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ISSN 2522-3186

http://journals.uonbi.ac.ke/index.php/adfj
ISSN 2522-3186

Effect of Socially Responsible Investment on Performance of Non-financial firms listed at the Nairobi Securities Exchange

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Abstract

The study intended to establish the effect of socially responsible investment on financial performance of non-financial firms listed at the Nairobi securities exchange, Kenya. The study used a descriptive cross sectional survey approach. The targeted population comprised of non-financial firms listed in Kenya. They were thirty-nine (39) in number as at 31st December 2019. The study employed primary and secondary data. The collection of primary data was done using a structured questionnaire. Multiple regression analysis was then employed to determine how socially responsible investment affects financial performance. It was found out that the non-financial firms adopted SRI practices in their investment decision making. Correlation analysis established that negative screening, norm-based screening, positive screening and return on assets have strong positive and significant correlation. Size of the firm and return on assets having a moderately positive and significant correlation. The implication is that improved consideration of negative screening, norm-based screening, positive screening lead to improved return on assets. Increased firm size equally leads to increased return on assets. Regression analysis established that R = 0.792 implying that SRI and financial performance of listed non-financial firms are positively related. The adjusted R^2 of 0.577 meant that 57.7% of variations in financial performance was caused by variations in norm-based screening, negative screening, positive screening and size of the firm. The overall p-value was significant which depicted that norm-based screening, negative screening, positive screening and size of the firm reliably predicted financial performance of listed non-financial firms at the NSE. The recommendation of the study was that managers of both the listed and the non-listed companies should modify their corporate strategies accordingly owing to the fact that, the findings indicate that SRI affect financial performance of firms. The recommendation is that the managers be up to date on issues regarding SRI and the related concepts.

Keywords: *Norm-based screening, negative screening, positive screening, financial performance*

Introduction

Hoon, Park and Ghauri (2013) define socially responsible investment as investment activities that facilitates achievement of financial goals of a firm as well as being committed to the interest of the society and environmental health. Such investments promote how firms perform not only on the basis of environment and social indicators but also economically (Brzeszczynski & McIntosh, 2014). The focus was on

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environmental, social and governance factors that helps to address not only healthy corporate behaviour, but equally enables the safety of capital for improved financial performance. Blankenberg and Gottschalk (2018) posit that organizations can achieve social and environmental sustainability without sacrificing returns. Arefeen and Shimada (2019) also found socially responsible funds to be more resilient to market uncertainty hence stable and certain financial performance.

SRI incorporates performance environmentally, socially and governance-based criteria when making decisions to invest. This facilitates sustainability of the company operations over time through legitimacy achievement. The implication however does not mean that the company forego the primary goal of making profits (Busch, Bauer & Orlitzky, 2016). The focus is on how the investment decisions of the company affect the environment positively or negatively, especially when analyzing financial performance at the end of the year. Iraya (2018) argued that the focus of SRI answers the question as to whether investments' financial returns are sacrificed or not.

Derwall, Koedijk and Ter Horst (2011) noted that financial performance depends on what values drive company operations and the stakeholders. The implication is that SRI lead to improved financial performance because such firms are rarely socially and environmentally damaged when such types of risks arise. Murithi and Mbogo (2016) found out that increased spending on social responsibility significantly affect profitability of firms. Iraya and Oyenje (2013) however found that socially responsible investments and financial performance are positively correlated among firms listed in Kenya. The relationship is however insignificant. SRI however combines the aspect of social, environmental and economic responsibility while undertaking investment activities. Environmental and socially-related risks when not managed effectively would significantly compromise corporate going concern and its relationship with stakeholders.

The context of the study is non-financial firms listed at the Nairobi securities exchange. They have the requirement to remain sustainable economically, socially and environmentally in terms of performance. It is coupled with the need to disclose environmental and social activities in line with corporate governance compliance. The contextual concern is that this category of firms are mostly involved in manufacturing and related services that significantly affect the environment and may compromise their existence is an aspect of responsibility is not incorporated.

Research Problem

SRI enables firms to become environmentally and socially viable without compromising economic performance while at the same time being governed properly. Companies in this case adopt strategies to be efficient in energy usage and management of waste as well as being socially responsible. This would help to reduce cost of operation and improve stakeholder relationship leading to improved financial performance (Latinovic & Obradovic, 2013). Socially responsible investment is deemed to positively affect financial performance by improving financial resilience of firms. There are however other arguments that socially responsible investments are not financially rewarding with other scholars of the view that whether a company adopts socially responsible investment or not does not matter (Goy & Schwarzer, 2013). The mixed outcomes inform the need to ascertain how SRI relate to financial performance.

Non-financial firms involve in manufacturing and related services that consume huge volumes of environmental-related materials. This significantly affect the environment and may compromise their existence if an aspect of responsibility is not incorporated. Such firms therefore need to control practices such as how to utilize energy, manage and recycle wastes, employee safety management and merchantability of products (Iraya & Oyenje, 2013). This creates the emphasis for social responsibility approach to investments to help reduce any conflicting situations with stakeholders. There is equally intense government regulation and the need for these firms to observe social responsibility in their investment activities.

Latinovic and Obradovic (2013) conducted a study in Poland and established that socially responsible investments maximize value to shareholders though they mostly underperform conventional investments. In another study in France, Ameur and Senanedsch (2014) found that SRI are less risky hence perform financially better due to reduced risk premium. Blankenberg and Gottschalk (2018) in a study in USA however established that there is non-significant contrast between the performance of sustainable and conventional portfolios implying no correlation between SRI and financial performance. Arefeen and Shimada (2020) found out that there is resilience among funds that observe social responsibility such that observing SRI in investment enables firms to withstand tough economic terrains as established in USA. Locally, Iraya (2018) established that social responsibility has a positively insignificant correlation with financial performance. Kamwara, Rita and Mbogo (2016) asserted that being socially responsible

significantly affect profit making of listed companies. Based on the studies, the reality is that Kenya is comparatively unique both economically, politically, socially and culturally making the corporate investment environment to be different from other countries implying that mixed results could be affirmed by the current study. This research therefore addresses the research gaps above by providing answers to the question. 'What is the effect of socially responsible investment on financial performance of non-financial firms listed in Kenya?'

Research Objectives

To establish the effect of socially responsible investment on financial performance of non-financial firms listed at the NSE, Kenya.

Literature Review

Theoretical Review

The concepts under discussion were grounded in Modern Portfolio Theory, Legitimacy Theory and Institutional Theory.

Modern Portfolio Theory

It was advanced by Markowitz (1952). It explains how the expected returns of a portfolio can be maximized bearing in mind the risk-return trade-off scenario by selecting an optimal portfolio. The emphasis is the need to diversify the assets or investments that one intends to include in the portfolio. It calls for rationality among investors when selecting the assets that form an investment portfolio. Omisore, Yusuf and Christopher (2012) posit that investors must not consider assets individually but as a portfolio, bearing in mind that the more diversified a portfolio is, the lower the possible risks. Capelle-Blancard and Monjon (2011) assert that an increasing number of companies involved in investments are considering assets that are socially and environmentally-friendly to form their portfolio.

In its application, the theory emphasizes on the need to create a socially responsible portfolio through the adoption of different aspects of screening (Jedynak, 2017). The implication is that SRI-based portfolios perform better that conventionally-constructed portfolio. Jo, Saha, Sharma and Wright (2010) posit that the use of SRI helps to grow how the portfolios perform and subsequently the financial performance of the firms. The theory faces criticisms from scholars who doubt it viability. Their argument is that the model is

not realistic and lacks insights regarding personal issues, the environment and socio-cultural perspectives of modern-day investment. The theory equally seems inadequate in explaining market behaviors during a financial crisis (Lo & Mackinlay, 2010). The theory is also criticized on the basis of usage of outdated information to estimate asset and market behavioral patterns (Fabozzi, Gupta & Markowitz, 2002).

Legitimacy Theory

It was advanced by Brown and Deegan (1998). It is based on assumption that firms continuously try to operate within approved norms and customs of their communities of operation. It means that the desirability of a firm's activity is linked to systems that are constructed by the societal guidelines, value system, beliefs, and definitions. Firms must therefore undertake their businesses as per the environmental value system. According to Dyduch and Krasodomska (2017), external stakeholders require firms to act in a way that would make them enjoy recognition as transparent with respect to compliance with social and environmental issues. This means that organizations are considered legitimate through being responsible socially and environmentally.

The emphasis of the theory is that firms should ensure that the perception of the society is positive towards them and this can be achieved through operation within acceptable rules and regulations to be legitimate. The rules are set by the dynamic ethical environment within which the firms operate (Deegan & Unerman, 2011). The test of legitimacy is the extent of corporate disclosure on matters that are socially and environmentally of concern with respect to the activities of the firm. The theory is however criticized by its abstractness that makes it difficult in the discovery of the approach that firms employ to socially and environmentally disclose their operations (Burlea & Popa, 2013).

Institutional Theory

It was advanced by Meyer and Rowan (1977). It examines how the behaviors of companies are socially shaped by existing guidelines, norms, procedures and policies. DiMaggio and Powell (1991) opined that environmental factors have an influence on how a firm operates irrespective of the structure of the market. The environmental variables therefore form the institutional frameworks that influence the activities and operations of the company. The theory focus on institutional factors such as corporate values, formal and informal groupings, limiting factors and forecasts including environmental, governance and social regulations (Crossland & Hambrick, 2011).

The theory is used in identifying the roles various institutions play in regulating the behavior of firms especially environmental and corporate governance regulations that surrounds SRI. Greenwood, Hinings and Whetten (2014) however criticizes the theory by stating that it substitutes its original focus by making emphasis on firms rather than the institutional frameworks that underpins the theory. This implies that the theory may not create adequate insight on the firms SRI strategies and instead focus on the institutions that are not the basis of the study.

Empirical Literature Review

Latinovic and Obradovic (2013) assessed how selecting equity assets can incorporate sustainability into the investment strategy and analysis. The study undertook a content review of existing literature based on the belief that when investments are socially responsible, their performances are better than those that do not observe social and environmental responsibility. It reached a conclusion that when companies are socially responsible, they become value additional to the equity holders. This implies a further conclusion that socially responsible investment equities underperform conventional ones.

Ameur and Senanedsch (2014) conducted an analysis of how socially responsible firms perform. The study asymmetrically applied BEKK-GARCH model to estimate risks that are unique to a particular firm or product with respect to how they vary overtime. It was contextualized in USA, Europe, and Asia Pacific. The study used week to week data of between January 2004 to November 2013. The study found out that companies that observe SRI exhibit lower risk premium than the ordinary investments.

Blankenberg and Gottschalk (2018) sought to answer the question as to whether incorporating social responsibility in equity investments makes a company competitively superior. The study compared sustainability of equity investments overtime. Sharpe ratio was used because it simplifies quantification, observes absolute risk and helped to rank criteria. For comparison purposes, the researchers developed two sets of groupings of investments with each having twenty (20) companies during 2002-2016. In one grouping, investments that incorporate social responsibility were considered while the other grouping had traditional investments. It was concluded that when investments incorporate social responsibility, they exhibit high returns as compared to the traditional ones.

The study by Okere, Imeokparia, Ogunlowore and Isiaka (2018) investigated how CSR affect the decisions made by companies concerning investments. The study was contextualized on manufacturing sector in Nigeria. Panel methodology was employed by the study. Secondary data collection targeted the period 2008-2015 from 15 out of 64 firms in the manufacturing sector. The sample approach was discretionary with descriptive approach being employed. To establish how the variables under study are related, a correlational method was employed. The Hausman test was then conducted to help in the determination of the appropriateness of the model. The conclusion was that CSR positively and significantly relate to investment-related activities carried out by the firms.

Chang-Soo Kim (2019) examined the extent to which investments that incorporate social responsibility perform better than the traditional ones. The approach involved examining data from similar studies to analyze the trend. It was descriptive in nature using secondary data. The collection of data involved gathering relevant information from on-line sources that was employed through the use of Google Scholar. The study reached a conclusion of no significant difference in how investments that have incorporated social responsibility perform as compared to the traditional ones.

Tseng et al (2019) examined how sustainability of an investment relate to its sensitiveness socially, geographically and good management of the related activities of the investing company. The study adopted analytical fuzzy DEMATEL method. It was established that sustainability in investments is achieved when firms incorporate social, environmental and good governance issues in the management of the investments. It was also established that the need for transparent and observation of best board practices equally ensure sustainable investments. The conclusion was that sustainable ESG investments lead to a better performance.

Arefeen and Shimada (2020) investigated how resilient socially responsible funds are in comparison with the traditional ones. It was contextualized in Japan where the listed funds were studied in the course of the two economic shocks (the U.S. election and Brexit) in 2016. Event study methodology was adopted in this study using ordinary least square (OLS). Secondary data was used from 62 socially responsible funds as per Japan Sustainable Investment Forum classification, and then performed a random selection of 35 socially responsible funds. In data analysis, the study adopted OLS. Compared to conventional funds, the study found out that there is high intensity resilience among SRI as compared to the traditional investments.

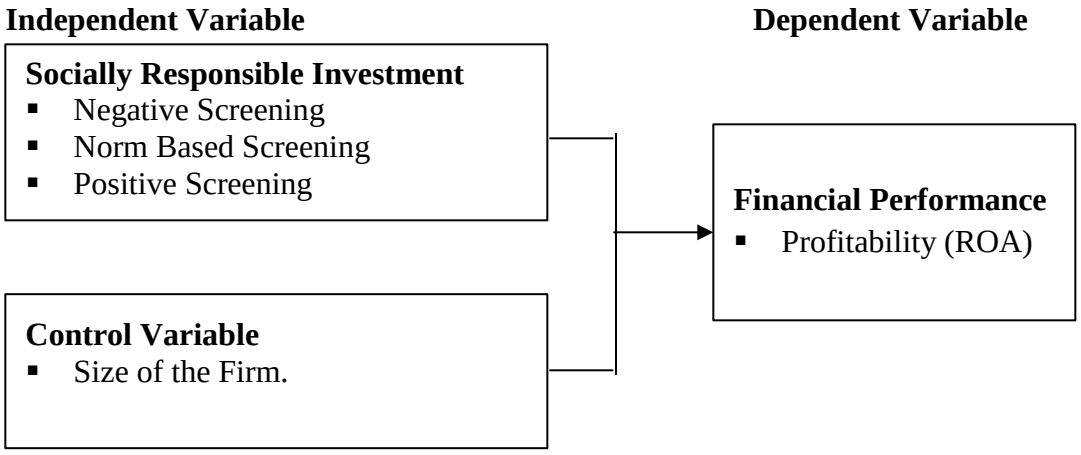
Kamwara, Rita and Mbogo (2016) conducted an examination on the extent to which financial performance is influenced by spending on CSR. Description methodology was adopted in this study. The study targeted 49 listed companies from the total number of 63 companies. Data collection was from existing financial statements. The analysis and processing of data was conducted using SPSS. It was established that increased spending on CSR by companies lead to increased profitability. The conclusion was therefore that being socially responsible enables companies to improve profit generation and to sustain their competitive advantage.

The study by Iraya and Oyenje (2013) conducted an assessment on how CSR practices relate to performance of companies financially. The context of the study was Nairobi Securities Exchange, Kenya with a focus on listed manufacturing, construction and allied sector. The methodology adopted was correlation descriptive survey in nature. The study targeted all listed manufacturing, construction and allied sector of the Nairobi Securities Exchange. Complete secondary data was collected from 10 companies out of the 14 in the sector. The data was collected from financial statements that had undergone through auditing for the period 2007 – 2011. To help in the determination of how the variables relate, multiple regression model was used. It was found out that CSR, efficient manufacturing and intensive capital engagement relate to return on assets. The study therefore concluded that CSR positively affect how firms perform financially.

In another study, Iraya (2018) established how SRI affect the extent to which mutual funds perform in Kenya. The study targeted one hundred and fourteen (114) funds with licenses to operate in Kenya. The methodology adopted was descriptive survey in nature. It was found out that SRI and performance significantly relate to each other, hence the justification of the incorporation of social and environmental screening by fund managers.

Conceptual Framework

The aim of the research was to explore how socially responsible investments affect financial performance of listed non-financial firms in Kenya. Socially responsible investment formed the IV while financial performance was DV and measured using profitability. The control variable was size of the firm. The essence of how the variables relate is as captured in Figure 2.1.



Methodology

Research Design

The study employed a descriptive cross sectional survey design. It was an observational study which focused on data from a population at a particular time (Wang & Cheng, 2020). It determined what numbers of individuals are under a condition and if there is a variation in how frequent it occurs as portrayed in the group that is being studied. According to Kumar (2011), this design considers the use of either the whole population or a sample as a source of the needed information. The assumption is that the data used in this study gives an explanation of happenings in a timely manner. The cross sectional studies assisted to ascertain the linkage between the constructs at a given time (Cooper & Schindler, 2006). The design enabled the analysis, interpretation and reporting of research outcomes with high level of exactness.

Data Analysis

Using SPSS, composite scores were used to reduce the three indicators of SRI strategies to one value of X to run on the SPSS. The study then employed multiple regression analysis to determine how socially responsible investment affects financial performance. In this study, the following regression model was used:

$$\mathbf{Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon}$$

Where:

Y = Financial Performance
a = Constant
β_1, β_2 and β_3 = Coefficient of Independent variables
β_4= Coefficient of Control Variable
X_1= Positive Screening; X_2= Negative Screening; X_3 = Norm Based Screening; X_4= Size of the Firm; ε = Error term.

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ISSN 2522-3186

Table 3.1: Operationalization of Study Variables

Variable	Operational Definition	Scale	Questionnaire	Supporting Literature
Dependent Variables Financial Performance	▪ ROA	Ratio	▪ **Appendix II** Data Collection Sheet	Naz and Naqvi (2016) Burkhardt and Wheeler (2018),
Independent Variables				
Negative Screening	▪ Manufacture of Hazardous Substances. ▪ Animal Exploitation. ▪ Dangerous Emissions.	Ordinal	**PART B** Question 1 – 9	Goy and Schwarzer (2013)
Norm Based Screening	▪ Minimum Wage Convention. ▪ Discrimination of Employees. ▪ Freedom of Association.			
Positive Screening	▪ Corporate Governance. ▪ Environmental Management System. ▪ Products and Services.			
Control Variable				
Size of the Firm	▪ Total Assets	Ratio	▪ **Appendix II** Data Collection Sheet	Ogunleye, Adeyemi and Asamu (2018)

Operationalization of Study Variables

The variables for this study included socially responsible investment being IV and financial performance represented DV. The operationalization is given in Table 3.1 below.

Test of Significance

The t-test and F-test was employed determining of how significant the constructs are study. The F-test was employed in ascertaining whether the regression model that have been fitted to the data set best fits the population of study and is hence suitable. The t-test on the other hand was used as a test of statistical significance of the link between the constructs dealt with.

Empirical Results and Analysis

The research data was obtained from thirty-five (35) companies. This represented 90% of the expected respondents. Considering that all the sub sectors of the non-financial and both genders were represented in the study, there was no issue of misrepresentation. The response rate was therefore regarded as representative and adequate.

Descriptive Statistics

This section involved analysis of demographic data and the degree to which the enterprises have adopted SRI.

Demographics

The study considered gender of the respondents, department, sector of the company and the question as to whether the respondents knew about SRI as part of the demographic information. The analysis is as given in Table 4.1. It indicates that 51.4% of the informants were male while 48.6% were female. The results show that the non-financial companies observes the gender rule as required by the Kenyan constitution since the response rate was almost balanced in terms of gender. This also improved the reliability of the information. It also indicated that majority of the respondents were from production and operations department represented by 42.9% while the finance department were represented by 37.1% with the least being the other departments at 20% of the respondents.

Regarding sector of the company, the study found out that agricultural, automobile and accessories, commercial and services and energy and petrol represented 14.3% of the respondents. Construction and allied had the highest representation at 22.9% while manufacturing and allied and telecom each had 8.6%.

Real estate investment trust had 2.9% representation. The implications of the finding indicate data was collected from all the sectors representing non-financial companies making it easy to generalize the outcomes. The study also indicated that 60% of the informants had heard about SRI while 40% had not. To improve the reliability of their response, a brief explanation was mailed to them and most of them later agreed to the fact that their companies practice some of the practices.

Table 4.1: Demographics

Gender of the Respondents	**Frequency**	**Percent**	**Valid Percent**
Male	18	51.4	51.4
Female	17	48.6	48.6
Total	**35**	**100.0**	**100.0**
Department			
Finance	13	37.1	37.1
Productions and Operations	15	42.9	42.9
Others	7	20.0	20.0
Total	**35**	**100.0**	**100.0**
Sector of the Company			
Agriculture	5	14.3	14.3
Automobile & Accessories	5	14.3	14.3
Commercial and Services	5	14.3	14.3
Construction and Allied	8	22.9	22.9
Energy and Petroleum	5	14.3	14.3
Manufacturing and Allied	3	8.6	8.6
Telecommunication	3	8.6	8.6
Real Estate Inv. Trust	1	2.9	2.9
Total	**35**	**100.0**	**100.0**
Ever Heard of SRI			
Yes	21	60.0	60.0
No	14	40.0	40.0
Total	**35**	**100.0**	**100.0**

Adoption of SRI

The informants indicated the whether they concurred that their companies had adopted SRI in investment decision making. The respondents were based on a scale of 1 to 5 where 1 =Very low, 2=Low, 3=Moderate, 4=High, 5= extremely high. The SRI practices under study included negative screening, norm based screening and positive screening as analyzed in proceeding tables.

Table 4.2 indicate that the listed non-financial companies practiced negative screening moderately with an overall mean of 3.9333. Specifically, the companies have put in place mechanisms to avoid emission of dangerous gases from the manufacturing and production activities of the company to a higher extent with a mean of 4.0571 (SD=.68354) while ensuring that company activities and operations do not exploit the rights of animals and avoidance of engagement in corrupt government-related deals were practiced moderately each having a mean of 3.9143 (SD=1.12122) and 3.8286 (SD=.92309) respectively. The higher standard deviation indicates wide variations in the views of the respondents on the subject matter while a lower one indicates a high level of agreement among the participants on the subject matter. This is provided in Table 4.2:

Table 4.2: Negative Screening

Practices	**N**	**Mean**	**Std. Deviation**
There are mechanisms in place to avoid emission of dangerous gases from the manufacturing and production activities of the company.	35	4.0571	.68354
The company ensures that its activities and operations do not exploit the rights of animals.	35	3.9143	1.12122
The company does not engage in corrupt government-related deals.	35	3.8286	.92309
Average Mean		**3.9333**	

Regarding norm based screening, Table 4.3 indicate that the companies adopted norm based screening practices moderately with an average mean of 3.7905. The findings established that the companies have put in place mechanisms to ensure that no workplace discrimination exists in the company and that procedures

exist to ensure commitment to customers, suppliers and shareholders is upheld moderately with a mean of 3.9429 (SD=.96841) and 3.9429 (SD=.80231) respectively. The companies also ensure respect for human rights with a moderate mean of 3.4957 (SD=.95090). The standard deviations imply variations in the responses on each sub variable. A higher standard deviation indicates a higher variation in responses. This is provided in Table 4.3:

Table 4.3: Norm Based Screening

Practices	N	Mean	Std. Deviation
The company ensures there is respect for human rights.	35	3.4857	.95090
There are mechanisms to ensure that no workplace discrimination exists in the company.	35	3.9429	.96841
There are procedures in place to ensure commitment to customers, suppliers and shareholders is upheld.	35	3.9429	.80231
Average Mean		**3.7905**	

Finally, it was realized that the companies enforced positive screening practices at a moderate level with an average mean of 3.9048. It was established that the company adopts codes of best industry practices and they have an environmental management system in place each with an average mean of 3.9714 (SD=.78537) and 3.9429 (SD=.83817) respectively. The companies have also put in place procedures to ensure that the company's goods can be recycled and they have an eco-design with a moderate mean of 3.8 (SD=.79705).

Table 4.4: Positive Screening

Practices	N	Mean	Std. Deviation
The company adopts codes of best industry practices.	35	3.9429	.83817
There are procedures to ensure that the company's goods can be recycled and they have an eco-design.	35	3.8000	.79705
The company has an environmental management system in place.	35	3.9714	.78537
Average Mean		**3.9048**	

The standard deviations imply variations in the responses on each sub variable. A higher standard deviation indicates a higher variation in responses.

Regression Analysis

The study then employed multiple regression analysis to investigate how socially responsible investment affects financial performance. The analysis was given in the form of model summary, analysis of variance and regression coefficients.

Model Summary

From the model summary in Table 4.5, R = 0.792 implying a positive relationship between SRI and financial performance of listed non-financial firms listed at NSE, Kenya. The adjusted R^2 of 0.577 mean that 57.7% of variations in financial performance is caused by variations in norm-based screening, negative screening, positive screening and size of the firm. The implication is that there are other factors representing 42.3% that affect financial performance of the listed non-financial firms other than those included in the model under this study. The analysis is as given in Table 4.14.

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.792[a]	.627	.577	10.99527

a. Predictors: (Constant), Total Assets, Norm Based Screening, Negative Screening, Positive Screening

b. Dependent Variable: Return on Assets

Analysis of Variance

Table 4.6 gives the overall p-value indicating a significant association between SRI and financial performance at 0.000 ($p<0.05$). The F statistic was 12.587 and significant at $p=0.000$ ($p<0.05$). This implies that norm-based screening, negative screening, positive screening and size of the firm reliably predict financial performance of listed non-financial firms at the NSE. Therefore, the model was suitable for estimating the association between norm-based screening, negative screening, positive screening, size of

the firm and financial performance of listed non-financial firms at the NSE. The analysis is given in Table 4.6:

Table 4.6: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6086.978	4	1521.745	12.587	.000[b]
	Residual	3626.882	30	120.896		
	Total	9713.860	34			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), Total Assets, Norm Based Screening, Negative Screening, Positive Screening

Source: Research Data (2020)

Regression Coefficients

Table 4.7 indicates individual links between the various IVs with financial performance of listed non-financial firms in Kenya and their coefficient betas. The findings indicate that positive screening have a positive and significant effect on financial performance given by β=.576; $p<0.05$. The implication is that improved implementation of positive screening practices significantly affects financial performance of the listed non-financial firms. The findings also indicate that negative screening, norm-based screening and size of the firm positively influence financial performance of the listed non-financial firms in Kenya given by β=.077, β =.054 and β=.171 respectively.

The effect of these variables are however not significant being $p>0.05$. The analysis is indicated in Table 4.7. Based on the outcome, the regression model would be as follows:

$$\mathbf{Y = -31.628 + 576X_1 + 077X_2 + 054X_3 + 171X_4 + \varepsilon}$$

Where:

Y = Financial Performance

a = Constant

β_1, β_2 and β_3 = Coefficient of Independent variables

β_4 = Coefficient of Control Variable

X_1= Positive Screening

X_2= Negative Screening

X_3 = Norm Based Screening

X_4= Size of the Firm

ε = Error term.

Table 4.7: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
Model	**B**	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	-31.628	5.314		-5.952	.000
Positive Screening	7.064	2.765	.576	2.555	.016
Negative Screening	.860	2.123	.077	.405	.688
Norm Based Screening	.751	3.175	.054	.236	.815
Size of the Firm	.964	.819	.171	1.177	.248

a. Dependent Variable: Return on Assets

Source: Research Data (2020)

Conclusions and Recommendations

The study concludes that negative screening, norm-based screening, positive screening positively and significantly correlates with return on assets as a measure of financial performance. The implication was that when negative screening, norm-based screening, positive screening activities are increasingly incorporated in the process of investment decision making, financial performance improves in a significant way through improved return on assets. The study also concluded that size of the firm positively affected return on assets positively.

The study equally reached a conclusion that SRI positively and significantly relate with financial performance of listed non-financial firms listed at NSE, Kenya. Further conclusion was that 57.7% of variations in financial performance was caused by variations in norm-based screening, negative screening, positive screening and size of the firm. This implied that there were other factors representing 42.3% that affect financial performance of the listed non-financial firms other than those included in the model under

this study. Further, the implication was that improved consideration of SRI in investment decision making by the firms lead to improved return on assets as an antecedent of financial performance.

Several recommendations were made regarding the current study. The paper examined how SRI affects financial performance of NSE listed enterprises. The study recommends that managers of both the listed and the non-listed companies should modify their corporate strategies accordingly owing to the fact that, the findings indicate that SRI affect financial performance of firms. The recommendation is that the managers be up to date on issues regarding SRI and the related concepts.

The study also recommends that industries should intensify expenditure on SRI-related activities with respect to screening as it will result in high financial performance. Companies should also look into monetary allocation for SRI in their budget to realize financial performance improvements. There has also been increasing call for companies to adopt green financing. Based on the study findings, managers of the various companies need to make emphasis on the need to allocate resources to support SRI programs. This includes putting in place mechanisms to avoid emission of dangerous gases from the manufacturing and production activities of the company.

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