this theory, the author gained a better understanding of how sugar factories in Kenya can improve their financial performance by prioritizing the needs of their stakeholders and committing to green practices and socially beneficial initiatives like better healthcare, new infrastructure, and expanded educational opportunities.

II. LITERATURE REVIEW

Ejeje, Ohanya, and Inyang (2021) investigated how community development expenses affected the revenue of listed manufacturing companies in Nigeria. Ex-post factor and content analysis were utilized in the study's design. The mentioned manufacturing companies in Nigeria were the study's target population.

Secondary data from the firms' audited financial accounts were used. The effect of community development cost on the financial performance of listed companies was examined using both ANOVA and regression analysis. According to the study's findings, community development expenses have a big impact on how profitable listed manufacturing companies perform financially as measured by sales revenue.

Akinleye and Olaoye (2021) examined the effect of community development cost on Nigeria's financial performance. Six oil and gas companies were sampled for the study. For a period of ten years, the study used secondary data from published, audited financial statements. To ascertain the impact of community development cost on the financial performance of oil and gas companies, data were examined using Stata. The study's findings demonstrated how community development expenses had a big impact on Nigerian oil and gas companies' bottom lines.

Jasman and Sekar, (2019) examined the influence of partnership and community development programs on Indonesian state-owned enterprises' financial performance and risk. The study adopted a quantitative research design. The study made use of secondary data gathered from annual public financial statements and sustainability reports. The study's findings showed that Indonesia's state-owned companies' financial performance is considerably and favorably impacted by community development programs.

Ndungu and Njangiru (2019) carried out research to determine how community commitment affects non-banking financial institutions' financial performance. Sixty non-banking financial institutions in Kiambu county were the study's target population, and a descriptive research design was adopted. Utilizing the drop-and-pick method, data were gathered utilizing questionnaires. Inferential and descriptive statistics were used to analyze the data. To ascertain the impact of civic engagement on financial performance, multiple regression analysis was performed. According to the study's conclusions, community involvement in Kenya's non-banking financial institutions performed significantly better financially.

III.   RESEARCH METHODOLOGY

Research design
This is a set of guidelines for collecting, measuring, and interpreting data that aims to strike a balance between economy and method with relevance to the study goal (Kothari, 2014). The study employed correlational research design because of the quantitative nature of data which allowed researchers to identify the statistical relationship between two variables that appeared to be associated.

Target Population
The target population comprised all public and private sugar manufacturing operations from 2012 to 2021.

Table 1: Target Population

List of sugar-producing companies	
1.	Nzoia Sugar Company
2.	South Nyanza Sugar Company
3.	Muhoroni Sugar Company
4.	Chemelil Sugar Company
5.	West Kenya Sugar Company
6.	Sony Sugar Company
7.	Kibos and Allied Industries Limited
8.	Butali Sugar Mills
9.	Transmara Sugar Company
10.	Sukari Industries Limited
11.	Kwale International Sugar Company Limited
12.	Kisii Sugar Factory

Source: Kenya Sugar Board, 2022

Sample and Sampling
Census-sampling technique was used because it ensures that accurate data is acquired from the entire population and captures a wide range of a company's demographic statistics and attributes. Census was also more suitable for a small target population of less than 50 (Cooper & Schindler, 2017). Since the 12 number of sugar manufacturing industries is a small number less than 50, the financial performance of Kenya's sugar industries was examined using data from all sugar manufacturing companies. A census is conducted to compile information on every component of the population. As a result, our inquiry focused on Kenya's twelve sugar manufacturing companies.

IV. DATA COLLECTION

The management of Sugar manufacturing firms and the firm's website's audited financial statement reports were used to collect secondary data. The panel data included cross-sections and time series. The time series covered the ten years from 2012 to 2021, whereas the cross-sectional data focused on sugar-producing businesses. Net income, total net assets, and other pertinent cost are among the secondary data that were gathered.

Measurement of Variables

Table 3. 2: Measurement of Variables

Variables	Nature	Formula/elements
Community Development Costs	Independent	Development costs
Financial performance	Dependent	(ROA) Net Income Total Assets

Descriptive Statistics

Descriptive statistics was established using mean, standard deviation, lowest and highest statistics. Table 2 shows the results of return on assets and community development costs of Sugar manufacturing companies in Kenya.

Table 2: Descriptive Statistics

Variable	Obs	mean	Std. Dev.	Min	Max
ROE	100	0.3552465	.1822554	.0140285	.896125
CDC	100	.5393816	.2015908	.0791812	.9675105

Table 2, shows that the study period ran from 2021 to 2021, giving a 10-year span with 100 observations from 10 Sugar manufacturing companies in western Kenya. Return on Assets had a mean of 0.355 with a lowest of 0.014 and a highest of 0.896. The maximum and minimum values were positive, indicating that Sugar manufacturing companies under this study made a profit regarding their financial performance within the study period. The standard deviation of return on assets was 0.1822554, which was less than the mean, implying that there was variation in return on assets. The minimum value shows that some firms had a low return on assets leading to low profits, while maximum values indicate that some firms had a high return on assets indicating high profits.

Community development costs had a mean of 0.5393816, a standard deviation of 0.1822554, a lower of .0140285 and a higher of 0.896125. This indicates that community development costs varied during the study period. The lowest value showed that some Sugar manufacturing companies had low community development cost since they used a small amount for community development. The highest value indicated that some Sugar manufacturing companies had high community development cost as they engaged in community development more than other firms. These results show that community development cost varies from one firm to another.

Correlation Analysis

The study used Pearson product-moment correlation to understand the nature and direction of the relationship between the financial performance (Return on Assets) of Kenyan sugar manufacturing enterprises and the cost associated with community development, economic responsibility, and the environment. Given that the study's data set was regularly distributed, the correlation approach was ideal. Correlation coefficients were developed to show the linear relationship between the variables, with p values indicating the significance of the association between the two sets of data.

The Pearson correlation coefficient ranges from 1 to -1, with values closer to 1 indicating a high correlation to the positive and values closer to -1 indicating a strong correlation to the negative. The 95% confidence interval was used to evaluate the p values of the correlation coefficients in order to measure the importance of the interrelationship between the variables. The association between the variables was determined by the two-tailed nature of the test, which deemed all results greater than 0.05 to be insignificant. Table 3 shows the correlation matrix of community development, economic and environmental responsibility cost.

Table 3: Correlation Matrix

	ROE	CDC	ERC	ECRC

ROA	1.000			
CDC	0.2559*	1.000		
	0.0102			

From Table 3 above, the coefficient values show that all the independent variables had no significant correlation with each other because the p values were more than 0.05, indicating non-multicollinearity. Given correlation coefficients of 0.2559 and p-values of 0.0102, it was evident that there existed a positive and significant correlation between community development costs and financial performance (return on Assets) of Sugar manufacturing companies Kenya. This is because all the p-values were less 0.05.

Random Effect Model

In a random effects model, it is assumed that the unobserved variables are statistically independent, or more strongly, uncorrelated, with all the observable variables. The findings is shown in Table4.

Table 4: Random Effect Model

Variable	Coef.	Std. Err.	z	P>/z/
Log CDC	.2146234	.0780595	2.75	0.006
Constant	.4521736	.0.1736135	2.60	0.001
R-sq:				
Within = 0.2927				
Between =0.3118		**Wald chi2(3)** =39.36		
Overall =0.2907		**Prob>chi2** =0.0000		

Regression was used to evaluate the study's hypothesis because the diagnostic test showed that the assumptions of linear regression had not been violated. Based on the results of the Hausman test, it was determined that the random effect model was the most appropriate. In order to ascertain how CSR expenses, impact the financial performance of sugar production enterprises in Kenya, a random effect model was employed. The discussion of the regression results was guided by the study's objectives. The findings of the regression analysis are shown in Table 4.

Table 4 demonstrates that the model is statistically significant according to the random effects analysis. The Prob > chi2 value of 0.0000 that was discovered, which is below the significance level of 0.05, supports this. These results also determined that CSR expenditures are a significant determinant of the financial performance of Kenya's sugar manufacturers. The overall R-squared of 0.2907 lends credence to this. The results showed that cost associated with community development accounted for 29.07% of the variance in the financial performance of sugar firms in Kenya. 70.93% of the profit is actually due to factors that weren't considered in this analysis. As per the results, the estimated model is shown below:

i. $$ROA_{it} = 0.4522 + 0.2146CDC_{it} + 0.2895ERC_{it} + 0.2728EnRC_{it}$$

Where
CDC = Community Development Costs.
ERC =Economic Responsibility Costs
EnRC = Environmental Responsibility Costs.
ROA = Return on Investment
t = time in years
i = Sugar Manufacturing Companies
As per the regression model results, the constant of 0.4521 indicates that the financial performance of sugar businesses, as evaluated by return on investment, would be 0.4521 if the expenditures associated with corporate social responsibility costs were not incurred.

Community Development Costs and Financial Performance

The primary goal of the study was to ascertain how Kenyan sugar producers' financial performance was impacted by community development cost. The study's null hypothesis was that community development cost have no significant impact on financial performance of Kenyan sugar companies. The financial performance of sugar producing enterprises is positively and significantly impacted by community development cost, as shown in Table 4. This is backed up by regression coefficients of 0.2146 with Probability values of 0.006<0.05 and Z-statistics 2.75 more greater than the Z-critical of 1.96, implying that community development cost positively and significantly affected financial performance, thus rejecting the null hypothesis.

According to these findings, a rise in the costs of community development of one unit would result in a rise of 0.2146 units in the financial performance of sugar production enterprises. The results agree with Ejeje, Ohanya, and Inyang, (2021) that community development costs significantly affects turnover of listed Sugar

manufacturing companies in Nigeria. The findings are also consistent with Akinleye and Olaoye, (2021) that community development costs has a positive and significant effect on the financial performance of oil and gas firms in Nigeria.

V.   SUMMARY OF THE FINDINGS

The first goal is to evaluate the impact of community development costs on Kenyan sugar manufacturing companies' financial performance. The correlation results established that community development costs is positively and significantly related to the Sugar manufacturing companiesfinancial performance in Kenya. This is indicated by r of 0.2559 and a probability value of0.0102, that is smaller than 0.05 level of significance. Also, the regression coefficient revealed that community development funds had a positive and significant association. This is indicated by a coefficientregression of .2146234 and a p-value of 0.006. This suggests that a unit increase in community development costs would improve the financial performance of sugar manufacturing firms. The study thus failed the null hypothesis that community development costs had a major impact on the financial performance of Kenyan sugar manufacturing companies.

VI.   CONCLUSIONS

From the inferential statistics, community development costs and the success of Kenyan sugar producers' bottom lines are significantly and positively correlated. An r of 0.2559 makes this clear. The regression model also showed that the costs associated with community development had a positive and significant impact on the financial performance of Kenyan sugar production enterprises. Regression coefficient of 0.2146234 and probability value of 0.006 both point to this. This suggests that a rise in community development costs per unit also raises the financial performance of Kenyan sugar producers. As a result, it was determined that community development costs had a positive and significant impact on the financial success of Kenyan sugar producing enterprises.

RECOMMENDATIONS

The study established that community development cost positively affect financial performance. The study recommends that the management of the sugar companies should provide more funds to community development cost to ensure publicity and better coordination of community development efforts. It was also suggests that community development projects be broadened to address new social challenges, recruit additional staff members, and reach a wider geographic area. There is an urgent need to develop a community development project that delivers tangible benefits to all stakeholders from each community development project by sugar companies.

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