

## Role of Corporate Social Responsibility in the Relationship between Strategy Analysis and Organizational Performance of Sugar Companies in Western Kenya

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### Abstract

*This study investigates the role of corporate social responsibility in catalyzing the relationship between strategy analysis and organizational performance. The design is descriptive and correlational survey of employee perceptions of strategy analysis and its association with organization performance. Findings reveal that indeed strategy analysis relate well to sugar firm performance in the presence of social investments in the communities they operate in. when CSR activities are not incorporated in the planning for better performance, then results are not likely to be good. Therefore, it is necessary for corporate managers to integrate CSR programs in their strategy plans in order to leverage firm performance.*

**Keywords:** Strategy Analysis, Organization Performance, Corporate Social Responsibility.

### Introduction

In today's highly competitive business environment, budget-oriented planning or forecast-based planning methods are insufficient for a large corporation to survive and prosper. Despite good planning, other underlying factors have cropped up that need attention, which includes CSR. For example, the sugar companies in Western Kenya have to use their profits to offer CSR yet there continues to be a debate on the legitimacy and value of corporate responses to CSR concerns.

### Problem statement

The main objective of most businesses, including the sugar companies in Western Kenya is to maximize the shareholder value. To achieve this objective, all of an organization's input should be aimed at adding value and creating a competitive advantage. The challenge arises when planning, analyzing and selecting the right strategy aligned with the goals of the organization. Scholars have argued for the catalytic role of CSR investments on the relationship between strategy analysis and firm performance. The paper discusses this important role in the context of sugar companies' performance in Western Kenya based on a survey of employees of selected sugar companies. The purpose is to highlight whether or not social investments in the communities where sugar firms operate in along with right strategy analysis would influence the performance of the companies in a significant way.

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### Objective

The objective of this study was to determine the role of CSR investments in the relationship between strategy analysis and sugar company performance in Western Kenya.

### Hypothesis

H0<sub>1</sub>: Corporate social responsibility (CSR) investments play no mediating role in the relationship between strategy analysis and sugar company performance in western Kenya.

### Review of Literature

#### *Strategic Planning*

Today's business environment is highly competitive forcing companies to focus on budget-oriented planning or forecast-based planning methods which are still insufficient for a large corporation to survive and prosper. Strategic planning involves reexamining strategies on response to perceived opportunities or threats within the operating environment. Thus, ideally, a possible strategic initiative may surface at any time from anyone in the organization and analyzed immediately to establish its worth (Kantrabutra, 2010). Once a strategy is accepted by the organization stakeholders, the planning for it follows in a systematic manner.

However, the challenge is that a majority of companies' goals and strategies are not stated explicitly enough or communicated clearly to the managers who need to use them as a framework for their program decisions (Hirota, Kubo, Miyajima, Hong & Park, 2010). Thus, in a formal strategic planning process an important step is often descriptions of the organizations goals and strategies analysed and selected for execution. Top management must guide the process of formulating the strategic plan, carrying out proper analysis and finally making the best choice of strategy for execution.

### Strategy Analysis

Pearce and Robinson (2005) consider strategy analysis as a management process that blends new venture management, planning, programming, budgeting and business policy. Johnson & Scholes (1999) define strategy analysis as a sequence of analytical and evaluative procedures meant to evaluate an intended strategy and the means of implementing it. In both definitions it is evident that there is need for increased emphasis on environmental forecasting. The process of strategic analysis concerns delegation of responsibilities and authority for strategy implementation; which is a role played by the managers in the organization. Highly formalized strategy is characterized by written action plans, objectives, and procedures. Written documents help to structure strategic direction and implementation, formalizing tools and techniques for the initiation of change (Segars, Grover & Teng (1998).

Nuran and Englyst (2006) conducted a study through face-to-face interviews with 46 managers, whose objective was to establish how the different approaches to strategic assessment can be used and integrated into an assessment tool for proactive assessment of the success (or effectiveness) of strategy formulation processes; and to find out to what extent the different approaches contribute to different phases of strategy formulation processes, and to strategic performance. The results obtained by Nuran et.al. (2006) were that the different approaches to assessment are relevant in all phases of planning, but weighted differently. In the findings, the study established that managerial perceptions and learning from experience should be accommodated in strategic thinking. However, he did not take into account relationships between the strategic context and the assessment of strategy formulation processes. At times, there is need to get the lower employees to participate in the strategic planning process and thus use a bottom-up-oriented strategic planning process. This study will therefore seek to establish what contribution can be made by the subordinates during the planning process, and the effect.

Veettil, (2008) conducted a study in the United Kingdom entitled "Strategy formulation and implementation in manufacturing organizations: the impact on performance." The study examined the impact

of strategy formulation, strategy content and strategy implementation on organizational performance. He indicated that strategic planning has a strong positive relationship with objective fulfillment and its relationship with relative competitive performance is not very strong. The findings further indicate that an organic structure is helpful for organisations having a clear strategy to improve their performance. The planning of strategy implementation had a significant positive relationship with the performance measures. This study will seek to establish the role CSR plays, as a mediating factor between strategy formulation and organizational performance.

Another study was conducted by Suklev and Debarliev (2012) to investigate the relationship between strategic planning and the organizational effectiveness with the examination of a wider list of strategic planning dimensions and different approaches and measures to assess the strategic planning effectiveness in the case of the Republic of Macedonia. The empirical analysis conducted in Macedonian companies showed that strategic planning can generally contribute to organizational effectiveness. However, it is important to note that financial performance is not the only measure of organization performance, thus bringing in the need to look at how strategic planning affects the performance of the employees who are important stakeholders.

Falshaw & Glaister (2006) conducted an empirical study of 113 UK companies in an attempt to examine the relationship between formal strategic planning and financial performance in a non-US context while taking into consideration the important contingent variables identified by previous researchers of organizational size, environmental turbulence and industry. They noted that strategy formulation includes developing a mission, setting major objectives, assessing the external and internal environments, and evaluating and selecting strategy alternatives. The study established that most organizations that stuck to their formal strategic plans ended up not achieving their goals and objectives. The fact is that organizations don't necessarily have to formalize their strategic planning practices so much but to constantly evaluate and review them if need be or develop new ones all together. This study will seek to establish if there is need to evaluate the impact of mediating factors such as CSR.

Magero, (2008) conducted a research whose main objective was to establish and document the challenges encountered during the formulation and implementation of its strategic plans in the Kenyan context. The study established that KSB encountered several major challenges during the formulation stage. These challenges ranged from organizational culture, government policies, adequacy of resources, resistance to change, and stakeholders support. Strategy implementation faced challenges which included lack of focused leadership, organizational structure, strategy-culture relationship, government policies, support from Board of Directors,

allocation of resources and lack of a monitoring and evaluation framework. The study establishes the challenges without determining the extent to which they affect organizational performance.

Behr, (2010) undertook a survey research on the strategy formulation practices of large financial services organisations in South Africa, whose objective was to identify the tools used in strategy formulation and the duration of the strategic plans. From the analysis of the results by Behr, (2010), two key dimensions were highlighted on which organisations differed. These included the time frame used, where only two organisations regularly look more than three years ahead; while the second is that of stakeholder engagement. The research by Behr, (2010) was only limited to large financial institutions in the South African context. Thus, there is need to carry out a similar study to a broader set of industries in the Kenyan context and establish how the strategy formulation process is conducted. And still, what are the levels of performance for the organizations when there is a difference in the timeframes of the strategic plans?

### *Organization Performance*

To scholars organization performance (O.P) is looked at in terms of quantifying the outputs of organization as well as the extent to which stakeholders expectations are satisfied (Compton, 2005) . 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 & 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. O.P may be measured by use of various models which include 360 degrees feedback model and the balanced score card (BSC). The 360 degrees feedback model evaluates O.P on the basis of stakeholders' views while the BSC has the organization's vision and strategy at the centre surrounded by financial, customer, internal business processes and learning and growth (Sheng & Li, 2006).

There is no consensus among business practitioners and scholars on how to measure the performance of a business (Tang & Zhang 2005; Pun & White, 2005). However, several researchers and academicians tend to agree that organizations should use the objective rather than subject measures to measure their success, provided that it provides accurate information to those in need of it (Chow & Van der Stede, 2006). The objective business performance measures consist of the financial records that include actual profit, turnover, return on investment, return on capital employed, and inventory turnover. On the other hand, the subjective measures base on the managers' perception and major stakeholders' perceptions of performance of the business (Phillips, 2010).

Objective measures have been under criticism because most of the measures are inaccessible, confidential, incomplete and often inaccurate (Chong, 2008). In some situations, the profit figures are manipulated, thus making comparisons among different sectors difficult. Chow & Van der Stede (2006) are of the opinion that objective measures can't be relied upon since they are too aggregated and backward looking rather than forward looking; stressing the short-term future of the organization instead of the long term benefits. This makes the entrepreneurs unable to understand the root causes of performance problems so as to able to make cross-functional decisions. Tang & Zhang (2005) conducted a study which revealed that objective performance data may be influenced by industry specific factors which make them inappropriate for cross-industry comparison.

Subjective business performance measures are non-monetary in nature, since it is difficult to obtain objective performance data. Such measures include market share, customer satisfaction, employee turnover and new product development which are all essential to survive in competitive environments (Verbeeten & Boons, 2009). Most managers and CEOs are willing to provide their perceptions about business performance, even if the information required is of a sensitive or confidential nature as they need to survive in a rapidly changing competitive environment (Darbi, 2012). Other researchers too affirm the strength of non-financial measures to provide insight into business processes as better predictors of future performance (Jusoh & Parnell, 2008).

### **Research Methodology**

#### *Research Design*

The study design was correlational since it sought to explore the relationship between strategic analysis and organizational performance with CSR as a mediator. According to Mugenda and Mugenda, (2008) the design was appropriate for exploring relationships between variables because it allows one to analyze how variables

either singly or in a combination might affect a particular phenomenon being studied as was the case in this study. The respondents in the research were asked their perceptions, attitudes, behaviors or values in relation to phenomena under investigation. This helped to establish the current status of the population under study with respect to one or more variables.

**Sources of Data**

Data was collected from both primary and secondary sources. Secondary data was obtained through document analysis of the records from companies, their newsletters and government reports. Primary data was collected using structured questionnaires. These were administered on the 273 employee of sugar firms in western Kenya at managerial and subordinate levels. Data findings are

summarized on tables attached at the appendix section of the paper.

**Findings and Discussion**

Strategy analysis is a dimension of strategic planning which has 7 items to measure it. When test of reliability is conducted on the scale and items, a coefficient of 0.887 is obtained upon standardization. This is considered a good measure for further analysis since all items load well into the scale. Table 3.3 shows this outcome.

**Table 1** Reliability statistics for Strategy Analysis Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.887	.887	7

**Table 2** Effects of Strategy Analysis on Sugar firm performance

Summary Table for Strategy Analysis→ No. ↓	Statements	SD	D	FA	A	SA	MR	SD
1	Organization's stakeholders are involved in evaluating the available strategic options.	21 8%	57 21%	66 24%	66 24%	63 23%	3.34	1.25
2	There are clear analytical and evaluative procedures for evaluating intended strategies.	18 7%	60 22%	66 24%	78 29%	51 19%	3.31	1.19
3	There are clear analytical and evaluative procedures for evaluating the means of implementing strategies.	21 8%	51 19%	69 26%	63 23%	66 24%	3.38	1.25
4	My organization develops clear written action plans and objectives for all.	24 9%	24 9%	57 21%	60 22%	75 28%	3.4	1.32
5	Manager's roles in the organization are clearly spelt out.	15 6%	16 23%	45 17%	72 27%	75 28%	3.49	1.27
6	Organization's objectives are always the basis of any decision.	18 7%	36 14%	66 25%	72 27%	72 27%	3.55	1.22
7	In general, I am satisfied with my organization's strategic analysis process	15 6%	48 18%	78 29%	57 21%	69 26%	3.44	1.22

Strategy analysis describes success of developing a plan that would promote organizational performance. Seven items measured this construct which returned sufficient level of internal consistency. Item one investigated whether the organizational stakeholders are involved in evaluating the available strategic options. Results from summary Table 4.9 show that 129 of the sampled employees representing 47% were in agreement, with 23% agreeing strongly. Those who only fairly agreed were 66 (24%) while 78 (29%) disagreed. Hence nearly half of the employees agreed to stakeholders' involvement. More involvement would improve success rate for executing planned strategies. A moderate median rank means agreement was fairly moderate. Mean rank and standard deviation are 3.34 and 1.258 respectively.

Evaluating procedures for intended plans of action are clear according to 126 or 48% of the respondents. A further 66 (24%) found the procedure fairly clear but 78 or 28% of the 273 sampled employees disagreed.

Therefore the procedure and evaluation is not clear to 27% of the employees surveyed. Those who fairly agree to this are 23 of the 91 sampled staff. However 129 or 47% of participants agree to the procedure being clear. Clear written action plans and objectives are in place as indicated by 50% of surveyed staff of which 28% agree strongly. Twenty one percent fairly agree but 29% or 48 members disagreed. Managers' roles in the organizations are clearly spelt as attested to by 147 respondents or 54% of the 273 responses received.

The undecided respondents were 45 or 17%. 144 staff members also agreed that organization objectives are always the basis of any decision. 66 participants representing 25% only fairly agreed while 21% disagreed. Finally, 47% of the sample staff agrees that they were satisfied with the organizational process of formulating plans. Another 29% or 78 members fairly agreed as 24 % disagreed. Overall, therefore, participants generally indicated that the process of formulating plan is fairly

satisfactory. An overall mean rank of 3.5 describes this construct.

The results in summary Table 4.9 concur with the results obtained by Sandada (2014). Sandada (2014) established that formality of strategic planning makes a more significant contribution to performance and postulated that this should be prioritized when implementing strategic plans in order to enhance performance.

These results are also in agreement with what Nuran et. al. (2006) established that managerial perceptions and learning from experience should be accommodated in strategic thinking. It becomes important that organizations have to be accommodative of the input of the stakeholders since they form part of the organization and their input could lead to improved performance. This is also in agreement with what Veettil (2008) established. Strategic planning has a strong positive relationship with objective attainment though the relationship is not very strong. This therefore entails that organizations should have an organic structure that is clear to all stakeholders for it to be able to attain its objectives. However, this does not mean that organizations that don't have organic structures will not perform or have a competitive advantage.

The results obtained are also concurrent to the results obtained by Suklev and Debarliev (2012). They established that strategic planning can generally

contribute to the effectiveness of the organization and thus improve its performance. This is true especially if the organizations apply several approaches and measures to assess the effectiveness of the strategic planning process. Among them is the use of stakeholder participation so as to get their input and determine which the best option among the suggested possible alternatives is.

However, these results contradict what Falshaw and Glaister (2006) established. In their study, Falshaw and Glaister (2006) postulated that strategy formulation includes developing a mission, setting major objectives, assessing the internal and external environments and selecting strategy alternatives. Falshaw and Glaister (2006) further stated that most organizations that stuck to their formal strategic plans ended up not achieving their goals and objectives. Instead Falshaw and Glaister (2006) suggested that organizations should constantly evaluate and review their strategic planning practices and if need be, develop new ones all together. It is important that organizations stick to their plans and only adjust them when it is totally unavoidable.

*Organizational Performance*

Organizational performance is a dependent variable measured by the three dimensions namely firm-based performance, customer-based performance and employee-based performance.

*Firm-based Performance*

**Table 3** Summary Table for Firm-based Performance

No	Statements	N	SD	D	FA	A	SA	MR	SD
1.	The revenue collected by the company has increased in the past year	267	21 8%	78 29%	30 11%	66 25%	72 27%	3.34	1.35
2.	The company has diversified to other products other than sugar.	267	21 8%	60 23%	57 21%	57 21%	72 27%	3.37	1.31
3.	I am generally satisfied with my contribution towards the growth of my company.	264	6 2%	24 9%	42 16%	90 34%	102 39%	3.98	1.06

Firm performance in terms of revenue collection and growth in the past years happened according to 138 respondent or 52% with 27% agreeing strongly. Thirty members of staff surveyed firmly agreed while up to 99 or 37% disagreed. A total of 267 responses were returned out of the 273 collected.

The results obtained here are in agreement with what was established by Suklev & Debarliev (2012) who concluded that good strategic planning will lead to an improved financial performance of the organization. This was also established by Njehia (2013) who concluded that CSR activities are correlated to profitability of Oil Marketers in Kenya or their financial performance. The results further indicated that there is a significant positive relationship between CSR and financial performance of the Oil Marketers of Kenya.

Diversification of product beyond sugar by firms contributes to performance through reduction of revenue variability and stabilization of income streams. Employees who agreed that their company had diversified were 129 representing 48%. Those who disagreed were 71 (31%) and another 63 of the 267 sampled staff fairly agreeing. A median rank of 3.00, mean rank of 3.37 and standard deviation of 1.309 is associated with this item.

However, as Chow and Van der Stede (2006) put it, measuring performance in the organization can be difficult, whether it is subjective or objective. This is because the figures may be manipulated, is backward looking and may be difficult to obtain objective performance data.

## CSR Practices

Table 4 Summary Table for CSR Activities

	Statement	N	SD	D	FS	S	VS	MR	SD
1.	CSR is a necessary component of the company's activities.	264	6 2%	27 10%	57 22%	99 38%	75 29%	3.8	1.04
2.	CSR greatly affects the performance of my company	267	3 10%	54 20%	39 15%	90 34%	81 30%	3.72	1.13
3.	There is a clear policy on CSR in the company.	267	12 5%	51 19%	48 18%	93 35%	63 24%	3.54	1.17
4.	All employees readily embrace CSR programs in the company	267	27 10%	33 12%	69 26%	75 28%	63 24%	3.43	1.26
5.	Generally, I'm satisfied with CSR activities in my company.	267	24 9%	30 11%	63 24%	99 37%	51 19%	3.46	1.18
6	Our company always pays its taxes on a regular and continuing basis.	264	9 3%	57 22%	63 24%	66 25%	69 26%	3.49	1.19
7	Our company complies with legal regulations completely and promptly	258	21 8%	48 19%	66 26%	72 28%	51 20%	3.33	1.22
8	I participate in activities which aim to protect and improve the quality of life of all stakeholders.	258	12 5%	33 13%	63 24%	105 41%	45 17%	3.53	1.07
9	Our company makes investment to create a better life for future generations	264	12 5%	54 21%	66 25%	75 28%	57 22%	3.42	1.17
10	I contribute to campaigns and projects that promote the wellbeing of the society.	264	12 5%	39 15%	51 19%	117 44%	45 17%	3.55	1.08
11	Our company encourages its employees to participate in voluntary activities	264	18 7%	27 10%	84 32%	87 33%	48 18%	3.45	1.13
12	Our company emphasizes importance of CSR to society	261	9 3%	36 14%	60 23%	96 36%	60 23%	3.73	1.47
13	I am willing to do more to improve the image of my organization and contribution to society	261	6 2%	27 10%	60 23%	96 37%	72 28%	3.77	1.04

Corporate social responsibility is a mediating variable in this investigation about relationship between strategic planning and organizational performance. Incorporating CSR programming in strategic planning has the potential of enhancing company performance. Studies have shown that CSR practices by companies may significantly influence the way customers view a company and may lend favor to products and services by the company. Socially responsible companies attract customers and investors alike. So "do the sugar companies engage in CSR activities and other ethical practices"? This question returned responses indicating employees view CSR activities as critical to company performance from 58 participants or 67%. Another 19 or 22% indicated "somehow" while 11 or 12% disagreed. Eighty eight responses were collected on this item. Sixty four percent of the sampled employees also admitted to CSR affecting their company performance but 21% did not think so.

This confirms what Polasek (2010) had earlier established most organizations felt that CSR was an important component in the organization, and as a result, had someone in charge of this docket though the names would differ from one organization to another. However, others did not take CSR seriously and thus did not integrate CSR in their organizational strategies.

A policy on CSR is clear according to 59% of employees surveyed. Another 18% indicated it only somehow existed

while 24% of the 89 respondent disagreed this policy exist in the company. "Do employees embrace CSR programs in the companies? 46 of them or 52% agreed with 24 % strongly. Those that only somehow agreed were 26% while 22% disagreed. The level of satisfaction of employees by CSR activities of the companies was very high 19%, high 37% fairly high 24% low (11%) and very low (9%), and overall satisfaction with CSR is just above average. Payment of taxes is ethical practice that all registered companies must undertake. Forty five respondents indicated that their company pays taxes regularly.

Compliance with legal regulation happens according to the 41 or 48% of the sampled employees. However 27% of the 89 sampled employees did not agree with this. Twenty responders (26%) somehow agree. Employees participate in CRS activities to improve quality of life of all stakeholders according to 58% of the respondent representing 50 employees.

CSR programs include investment to improve life future generation according to 50% of the surveyed staff represented by 44 employees. However, 26% did not think so while 25% only somehow thought so. The number of employees who contributed to campaign and projects under CSR are 54 representing 61%. Those who do not are 20% while 19% or 17 of them somehow contribute the course.

In addition, forty five members of staff or 51% were encouraged to voluntarily participate in CRS activities. Thirty two percent only fairly agreed they were encouraged by seniors. Fewer employees (17%) said they were not encouraged to participate in CSR programs. A majority of employees also stated the companies' emphasized importance of CSR (52) or 59%. The willingness to improve the image of the company to society rests with 56 employees or 65% of the employees. Only 12% are not willing to contribute as another 23% can make their contribution. So the willingness is fairly strong to help company and society if emphasis and guidance is given. The overall score for this concept is 3.5 signifying fair performance.

*Correlation Statistics between Strategy Planning and Organization Performance*

Strategic analysis is positively fairly strongly associated with firm based performance at 0.508(P = 0.0005) and lastly employee performance at 0.416(P = 0.0005). Therefore strategic analysis as components of strategic planning correlates strongly and positively with firm based performance. Conversely, strategy analysis relationship with firm performance weakens to 0.377 compared to 0.508 when CSR practices are taken away.

**Table 5** Correlation statistics between strategic analysis and organization performance

Correlations				
		Firm Performance	Customer Performance	Employee Performance
Strategic Analysis	Correlation Coefficient	.508**	.439**	.416**
	Sig. (2-tailed)	0	0	0
	N	271	272	272

*Partial Correlation Statistics*

Partial correlation table 6 shows strategy analysis relationship with firm performance weakens to 0.377 compared to 0.508 when CSR practices are taken away. This means the mediating effect of CSR on the relationship is significant. Company strategy leaders need to pay close attention on social investments in order to enhance the strength of between strategy analysis and firm performance.

**Table 6** Partial correlation statistics

Correlations				
Control Variables		Firm Perf	Cust Perf	EmPLY perf
Strategic Analysis	Correlation	0.377	0.322	0.31
	Significance (2-tailed)	0.001	0.004	0.005
	Df	271	272	272

**Conclusion**

Strategy analysis according to the hypothesis is positively related to performance of the sugar companies. This relationship is however made weak but significant if the

effects of CSR are removed. Therefore while the function is important to strategy planning it does not influence sugar firm performance in any significant way. Therefore the hypothesis is rejected in favour of CSR has significant mediating role in the association between strategy analysis and firm performance.

**Recommendation for Study**

The study recommends that sugar company managers should pay close attention to CSR investments when crafting strategic plans to improve performance. Failing to recognize the role of CSR by integrating it in company investments would only reduce performance of sugar companies by possibly weakening demand for its product and service.

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