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# CSR as a mediator in the relationship between strategy formulation practices and performance of sugar manufacturing firms in Kenya

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### ABSTRACT

A properly formed strategy in an organization helps determine the appropriate courses of action for achieving organizational objectives and purpose by performing a series of steps in sequential order (Thompson, Gamble, and Strickland, 2006). Despite this, various organizations are meeting challenges in their environments of operation leading them to re-strategise their business operations. Compton (2004) points out challenges that are not limited to increased business complexity, changing customer's preferences, technological changes and CSR expectation of the customers. As a result of this, it becomes a challenge for businesses, including the Sugar Manufacturing Firms (SMFs) to attain productivity and at the same time maintain performance levels that are suitable.

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### Introduction

To achieve performance, organizations have established various approaches such as total quality management (TQM), business process re-engineering (BPR) and strategic management with the latter being the commonest. This involves planning, implementation and control of chosen strategies to achieve high organization performance (O.P) (Pearce and Robinson, 2000). This has led to business like the SMFs in Western Kenya to formulate and implement strategies that match their capabilities, constraints, opportunities and threats within their region of location (Yabs, 2007, Hunger and Whelan, 2007). This calls for shrewd planning, implementation and control of strategies to achieve the desired goals effectively and efficiently.

Corporate social responsibility (CSR) has received a lot of limelight since the 1950s and has become part of the planning process for Chief Executive Officers (CEOs). CSR (also referred to as Corporate Responsibility or Corporate Citizenship or Responsible Business or Corporate Social Opportunity) covers the relationship between the business enterprises and the society within which they interact (Werther & Chandler, 2010). Businesses, including the SMFs are being forced to consider the interests of the society by taking responsibility for the impact of their activities on business stakeholders and the environment too.

There is an emerging concept of CSR which greatly advocates moving away from a shareholder alone focus to a multi-stakeholder focus. This entails that the SMFs pay attention to all stakeholders who are not limited to investors, employees, business partners, customers, regulators, supply chain, local communities, but the environment and the society at large. This therefore forces the SMFs in Kenya to develop proper strategies that will encompass all stakeholders. McWilliams *et al.*, (2006) assert that strategic management practices play a crucial role to address stakeholders concerns and assess their expectations. The demands for CSR performance originate from both the external and internal stakeholders. And that is why this study will focus on both stakeholders.

It is also worth noting that agriculture plays a vital role in the Kenyan economy. Agriculture accounts for 24% of the country's Gross Domestic Product (GDP). Various crops are grown both in the highlands and the lowlands. Among the crops grown both on large and small scale in Kenya is sugarcane. Agriculture, specifically sugar farming, provides employment opportunities to the farmers and the various employees in the sugar manufacturing companies in the region of Western Kenya. In the sugar industry in Kenya, Miwani Sugar Company Limited is the oldest, established in 1927, even though it is currently inoperational. Other sugar factories include Chemilil, Mumias, Nzoia, South Nyanza (SONY sugar), West Kenya Sugar Company Limited and Muhoroni. There is a lot of theoretical and empirical attention paid in understanding the motives why or why not corporations act in socially responsible ways. Most of the research has been done to associate CSR to business ethics (Gal breath, 2010; Rowley & Berman, 2000).

### Strategy Formulation

Strategy formulation is the process of determining appropriate courses of action for achieving organizational objectives and thereby accomplishing organizational purpose and requires a series of steps that are performed in sequential order (Thompson, Gamble, and Strickland, 2006).

Strategy formulation as a process includes developing a vision and mission, identifying an organization's external opportunities and threats, determining internal strengths and weaknesses, establishing long term objectives, generating alternative strategies, and choosing particular strategies to pursue. Issues to be addressed include deciding what new business to enter, what business to abandon, how to allocate resources, whether to merge or form a joint venture, and how to avoid a hostile takeover.

Fact is that no organization has unlimited resources, and as such, strategists must decide which alternative strategies will benefit to the firm. Strategies determine long term competitive advantages. Therefore, top managers should make strategic decisions that are shrewd. That is why this study will majorly

focus on strategy formulation level in the organization as the first step in strategic management.

### **Corporate Social Responsibility**

It is important that an organization's CSR policy adopts sustainable business practices that will not have a negative impact on a business community's environment and people since the health of the community reflects the health of a business. Taking the broader community needs into account is often beneficial to a business's financial well-being. Creating long-term partnerships with the community, and avoiding environmentally and socially damaging short-term solutions, secures enduring economic stability.

There are many approaches to social responsibility defined by an organization's size and resources, but working with community-based initiatives, growing philanthropic efforts and developing business plans that are creating shared value are three of the most recognized (Mohr, J.J., Sengupta, S., & Slater, S. F. 2010). A social responsibility initiative focused on creating shared value recognizes that long-term business success and balanced social systems are interdependent. In order for a business to thrive, its community must be healthy, educated and well governed. Factoring formal investments in social welfare, education, civil society and healthcare into a strategic business plan creates opportunities to build social value and long-term growth.

The employees too need to be looked at as important stakeholders in the organization and proper CSR programs initiated for them (Masinde S. W., 2010). In the study findings Masinde S. W. (2010) recommended that sugar manufacturing firms should recognize the efforts of all the employees since it affects the performance of the entire organization by initiating schemes that are aimed at motivating the employees, provide medical insurance packages for the employees and have safety arrangement for all the employees while on duty.

### **Organization Performance**

To many scholars organization performance is looked at in terms of quantifying the outputs of organization as well as the extent to which stakeholders' expectations are satisfied (Compton, 2005, Whiteford and Coetsee, 2006, Sheng and Li, 2006)

The measurement of O.P is done for the purpose of ensuring that employee are meeting the organizational objectives, they are motivated, comparison is done in relation to competitors' activities, individual and organizational objectives are aligned and plans for performance improvement are formulated (Behn, 2003, Armstrong, 2006). Therefore, O.P should not just be looked at in terms of financial measures but also non-financial measures.

According to Esu and Inyang (2009) performance refers to results to be achieved by the organization and which have to be closely related to its vision. Performance is therefore looked at as both a process emanating from vision formulation as well as an output where the end results are analyzed.

Armstrong (2006) is of the opinion that O.P should not just be concerned with attainment of targets but also upholding values such as concerns for quality and people, having ethical operations and aligning them to individual and organizational objectives. However, organizational objectives differ from one organization to another even if they are in the same industry as is the case of the sugar manufacturing firms in Kenya.

### **Literature Review**

Various researches have been conducted by scholars on strategy formulation, Corporate Social Responsibility (CSR) and

organization performance, with a view of establishing how they interlink.

S.W. Masinde (2014) carried out a study focusing on the effect of employee based CSR practices on employee performance in sugar manufacturing firms (SMFs). In the study, S.W. Masinde (2014) examined the effect of employee oriented activities which included provision of housing for employees, work safety arrangements, insurance of workers and motivation schemes. The study employed descriptive causal survey research design. S.W. Masinde (2014) established a positive statistically significant linear correlation between practicing employee oriented activities and business performance of sugar manufacturing firms in Kenya.

On the basis of these findings, S.W. Masinde (2014) recommended that managers, investors of sugar manufacturing firms as well as the interested parties in sugar firms should proactively participate in employee oriented activities since it has a positive significance towards the performance of sugar firms.

An in depth look at the study reveals that it is true that employees are key in the performance of any organization and when not properly motivated they may sabotage organizational performance. Despite the results obtained, the study has several shortcomings which warrant an in depth study into the relationship between strategic management practices, CSR and organization performance. The study by S.W. Masinde (2014) was only carried out in two sugar firms in Kenya, yet there are more than ten of them in the country. Still the design chosen may not be appropriate since the two factories studied are in the same region thus making generalization of findings not suitable. Lastly, S.W. Masinde (2014) focused on employee based CSR only to influence sugar performance yet there also exists customer based CSR practices. It is due to this that the current researcher intends to widen the scope of the research by involving more public and private sugar manufacturing firms in the research.

Wachuri L.M. (2013) conducted a study in the banking sector in an attempt to look at strategies that Standard Chartered Bank Kenya Limited (SCBK) has implemented in order to achieve a sustainable competitive advantage. The research objectives were; to establish the competitive strategies that SCBK has adopted to achieve a sustainable competitive advantage and to identify challenges that SCBK has faced in its strategy implementation. Wachuri L.M (2013) used a case study research design. This is not an appropriate study design for this kind of phenomenon since the information obtained is only from one organization which doesn't give room for comparison with similar competitors. The findings by Wachuri L.M (2013) were that strategies are positively correlated to sustainable competitive advantage in organizations, and that resource based view (RBV) theory contributes a lot in strategy formulation as evidenced by the many different strategies that have been implemented in the banking industry such as mergers and acquisitions, initial public offers (IPOs), branding and restructuring. In the study, a recommendation by Wachuri L.M (2013) was that all the stakeholders should be involved in strategy formulation and implementation. However this is not appropriate since strategy formulation is a preserve of the top management. As it is, this study fails to realize that all the other stakeholders including the employees are supposed to be actively involved at the point of strategy implementation.

Therefore, there is need to focus on strategy formulation in both public and private profit making organizations in the country. This is due to the fact that private and public

corporations are likely to employ different strategies to make them successful.

Another study was conducted by Sasaka P.S., Namusonge G.S, and Sakwa M.M (2014) whose main purpose was to assess the influence of strategic management practices on CSR performance of parastatals in Kenya. In the study, Sasaka P.S. et al (2014), had four specific objectives: to examine the effect of strategic competitive practices on CSR performance of parastatals in Kenya; to find out the effect of strategic Corporate Governance practices on CSR performance of parastatals in Kenya; to determine the effect of strategic planning practices on CSR performance of parastatals in Kenya; and finally, to establish the effect of strategic total quality management practices on CSR performance of parastatals in Kenya. Sasaka P.S. et al (2014) used a cross sectional survey and quantitative research designs for the study.

Although the results of the study by Sasaka P.S. et al (2014) are unpublished, it is evident that the assumption is that there is a direct relationship between strategic management practices and CSR performance without taking into consideration the role of intervening variables or moderating factors. This raises the need to investigate the effect of mediating factors.

Ogolla G.A. (2013) conducted a study titled "Relationship Between Corporate Social Responsibility and Financial Performance of Commercial Banks in Kenya" whose main objective was to determine whether there exists a relationship between corporate social responsibility and financial performance of commercial banks licensed by Central Bank of Kenya (CBK) or not. According to Ogolla G.A. (2013), CSR and financial performance in the banking system have been neglected in many studies conducted in developing countries hence the study sought to plug that gap. To some extent this could be accepted since most banks are unwilling to disclose their CSR activities and the amounts of money spent in them. The study by Ogolla G.A. (2013) adopted causal design with the population of the study comprising of all the 41 commercial banks licensed by CBK that were in operational between January 2007 and December 2011. The researcher had to rely on secondary data which was obtained from the audited financial reports of the CBK for the period from 2007 to 2011.

In the study findings, Ogolla G.A. (2013) establishes that CSR practices do not have a significant relationship with firm performance, and therefore firms should not incur high costs on CSR with the hope of improving financial performance but rather for some other sustainability reasons. This contradicts other studies conducted by other researchers who have been reviewed in this article. Ogolla G.A. (2013) points out that improving efficiency in the banking services will lead to improved financial performance as there is a significant linear relationship between the two variables. Efficiency in the model was computed as the ratio between the cost of sales and sales therefore the firms should strive to reduce the cost of sales so as to improve their financial performance. With these findings from Ogolla G.A. (2013) it becomes interesting to establish if the same will apply to sugar manufacturing firms in Kenya, and especially in Western Kenya, using CSR as a mediating factor. It is also necessary to carry out the study with consideration of other intervening or moderating factors in the relationship.

Kuada J. and Hinson E. R. (2012) carried out a comparative study titled "Corporate Social Responsibility (CSR) Practices of Foreign and Local Companies in Ghana". The study assessed the key motives underlying CSR practices of foreign and local firms operating in Ghana and the societal as well as business outcomes of their practices. Kuada J. et al (2012) established that CSR

decisions of foreign firms were mainly guided by legal prescriptions, while those of the local firms were guided by discretionary and social considerations. However, Kuada J. et al (2012) found that there was a statistically insignificant degree of importance that the two groups of firms attach to discretionary motives for their CSR practices. There is need to find out what motives are behind the sugar manufacturing firms CSR activities in Western Kenya.

It was also established that the CSR decisions of most foreign firms located in Ghana are triggered mainly by legal obligations and anticipated economic gains, which shows that legal accountability and corporate image preservation constitute key CSR drivers and benefits of foreign firms in Ghana.

Kuada J. et al (2012) concluded that local firms appear to engage in CSR practices that support community development presumably because they see such activities as part of their culturally prescribed duties. Kuada J. et al (2012) advocates for the government to provide incentives that further encourage CSR activities.

The challenge is that increased CSR initiatives might be seen as an excuse by the government to neglect its own social and community development obligations. It is therefore important that organizations engage in operations that will result in increased earnings and performance. In the Kenyan situation, it is important that an investigation is carried to establish how the sugar manufacturing firms balance between profit making and CSR activities. Still, engaging in discretionary CSR activities is a matter of choice for both public and private organizations; therefore their profitability shouldn't be affected by such.

Another study was conducted by Aosa E. (2011) entitled "Strategic Management within Kenya Firms". This study investigated strategic management practices within private manufacturing companies in Kenya. The focus of the study was on the formulation (strategic planning) phase of this process. The study was a survey conducted within large, private manufacturing companies in Kenya.

Foreign companies were compared with local companies with respect to their involvement in strategy development. The practices were preparing written mission statements and strategic plans, length of planning horizons, length of time for which they had been planning (planning history), degree of financial orientation and undertaking management training. In all these strategy aspects, foreign companies were significantly different from Kenyan companies. They had written mission statements and strategic plans more than Kenyan companies. They operated with longer planning horizons and had been planning for a longer period than Kenyan companies. They also had a lesser financial orientation in their plans and carried out more management training than Kenyan companies.

Aosa E. (2011) concluded that Kenyan companies have adopted strategic management. However, there are variations in company practices here. Foreign companies have taken the lead in strategy practices. There are still instances of implicit, informal planning within the large private companies in Kenya. For some of the companies, basic financial planning (extended budgeting) is the only formal planning activity that is carried out. Foreign companies are playing a leading role in the spread and adoption of strategic management in Kenya.

In using the results of this study, it is important to keep in mind its limitations. The study was cross sectional and it is therefore difficult to draw conclusions about causality. Industry effects were not controlled. This means some of the variations observed in strategy practices may be attributed to industry

variation. Despite these limitations, the study provides insights into the practice of strategic management in Kenya. The shortcoming of this study is that it assumes that good strategic planning practices will automatically lead to high financial performance. There exists many mediating or moderating factors that need to be given consideration as they affect the relationship between strategic planning and organizational performance.

Sandada M. (2014) carried out a study in South Africa entitled "Mission and Vision, Environmental Scanning and Formality of Strategic Planning as Predictors of the Performance of Small and Medium Enterprises (SMES) in the Gauteng Province of South Africa". Sandada M. (2014) established that despite the widespread recognition of the importance and significant contributions of SMEs, research on these small businesses remains scarce and that there is a paucity of studies that have focused on the impact of mission and vision, environmental scanning and formality of strategic planning business performance. Sandada M. (2014) further suggests that little is known about the impact of these factors on the performance of SMEs in Gauteng province, and therefore it was necessary to carry out the research as it provided invaluable insights for SMEs owners/managers initiatives about how these factors can provide an enabling mechanism to improve business performance.

The objectives of the study by Sandada M., (2014) included to identify the effect of mission and vision on SME performance; to ascertain the impact of environmental scanning on the performance of SMEs; and to evaluate the influence of the formality of strategic planning process on SMEs performance.

The study was located with a positivist, quantitative research paradigm. A positivist research perspective seeks to test and confirm hypothesis in order to explain and predict the effect of one factor on another (Johnson and Onwuegbuzie, 2004; Schiffman and Kanuk 2009; Sedmak and Longhurst; 2010), in this case to establish the relationship between strategic planning and the performance of SMEs.

In the results, Sandada M. (2014) infers that increased practices of mission and vision, environmental scanning and formality of strategic planning lead to high levels of business performance. Sandada M. (2014) further suggests that SME owners and managers understand and implement all these three strategic planning factors in order to establish how to apply each factor to improve the performance of their businesses.

It is evident from this study that strategic management practices are of great importance to any organization as it gives it the impetus to reach the organizational goals. However, the weakness of this study is that it didn't factor in mediating or intervening factors such as CSR.

### Conclusion

From the various studies reviewed it is evident that the relationship between organization performance and strategic management practices isn't as simple as it appears. There are several mediating or intervening variables that need to be given consideration. Among this is CSR which cannot be overlooked in organizations and especially sugar manufacturing firms. This study brings to the limelight that CSR plays a vital role in the performance of organizations, whether public or private, and whether they are profit making or non-profit making.

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