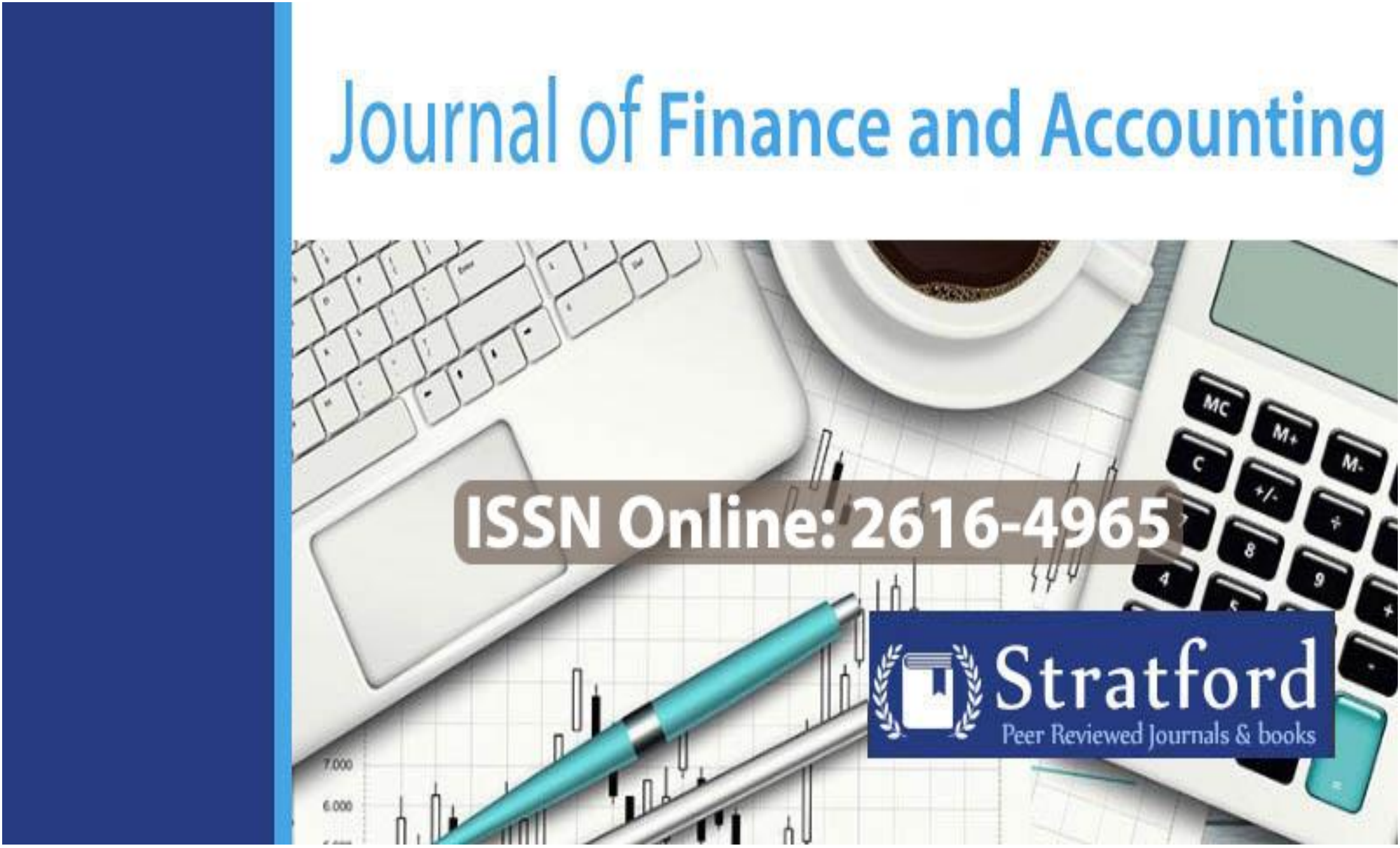

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Effect of Corporate Social Responsibility on the Financial Performance of Small and Medium Enterprises in Makueni Sub-County

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Abstract

Small and medium enterprises have a responsibility to generate profits, obey the law, be ethical and be good corporate citizens. These firms use a variety of tactics in an effort to improve their performance. The processes that enable an organization's financial performance are built through CSR. The general objective of this study was to examine the effect of CSR on the financial performance of SMEs in Makueni sub county. The study aimed to assess the impact of CSR economic activities, legal and regulatory frameworks, ethical issues, and philanthropy on the financial performance of SMEs in Makueni Sub County. The study was underpinned by the social capital theory, stakeholders' theory, dynamic capabilities theory and the agency theory. The study adopted a descriptive research design. The target population was 741 SMEs registered in Makueni Sub County. A sample of 259 was selected for the study. Simple random sampling was used to select SMEs, from the list of SMEs provided by the Makueni County licencing office. Data was gathered through a questionnaire. The Statistical Package for Social Sciences was used to conduct correlation and regression analyses. Findings indicated a positive and significant influence of CSR economic activities on the financial performance of SMEs in Makueni sub county. There is a positive and significant influence of CSR legal & regulatory framework on the financial performance of SMEs in Makueni sub county. The study further found there is a positive and significant influence of CSR ethical issues on the financial performance of SMEs in Makueni sub county. Findings revealed a positive and insignificant association between of CSR philanthropy and financial performance of SMEs in Makueni sub county. The study concluded that businesses that make a conscious effort to maximize their earnings and engage in CSR activities often enjoy a distinct competitive advantage within their respective sectors. The study recommended that SMEs should engage in CSR activities. A robust CSR legal and regulatory framework is essential for businesses to not only operate ethically but also to maintain their financial stability and reputation within their respective industries. It is also recommended that SMEs should adhere to the laws governing the conduct of business. SMEs should ensure that the rights and dignity of their workforce are respected and protected. SMEs should adhere to human rights principles and apply them in their dealings with employees. SMEs should resolve their issues in an ethical way. Ethical conflict resolution methods can prevent prolonged disputes, minimize legal costs, and protect the reputation of the business.

Keywords: *Economic activities, legal and regulatory framework, ethical issues, philanthropy, financial performance, SMEs, Kenya*

1.0 Introduction

Corporate Social responsibility (CSR) is a form of self-regulation that reflects a business's accountability and commitment to contributing to the well-being of the community and society through various environmental and social measures (Lopa & Ahmad, 2019). Collaboration and engagement include social, ecological, and financial accountability. The core of any organization is CSR (Fernando, 2013). It involves the guiding principles of organizational structure that support social cohesion. These can be attained through how businesses respond to crises, economic revivals, and moral considerations (Boateng, 2022). The social contract with the outside community is a CSR tenet (Abbas, Rayyani, & Syahadat, 2021). Promoting morally sound and responsible coexistence is the goal of any firm. CSR has advanced due to proliferation and a need for corporate accountability to stakeholders inside and outside the company. The significant milestone is due to excellent growth and development. The overarching goal is to maximize shareholder wealth by cultivating a profitable and ethical company environment (Van & Nguyen, 2019). CSR has developed from a philanthropic endeavour to a voluntary integrated social obligation. Corporate Social Responsibility has an impact on a company's financial performance. Each year Fortune Global 500 firms spend about $20 billion on Corporate Social Responsibility activities, which amounts to 2% of their combined profits. It is clear that a CSR-oriented strategy does not create a good corporate image but adds value to the firm in the form of financial benefits (Mohyletska, 2023).

Socially responsible firms tend to adopt ethical leadership as an aspect of corporate social responsibility resulting in a positive impact on financial performance (Sameer, 2021). In the past, most companies or firms had focused on maximizing wealth. More companies have realized the benefits of being socially responsible and its importance to business function (Mentor, 2023). CSR has been gaining relevance in different spheres like academics, business, and in political world. But the congruence between corporate social responsibility and the company's performance remains unclear (Coelho, Jayantilal, & Ferreira, 2023). A high percentage of SME failure is extremely detrimental to any economy, especially one that is emerging and has little access to finance (Szegedi, Németh, & Körtvési, 2023). Although small businesses' contributions to growth are largely acknowledged, there are numerous challenges that entrepreneurs must overcome to survive and grow over the long term. According to research on small business development, developing nations have a higher failure rate than industrialized nations (Colovic et al., 2019). According to experts, starting a business is not an easy venture or endeavor, and small-business owners' odds of surviving past the five-year mark are poor. Therefore, to succeed, they need to create both long-term and short-term strategies (Bartolacci, Caputo, & Soverchia, 2020). CSR would thus be critical to enhance the financial performance of small businesses.

Business organizations are established to serve as economic entities that offer goods and services to meet the needs of society. The driving force behind entrepreneurship is recognized to be the profit incentive. Historically, these organizations have functioned as the main economic units in our society (Slabá, 2020). Their primary objective has been to produce goods and services that are in demand by consumers while generating a reasonable profit. In the social contract between business and society, there is an expectation that businesses will conduct their economic activities within the boundaries of the law (Bu, Rotchadl & Bu, 2023). This means that businesses are required to abide by the rules and regulations set forth by governmental authorities at both the state and local levels, while also being allowed by society to operate to make a profit. It is imperative to establish legal accountability for the owners and directors of corporations due to the significant influence they wield both on a global and local scale. Ethical responsibility pertains to the fundamental obligation of an organization to conduct its operations in a just and ethical manner. When organizations embrace ethical responsibility, their objective is to consistently exhibit ethical behavior by treating all stakeholders fairly. Philanthropic responsibility encompasses the objectives and goals of a corporation to actively contribute to the improvement of society as a whole. A significant component of corporate philanthropy involves allocating funds from the company's earnings to support worthy causes within the local community, often through the establishment of trusts or foundations.

1.1 Statement of the Problem

Corporate Social Responsibility (CSR) has gained significant attention as a strategic tool for businesses to enhance their reputation, engage stakeholders, and contribute to societal well-being. However, there is limited knowledge on its impact on financial performance of small and medium enterprises (SMEs) in Makueni Sub County. Studies have explored the relationship between CSR and financial performance, but the majority focus on large corporations, leaving a gap in understanding the implications for SMEs, with most of them going under. SMEs play a crucial role in Kenya's economy, contributing to employment generation, poverty alleviation and economic growth. Yet, these enterprises face numerous challenges, such as limited resources, fierce competition, and inadequate access to financial capital. In such a context, the role of CSR becomes vital, as it has the potential to positively impact the financial performance of SMEs by attracting customers, fostering employee loyalty, and building strong relationships with stakeholders (Oduor, Omiti & Otieno, 2023).

Hence, the study conducted a detailed examination of the multifaceted impact of Corporate Social Responsibility (CSR) on the financial performance of Small and Medium Enterprises (SMEs) in Makueni Sub County, Kenya. It delved into the effects of CSR economic activities, scrutinized the implications of CSR's legal and regulatory framework, probed into the influence of CSR ethical issues, and assessed the impact of CSR philanthropy. This investigation was critical in highlighting how CSR practices can affect the financial sustainability and growth of SMEs, which are vital to the economic fabric of Kenya. The findings offer insights into the role of responsible business practices in enhancing the competitiveness and resilience of these enterprises in a challenging economic landscape.

1.2 Research Objectives

The study was guided by the following research objectives;

i. To assess the effect of CSR economic activities on the financial performance of SMEs in Makueni sub county
ii. To evaluate the effect of CSR legal and regulatory framework on the financial performance of SMEs in Makueni sub county
iii. To investigate the effect of CSR ethical issues on the financial performance of SMEs in Makueni sub county.
iv. To determine the effect of CSR philanthropy on the financial performance of SMEs in Makueni sub county.

2.0 Literature Review

The literature review encompassed a comprehensive analysis of relevant theories (theoretical review), a critical examination of previous research findings (empirical review), and an exploration of the study's underlying principles and relationships (conceptual framework). This multi-faceted approach provided a robust foundation for understanding the complex dynamics between corporate social responsibility and the financial performance of SMEs.

2.1 Theoretical Review

This study was guided by the social capital theory, stakeholder theory, the dynamic capabilities theory and the agency theory. The social capital theory offers a valuable perspective on how resources are not confined solely to one's immediate social group but extend to different social levels and networks. To acquire new resources, individuals often find themselves navigating and interacting within various levels of the social hierarchy. Social capital encompasses the entirety of these relationships, social networks, and the underlying principles of reciprocity and trust that emerge from these interactions. Social capital theory highlights the significance of social relationships and networks in nurturing civic virtue, fostering cooperation, and promoting societal well-being. The social capital theory is relevant as it underscores the role of CSR in enhancing the existence and performance of SMEs within the social sphere. SMEs, as smaller entities within the business landscape, often rely on their social relationships and networks to thrive and succeed. CSR practices, which encompass ethical and socially responsible behaviors by businesses, play a pivotal role in fostering these social connections.

According to the stakeholder theory**,** organizations create externalities that have an impact on various stakeholders, and these tend to increase pressure on the organizations to reduce the negative effects and expand the positive ones. In order to minimize harm and maximize benefits for stakeholders, this model also advises an organization to identify all parties with an interest or whose interests are likely to be impacted by its decision (Sundaram & Inkpen, 2004). SMEs must consider factors other than financial performance since they have responsibilities to society and the constituent groups whose activities are impacted by their actions (Clement, 2005). SMEs must consider the diverse needs and expectations of their stakeholders to coexist harmoniously and create sustainable value (Barney & Harrison, 2020). Managers and owners of SMEs bear the responsibility of steering their firms towards success. However, this success is not solely defined by financial profitability.

The Dynamic capabilities theory proposes that an organization’s dynamic capabilities include the resources that enhance the intergration, adaptation and reconfiguration of available resources so as to achieve set objectives. The organisation, in this case the blue economy ecosystem, should use its available resources prudently, so as to harness maximum utility (Muigua, 2018). The dynamic capabilities arise out of investments form stakeholders and natural capabilities. The natural capabilities for the SMEs include employees, physical resources, financial resources and innovativeness (Kiyabo & Isaga, 2020). This theory is applicable to this study as it explains how SMEs could employ their resources to enhance financial performance. These businesses should employ adequate resources to harness benefits of performance.

The agency theory holds that there is a relationship between the shareholders (principals) and managers and executives (agents) of the company. According to Mitnick (2021), modern organizations may experience agency problems as a result of the separation between ownership and management. The costs resulting from the conflict between the interests of shareholders and those of the firm's managers are covered by the principal who grants the agent the ability to make policy. Losses emerge when management acts in a manner that is not intended to help the organization owners (Panda & Leepsa, 2017). As a result, agents must perform their duties while upholding the interests of the principals. The theory links to the current study because SMEs have the obligation to enact structures to improve organizational culture and organisational leadership for realization of their goals. To achieve this, SMEs must offer strategic direction to enhance financial performance.

2.2 Empirical Review

Karanja and Wagana (2017) investigated the relationship between financial institutions' performance and their commitment to social responsibility in Kenya reported that social spending has a favorable impact on how well commercial banks perform. The financial resources needed to sustain a firm's operations are determined by social expenditure. Enterprise resource planning, which is embraced by an organization, is said to have an impact on its productivity because it increases efficiency (Visser & Tolhurst ,2017). The study also found that during the course of its adoption by the company, return on investment, asset turnover, and return on asset all have a beneficial impact.

Ikram et al. (2020) investigated whether CSR initiatives in Pakistan had an impact on firm performance. The SME sector, which is regarded as Pakistan's economic backbone, is crucial to the country's development. SMEs in Pakistan's Karachi, Lahore, and Faisalabad provided data for the study. Over 240 entrepreneurs were administered a questionnaire. Significant correlations between CSR and corporate performance were found. The study's scope was limited to SMEs in specific cities, which may not be fully representative of all SMEs in Pakistan. Additionally, the study's findings are based on correlations and do not establish causation, meaning that while CSR and corporate performance are related, it does not necessarily prove that CSR directly causes improved performance. Other factors could also be at play. Jain, Vyas and Chalasani (2018) assessed CSR and financial success in India. Data from 384 SMEs were gathered as part of an exploratory study utilizing a standardized questionnaire. However, CSR is not a part of their plan; rather, it is more of an ad hoc and self-driven approach. SMEs are socially responsible towards their various stakeholders. They identify CSR with a religious attitude rather than with business imperatives. Due to resource and staff shortages that SMEs experience, CSR is altruistic and not institutionalized.

Mähönen (2020) conducted a comprehensive review of literature and research on regulatory frameworks, corporate social responsibility, and financial performance. The study revealed that sustainability efforts often focus primarily on institutional investors, the investment supply chain, and climate change, while other aspects may receive less attention. The findings highlight the need for new regulatory solutions to address these limitations. Considering developments in Europe, there is potential to promote sustainability in reporting, assurance, and governance. Implementing new regulations that require independent verification of sustainability reports can enhance their credibility. Sustainability assurance ensures that the disclosed information is accurate, reliable, and in line with established standards. This can help build trust between companies and stakeholders, leading to increased confidence in sustainability efforts.

Akhtar and Zia (2022) investigated existing remedies for stakeholders for companies that rarely adhere to CSR guidelines. Companies must carry out their responsibilities as good corporate citizens. Modern corporations are unable to evade their legal obligations because of the additional three-dimensional effects that their operations have on society as a whole. Stakeholders might have the option to pursue legal actions against companies that fail to fulfill their legal CSR obligations. This could include filing lawsuits based on existing laws related to environmental protection, labor rights, or consumer safety. Cabrera et al. (2023) explored the relationships between Corporate Social Responsibility (CSR), corporate reputation, business ethics, and user retention in the context of 501 SMEs. The study used non-probabilistic sampling and structural equation analysis to analyze the data. The findings revealed that CSR had a favorable and considerable impact on corporate reputation. This means that when a company actively engages in socially responsible practices, it positively influences how the company is perceived by stakeholders, which can enhance its reputation and build trust with customers and other stakeholders

A comprehensive analysis of existing research on CSR and SME success conducted by Oduro et al. (2022) reviewed 57 independent, peer-reviewed empirical papers. The study utilized subgroup and meta-regression analyses to test hypotheses. The results revealed that CSR initiatives focusing on social, economic, and environmental aspects had a positive and significant impact on both the financial and non-financial performance of SMEs. Notably, CSR aspects had a stronger effect on non-financial performance compared to financial performance. This suggests that engaging in CSR initiatives can lead to improvements in areas beyond financial metrics, such as employee satisfaction, customer loyalty, and overall reputation. These non-financial outcomes are crucial for the long-term sustainability and success of businesses. To shed light on the determinants of CSR in the context of Small and Medium-sized Enterprises (SMEs) in Bangladesh, Kabir and Chowdhury, Sultana (2022) examined the CSR literature horizon. Their study found a positive association between better CSR philanthropy and the performance of businesses. This suggests that engaging in CSR initiatives can potentially enhance the performance of SMEs in Bangladesh. A systematic literature review conducted by Schnurbein et al. (2018) focused on the relationship between CSR and corporate philanthropy. The study identified various dimensions of CSR, including creative, moral, motivational, and economic aspects. The research revealed that corporate philanthropy plays a significant role in modern businesses, positively affecting their financial performance.

2.3 Conceptual Framework

The study's independent variables are economic activities, legal and regulatory framework, ethical issues and philanthropy. The study's dependent variable is financial performance. The study's conceptual framework is shown in Figure 1.

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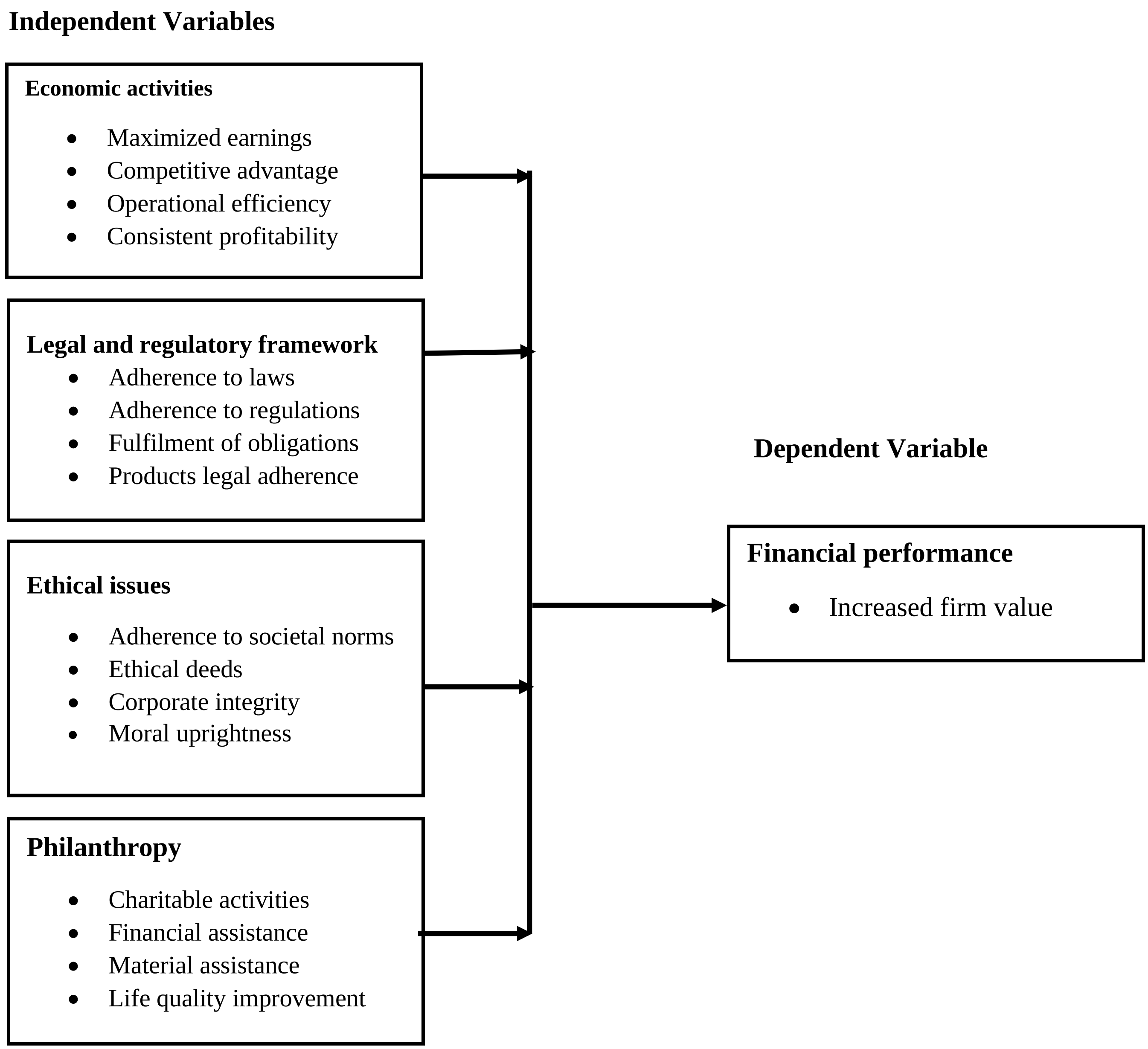

Figure 1: Conceptual Framework

3.0 Research Methodology

The research methodology adopted for this study was thorough and systematic, designed to accurately capture the effects of Corporate Social Responsibility on the financial performance of SMEs in Makueni Sub County. A descriptive research design was used, ideal for understanding people's attitudes, opinions, and behaviors, and complemented by the use of semi-structured questionnaires for data collection. The study targeted 741 registered SMEs, employing stratified random sampling to ensure representative inclusion across different wards. The sample size of 259 was determined using Yamane's formula, ensuring statistical validity at a 95% confidence level. The research instruments were tested for validity and reliability through a pilot study, and the data collected was analyzed using both qualitative (content analysis) and quantitative (descriptive and inferential statistics) methods, with SPSS software aiding in analysis. The data collection process involved trained assistants and direct engagement with SME owners, ensuring thoroughness and accuracy in gathering firsthand information.

4.0 Data Analysis and Presentation

4.1 Response rate

The study issued 259 questionnaires to owners of SMEs, out of which 241 were completed and returned; this was a response rate of 93%. Sammut, Griscti and Norman (2021) advise that a 50% response rate is sufficient, 60% is good and an exceedance of 70% is very good. Furthermore, Shiyab, Ferguson, Rolls and Halcomb (2023) affirm that response rates of 70% are excellent for analysis. Consequently, the study's response rate of 93% was ideal, satisfactory and reliable. The response rate is as per Table 1

Table 1: Response rate

Ward	Sample	Responses	Response rate
Wote	65	63	97%
Kathonzweni	36	34	94%
Mbitini	31	28	90%
Nzaui	31	27	87%
Kitise	32	29	91%
Mavindini	33	30	91%
Muvau	31	30	97%
Total	**259**	**241**	**93%**

4.2 Diagnostic tests

4.2.1 Normality test

Test of normality was part of the diagnostic tests that were to indicate if the sample data came from a normal population. Shapiro-Wilk and the Kolmogorov-Smirnov[a] tests were run. Table 2 contains the results.

Table 2: Normality test

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
performance	0.175	241	0.057	0.942	241	0.103

a. Lilliefors Significance Correction

Source: Research data

The significance levels were all more than 0.005 (P >0.005), indicating that the data was from a normal distribution, allowing for multiple regression analysis.

4.2.2 Multicollinearity test

The test was done to test the degree of correlation among independent factors in a regression model. Multicorrelation is not desirable for a regression model, and it leads to wrong results for a regression analysis model. It undermines the clarity of the estimated results, which weakens the regression model's numerical strength. The table below shows results of the multicollinearity test though the variance inflation factor (VIF).

Table 3: Multicollinearity test

Variable	VIF
economic activities	2.022
Legal regulatory framework	1.557
ethical issues	1.330
philanthropy	2.346
a. Dependent Variable: performance	

Source: Research data

The VIF for CSR economic activities, legal and regulatory framework, ethical issues and philanthropy were 2.022, 1.557, 1.330 and 2.346 respectively. A value of less than 5 reveals that there was no correlation among the independent variables; hence no corrective measure was required. There was no multicollinearity in any of the independent variables.

4.2.3 Autocorrelation

The Durbin-Walton test was applied to assess the existence of autocorrelation in the residuals of a multiple regression analysis. If autocorrelation is detected the study transforms variables that remove the autocorrelation parameter using Cochrane procedure. Table 4 shows the results of the test.

Table 4: Autocorrelation analysis

Model	Durbin-Watson
1	2.063
a. Predictors: (Constant), philanthropy, ethical issues, legal regulatory framework, economic activities	
b. Dependent Variable: performance	

Source: Research data

From the results above the value of the Durbin–Watson test was 2.063 which indicates no correlation between the study variables. This was appropriate for analysis.

4.2.4 Heteroscedasticity

To detect heteroscedasticity, the study employed the scatter plot and the white test. It determines whether the error variance is affected by any of the regressors, their squares, or cross products. Figure 2 illustrates the results.

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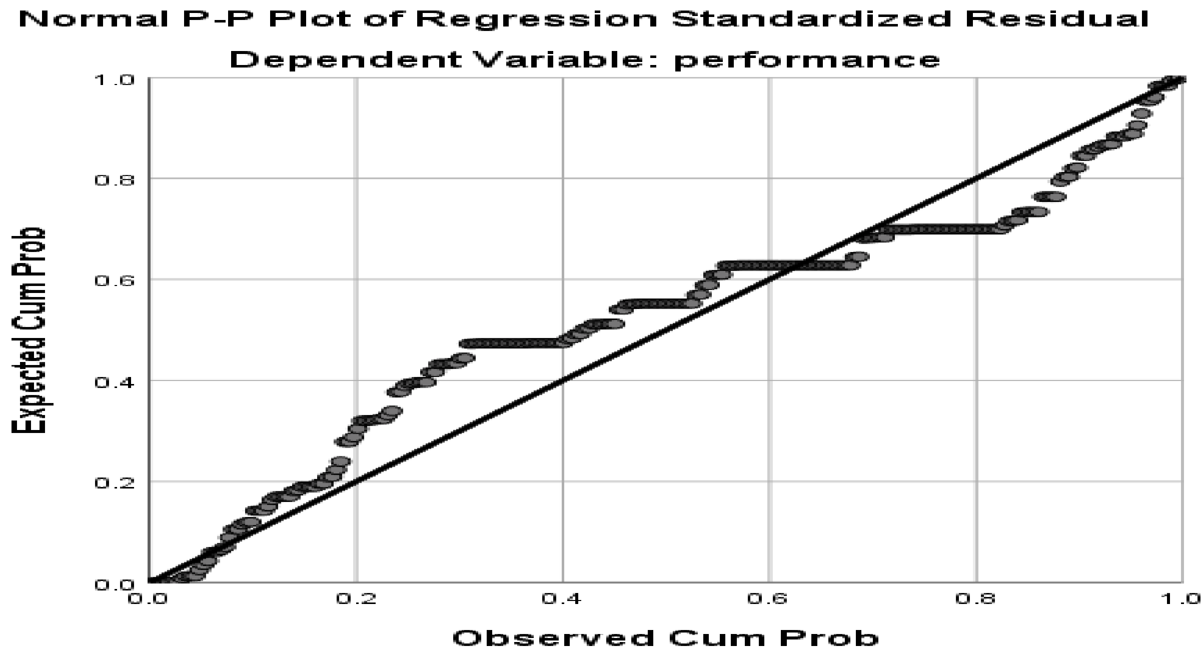

Figure 2: Scatterplot

The output of the scatter plot shows that the spots are dispersed and do not form a clear pattern. Hence, the model did not show heteroscedasticity.

4.3 Reliability results

The study conducted a pilot study to assess the validity and reliability of the research instrument. Machakos County served as the location of the pilot study. A test sample of 25 respondents was included in the pilot test's sample. The reliability results from the pilot research are indicated in Table 5.

Table 5: Reliability Results

Variable	Item	Alpha Value	Recommendations
Economic activities	10	0.904	Reliable
Legal and regulatory framework	10	0.897	Reliable
Ethical issues	10	0.912	Reliable
Philanthropy	10	0.889	Reliable
Financial performance	10	0.871	Reliable

Source: Research Data

The Cronbach Alpha Coefficient was calculated for each variable. Coefficient for financial performance was 0.871, economic activities were 0.904, legal and regulatory framework was 0.897, ethical issues were 0.912 and philanthropy was 0.889. All the variables had reliability values higher than 0.7, which was considered adequate in the study.

4.4 Validity tests

The study conducted validity tests for the questionnaire. The research's instrument validity was achieved by seeking the university supervisor's professional advice. Upon adequate advice from the supervisors, the questionnaire was examined, revised and accepted. The questionnaire provided data that accurately answered the study's research questions.

4.5 Demographic information

The research aimed at determining the participants' demographic information. Results showed that 167 (69%) of the respondents were male and 74 (31%) were female. Hence, majority of the respondents were male. There was fair distribution of gender, hence no bias. Findings showed that 33 (14%) respondents were aged 18-28 years, 78 (32%) were aged 29-39 years, 39 (16%) were aged 40-49 years, 64 (27%) were aged 50-59 years and 27 (115) were aged 60-69 years. Hence, majority were aged 29-39 years. The ages of the respondents were fairly distributed, hence no bias .It was revealed 52 (22%) were certificate holders, 164 (68%) were diploma holders and 25 (10%) were undergraduates. Most of the respondents were diploma holders and their responses could be relied on for credible findings and conclusions. Results showed that 55 (23%) of the respondents' businesses had existed between 1-5 years, 137 (57%) for 6-10 years and 49 (20%) for 11-15 years. Hence, most of the businesses had existed for 6-10 years. This was adequate period of operation, that guaranteed credible responses for study conclusions. Findings indicated that 165 (68%) of the businesses had 1-5 employees, 27 (11%0 had 6-10, 7 (3%) had 11-15, 3 (1%) had 16-30, 8 (3%) had 31-35, 14 (6%) had 36-40, 11 (5%) had 41-45 and 6 (2%) had 46-50 employees. Most of the businesses, therefore, had 1-5 employees. The nature of the businesses was reflected in the number of employees.

4.6 Descriptive analysis

The analysis is presented as per the study objectives that are: to examine economic activities, legal and regulatory framework, ethical issues and philanthropy and financial performance of small and medium enterprises.

4.6.1 Economic activities and financial performance

First objective was to assess the effect of corporate social responsibility economic activities on the financial performance of small and medium enterprises in Makueni Sub County. Respondents were asked ten questions regarding the objective. Likert scale was used to present responses.

Table 6: Economic activities and financial performance

Statement	N	Mean	Std. Dev.	SA	A	NS	D	SD
The business endeavours to maximise its earnings.	241	4.20	0.629	32	56	12	0	0
The business has a competitive advantage over competitors in sector	241	4.26	0.593	34	58	8	0	0
The business is operationally efficient in use of internal resources.	241	4.46	0.555	49	48	3	0	0
The business has consistent profitability over a period of time.	241	4.49	0.541	51	46	2	0	0
The business has invested in local community projects.	241	4.38	0.572	42	53	5	0	0
The business sources for raw materials from local suppliers.	241	4.20	0.629	32	56	12	0	0
The business has invested in green energy sources.	241	4.26	0.593	34	58	8	0	0
The business has put measures to reduce wastage in operations.	241	4.46	0.555	49	48	3	0	0
The business operates on budget to remain profitable.	241	4.49	0.541	51	46	2	0	0
Business staffs are conscious of economic requirements of the business.	241	4.38	0.572	42	53	5	0	0
Mean		**4.36**						

Source: Research Data

Table 6 reveals that 88% agreed that the businesses endeavoured to maximise its earnings (Mean=4.20, SD=0.629). It was agreed that businesses had a competitive advantage over competitors in sector (Mean=4.26, SD=0.593). Ninety seven percent agreed that the businesses were operationally efficient in use of internal resources (Mean=4.46, SD=0.555). Findings showed that 98% of the respondents agreed that business has consistent profitability over a period of time (Mean=4.49, SD=0.541). It was agreed (95%) that businesses had invested in local community projects (Mean=4.38, SD=0.572). Findings showed that 88% of the respondents agreed that the businesses' sourced for raw materials from local suppliers (Mean=4.20, SD=0.629). It was agreed that the businesses had invested in green energy sources (Mean=4.26, SD=0.593). Findings showed that 97% of the respondents agreed that the businesses had put measures to reduce wastage in operations (Mean=4.46, SD=0.555). Most of the respondents agreed that the businesses operated on budget to remain profitable (Mean=4.49, SD=0.541). It was agreed that business staff were conscious of economic requirements of the business (Mean=4.38, SD=0.572).

4.6.2 Legal and regulatory framework and financial performance

The second objective was to evaluate the effect of corporate social responsibility legal and regulatory framework on the financial performance of small and medium enterprises in Makueni Sub County. Respondents were asked ten questions regarding the objective. Likert scale was used to present responses.

Table 7: Legal and regulatory framework and financial performance

Statement	N	Mean	Std. Dev.	SA	A	NS	D	SD
The business adheres to laws of conducting business.	241	4.29	0.552	34	61	5	0	0
Business regulations are adhered to strictly.	241	4.34	0.585	40	54	6	0	0
The business fulfils its obligations as per the law of the land.	241	4.29	0.529	32	64	4	0	0
The business resolves commercial disputes within the law.	241	4.30	0.551	35	61	5	0	0
The business enters into contractual agreements with business associates.	241	4.34	0.599	41	53	7	0	0
The business has adopted regulations governing the running of sector in which it operates.	241	4.29	0.552	34	61	5	0	0
The business advocates for application of law in dealing with the customers it serves.	241	4.34	0.585	40	54	6	0	0
The company adheres treats its staff as per the prevailing labour laws.	241	4.29	0.529	32	64	4	0	0
Products and services are produced and or offered as per the law.	241	4.30	0.551	35	61	5	0	0
Business staffs are trained on business regulations and adherence.	241	4.34	0.599	41	53	7	0	0
Mean		**4.31**						

Source: Research Data

Table 7 reveals that 95% agreed that the businesses adhered to laws of conducting business (Mean=4.29, SD=0.552). It was agreed that businesses regulations were adhered to strictly (Mean=4.34, SD=0.585). Ninety six percent agreed that the businesses fulfilled their obligations as per the law of the land (Mean=4.29, SD=0.529). Findings showed that 95% of the respondents agreed that business resolved commercial disputes within the law (Mean=4.30, SD=0.551). It was agreed (95%) that businesses entered into contractual agreements with business associates (Mean=4.34, SD=0.599). Findings showed that 95% of the respondents agreed that the businesses had adopted regulations governing the running of sector in which they operated (Mean=4.29, SD=0.552). It was agreed that the businesses advocated for application of law in dealing with the customers they served (Mean=4.34, SD=0.585). Findings showed that 96% of the respondents agreed that the businesses treated their staff as per the prevailing labour laws (Mean=4.29, SD=0.529). Most of the respondents agreed that the products and services were produced and or offered as per the law (Mean=4.30, SD=0.551). It was agreed that business staff were trained on business regulations and adherence (Mean=4.34, SD=0.599).

4.6.3 Ethical issues and financial performance

The third objective was to investigate the effect of corporate social responsibility ethical issues on the financial performance of small and medium enterprises in Makueni Sub County. Respondents were asked ten questions regarding the objective. Likert scale was used to present responses.

Table 8: Ethical issues and financial performance

Statement	N	Mean	Std. Dev.	SA	A	NS	D	SD
The business adheres to societal norms.	241	4.53	0.563	56	40	3	0	0
The business transacts ethically with stakeholders.	241	4.30	0.572	36	59	6	0	0
The business practices corporate integrity.	241	4.50	0.517	51	48	1	0	0
The business treats its stakeholders with respect and dignity.	241	4.26	0.578	33	60	7	0	0
Human rights principles are applied in dealing with business employees.	241	4.25	0.611	34	56	9	0	0
There exists a social contract of the business and the community.	241	4.53	0.563	56	40	3	0	0
There is consistency in application of ethics in business dealings.	241	4.30	0.572	36	59	6	0	0
The business is transparent in its business endeavours.	241	4.50	0.517	51	48	1	0	0
The business strictly adheres to moral uprightness.	241	4.26	0.578	33	60	7	0	0
The business solves its issues in an ethical way.	241	4.25	0.611	34	56	9	0	0
Mean		**4.37**						

Source: Research Data

Table 8 reveals that 97% agreed that the businesses adhered to societal norms (Mean=4.53, SD=0.563). It was agreed that the businesses transacted ethically with stakeholders (Mean=4.30, SD=0.572). Ninety nine percent agreed that the businesses practiced corporate integrity (Mean=4.50, SD=0.517). Findings showed that 93% of the respondents agreed that the businesses treated their stakeholders with respect and dignity (Mean=4.26, SD=0.578). It was agreed (91%) that human rights principles were applied in dealing with business employees (Mean=4.25, SD=0.611). Findings showed that 97% of the respondents agreed that there existed a social contract of the business and the community (Mean=4.53, SD=0.563). It was agreed that there was consistency in application of ethics in business dealings (Mean=4.30, SD=0.572). Findings showed that 99% of the respondents agreed that the business was transparent in their business endeavours (Mean=4.50, SD=0.517). Most of the respondents agreed that business strictly adhered to moral uprightness (Mean=4.26, SD=0.578). It was agreed that business solved their issues in an ethical way (Mean=4.25, SD=0.611).

4.6.4 Philanthropy and financial performance

The fourth objective was to determine the effect of corporate social responsibility philanthropy on the financial performance of small and medium enterprises in Makueni Sub County. Respondents were asked ten questions regarding the objective. Likert scale was used to present responses.

Table 9: Philanthropy and financial performance

Statement	N	Mean	Std. Dev.	SA	A	NS	D	SD
The business engages in charitable activities in the community.	241	4.20	0.629	32	56	12	0	0
The business offers financial assistance to community members.	241	4.26	0.593	34	58	8	0	0
The business gives material items in community.	241	4.59	0.541	61	36	2	0	0
The business is involved in life improvement initiatives for the community.	241	4.49	0.541	51	46	2	0	0
Volunteer work is performed by business members regularly.	241	4.41	0.579	46	49	5	0	0
The business has built collaborations with the community for assistance.	241	4.30	0.653	41	49	11	0	0
There is urgency in resolving issues affecting the business' immediate environment.	241	4.26	0.593	34	58	8	0	0
The business establishes foundation for charity work.	241	4.46	0.555	49	48	3	0	0
The business joins other firms in philanthropy.	241	4.54	0.540	56	42	2	0	0
The business budgets for philanthropy.	241	4.38	0.572	42	53	5	0	0
Mean		**4.39**						

Source: Research Data

Table 9 reveals that 88% agreed that the businesses engaged in charitable activities in the community (Mean=4.20, SD=0.629). It was agreed that the businesses offered financial assistance to community members (Mean=4.26, SD=0.593). Ninety eight percent agreed that the businesses gave material items in community (Mean=4.59, SD=0.541). Findings showed that 98% of the respondents agreed that businesses were involved in life improvement initiatives for the community (Mean=4.49, SD=0.541). It was agreed (95%) that volunteer work was performed by business members regularly (Mean=4.41, SD=0.579). Findings showed that 89% of the respondents agreed that businesses had built collaborations with the community for assistance (Mean=4.30, SD=0.653). It was agreed that there was urgency in resolving issues affecting the business' immediate environment (Mean=4.26, SD=0.593). Findings showed that 99% of the respondents agreed that the business established foundation for charity work (Mean=4.46, SD=0.555). Most of the respondents agreed that business joined other firms in philanthropy (Mean=4.54, SD=0.540). It was agreed that business' budgeted for philanthropy (Mean=4.38, SD=0.572).

4.6.5 Financial performance

The study examined the effect of corporate social responsibility on the financial performance of small and medium enterprises in Makueni Sub County. Respondents were asked ten questions regarding the objective. Likert scale was used to present responses.

Table 10: Financial performance

Statement	N	Mean	Std. Dev.	SA	A	NS	D	SD
The business has improved net profit margin.	241	4.21	0.517	26	69	5	0	0
The business' revenues have increased.	241	4.33	0.581	39	56	6	0	0
The market value of the businesses has increased.	241	4.31	0.515	34	64	2	0	0
Customer numbers have increased.	241	4.29	0.546	34	62	5	0	0
The company has opened more branches.	241	4.40	0.563	44	52	4	0	0
Free cash flows for the business have increased.	241	4.21	0.517	26	69	5	0	0
The company is able to meet is working capital requirements easily.	241	4.33	0.581	39	56	6	0	0
There is better management of costs on the business.	241	4.31	0.515	34	64	2	0	0
The business has increased use of its own resources to generate sales	241	4.29	0.546	34	62	5	0	0
The business has employed more staff.	241	4.40	0.563	44	52	4	0	0
Mean		**4.31**						

Source: Research Data

Table 10 reveals that 95% agreed that the businesses had improved net profit margin (Mean=4.21, SD=0.517). It was agreed that the business' revenues had increased (Mean=4.33, SD=0.581). Ninety eight percent agreed that the market value of the businesses had increased (Mean=4.31, SD=0.515). Findings showed that 95% of the respondents agreed that customer numbers had increased (Mean=4.29, SD=0.546). It was agreed (95%) that businesses had opened more branches (Mean=4.40, SD=0.563). Findings showed that 89% of the respondents agreed that free cash flows for the business had increased (Mean=4.21, SD=0.517). It was agreed that the businesses were able to meet is working capital requirements easily (Mean=4.33, SD=0.581). Findings showed that 98% of the respondents agreed that there was better management of costs on the business (Mean=4.31, SD=0.515). Most of the respondents agreed that businesses had increased use of their own resources to generate sales (Mean=4.29, SD=0.546). It was agreed (96%) that businesses had employed more staff (Mean=4.40, SD=0.563).

4.7 Inferential analysis

The study conducted correlation analysis. These showed the association between the study variables.

4.7.1 Correlation analysis

Pearson correlation analysis was carried out and results illustrated in Table 11

Table 11: Correlation analysis

		Performance	**economic activities**	**Legal regulatory_ framework**	**ethical issues**	**philanthropy**
Performance	r	1.000				
	p					
	N	241				
Economic activities	r	.693**	1.000			
	p	0.000				
	N	241	241			
Legal regulatory framework	r	.525**	.586**	1.000		
	p	0.000	0.000			
	N	241	241	241		
Ethical issues	r	.564**	.480**	.383**	1.000	
	p	0.000	0.000	0.000		
	N	241	241	241	241	
Philanthropy	r	.679**	.977**	.568**	.478**	1.000
	p	0.000	0.000	0.000	0.000	
	N	241	241	241	241	241
****. Correlation is significant at the 0.01 level (2-tailed).**						

Source: Research Data

The research findings highlight significant correlations between variables. The significance of correlations is determined by the p-values. In this context, ($p < 0.05$) is regarded substantially significant, while values above 0.05 are regarded as insignificant. There existed a strong correlation (r=0.693, p=0.000), between CSR economic activities and financial performance of SMEs. Similarly, the study revealed a significant and positive association between CSR legal and regulatory framework and financial performance of SMEs (r=0.525, p=0.000). The study revealed a positive and significant correlation between CSR ethical issues and financial performance of SMEs (r=0.564, p=0.000). There existed a strong correlation (r=0.679, p=0.000), between CSR philanthropy and financial performance of SMEs.

4.7.2 Regression Analysis

A regression analysis was done to explore how the independent variables impact the dependent variable. An overview of the linear regression model is shown in Table 12.

Table 12: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.749[a]	0.562	0.554	0.16577

a. Predictors: (Constant), philanthropy, ethical issues, legal regulatory framework, economic activities

b. Dependent Variable: performance

Source: Research Data

The findings indicate that the coefficient of determination, represented by R square, is 0.562, equivalent to 56.2%. This implies that 56.2% of the variability in the financial performance of the SMEs in Makueni Sub County could be explained with CSR economic activities, legal and regulatory framework, ethical issues and philanthropy, with a confidence level of 95%. The remainder 43.8 % of the variability in financial performances can be explained by other factors. The correlation coefficient, denoted as R, serves as a metric to quantify the relationship between these variables. The outcomes showed a significant and positive correlation between the variables, evident by a correlation coefficient of 0.749.

Table 13: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.307	4	2.077	75.577	.000[b]
	Residual	6.485	236	0.027		
	Total	14.792	240			

a. Dependent Variable: performance

b. Predictors: (Constant), philanthropy, ethical issues, legal regulatory framework, economic activities

Source: Research Data

ANOVA results exhibited a level of significance at 0.000, underscoring the substantial nature of the link between the dependent and independent variables of the research. This finding signifies that there exists a relationship between the variables. Moreover, the calculated F-value was observed to be greater than the critical F-value (75.577 > 2.372). The model employed in the study was reliable. Consequently, the results were considered adequate to formulate conclusive findings and provide credible recommendations.

Table 14: Coefficients

	Unstandardized Coefficients		**Standardized Coefficients**	**t**	**Sig.**
(Constant)	0.659	0.221		2.983	0.003
CSR economic activities	0.467	0.204	0.472	2.283	0.023
CSR Legal & regulatory framework	0.121	0.047	0.138	2.569	0.011
CSR ethical issues	0.246	0.043	0.283	5.686	0.000
CSR philanthropy	0.004	0.210	0.004	0.018	0.986
a. Dependent Variable: performance					

Source: Research Data

Table 14 shows the linear regression model is:

$Y = 0.659 + 0.472\ X_1 + 0.138\ X_2 + 0.283\ X_3 + \varepsilon$

Findings indicate a positive and significant influence of CSR economic activities on the financial performance of SMEs in Makueni sub county ($\beta = 0.475$, $p < 0.05$). This is in line with finding of Watson (2015), who found that fulfilling economic duty is an organization's top priority and the foundation for all other obligations. An organization’s willingness to take on social obligations depends on how well it can raise money to support charitable causes. It is crucial to remember that a firm cannot carry out social obligations without finances; hence the economic side is heavily stressed. Results showed a positive and significant influence of CSR legal & regulatory framework on the financial performance of SMEs in Makueni sub county ($\beta = 0.138$, $p < 0.05$). These results agree with those of Mohyletska (2023), who investigated the use of regulations in Bulgarian firms and reported that companies that adhere to regulations and corporate perform better. Legal responsibility also guarantees that businesses perform ethically in the marketplace and that they may be held accountable for their choices, safeguarding the interests of their clients (Oduor et al.,2023). There was a positive and significant influence of CSR ethical issues on the financial performance of SMEs in Makueni sub county ($\beta = 0.283$, $p < 0.05$). This augurs with findings of Cabrera et al. (2023), who explored the relationship between corporate reputation, business ethics and user retention in SMEs and found that CSR had a favorable effect on ethics. When an organisation actively engages in socially responsible practices, it positively influences how it is perceived by stakeholders, which can enhance its reputation and build trust with customers and other stakeholders. Findings revealed a positive and insignificant association between of CSR philanthropy and financial performance of SMEs in Makueni sub county ($p > 0.05$). These results contradict those of Schnurbein et al. (2018), who evaluated the relationship between CSR and corporate philanthropy. The study identified various dimensions of CSR, including creative, moral, motivational, and economic aspects. Amaeshi et al. (2018) emphasized that CSR procedures in SMEs are more complex than previously thought. SMEs carry out their CSR initiatives in diverse settings and to varying degrees.

5.0 Conclusion

The study concluded that there is a positive and significant effect of CSR economic activities on the financial performance. Businesses that make a conscious effort to maximize their earnings often enjoy a distinct competitive advantage within their respective sectors. CSR involves the efficient utilization of internal resources, maintaining a track record of consistent profitability over an extended period, and actively investing in local community projects. There is a positive and significant effect of CSR legal and regulatory framework on the financial performance. The legal and regulatory frameworks for CSR encompass a range of important elements that businesses must adhere to in order to operate ethically and responsibly. Small and Medium Enterprises that engage in contractual agreements with their business associates and proactively adopt regulations that govern their specific sector tend to achieve better overall performance. A robust CSR legal and regulatory framework is essential for businesses to not only operate ethically but also to maintain their financial stability and reputation within their respective industries. There is a positive and significant effect of CSR ethical issues on financial performance. Adherence to societal norms and ethical transactions with stakeholders play a pivotal role in determining the financial performance of SMEs. SMEs that incorporate human rights considerations into their operations and supply chain management not only contribute to a more just and ethical world but also reduce the risk of reputational damage and potential legal liabilities.

6.0 Recommendations

The study recommends that SMEs should focus on maximizing their earnings. The businesses should source raw materials from local suppliers. Sourcing locally may offer more control over the supply chain, quality assurance, and the ability to respond quickly to market demands, all of which can positively impact a business's bottom line. SMEs should adhere to the laws governing the conduct of business. Compliance with business laws not only helps SMEs avoid potential legal liabilities and penalties but also contributes to a reputation for trustworthiness and reliability, which can positively impact customer and stakeholder relationships. SMEs should fulfill their obligations as per the law of the land. This encompasses various aspects of business, including tax obligations, contractual agreements, and regulatory compliance. SMEs should adopt and adhere to regulations governing the specific sector in which they operate. SMEs should adhere to human rights principles and apply them in their dealings with employees. This study recommends strict adherence to moral uprightness in business operations. SMEs should resolve their issues in an ethical way. Ethical conflict resolution methods can prevent prolonged disputes, minimize legal costs, and protect the reputation of the business. Moreover, it demonstrates a commitment to ethical practices and responsible corporate citizenship. The study was limited to corporate social responsibility on the financial performance of small and medium enterprises in Makueni Sub County. Further studies could be conducted in other counties and sub counties in Kenya, to enhance findings. Further research could employ mixed methods. Combining qualitative and quantitative techniques would allow researchers to gather both numerical data and in-depth narratives. The study focused on CSR economic activities, legal and regulatory framework, ethical issues and philanthropy, as the independent variables. Further studies could look into other variables that, according to the study, could explain the 43.8% of variations in financial performance of SMEs. This would not only add to theory bus also demonstrate the relationship between CSR on the financial performance of SMEs.

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