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# Effect of Environmental Corporate Social Responsibility on Financial Performance of Mobile Telecommunications Companies in Kenya

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***Abstract***
*Corporate social responsibility enables mobile telecommunication companies to operate ethically and sustainably regarding their environmental impacts. Environmental consciousness is critical in attracting customers and promoting product uptakes that result in increased earnings and better financial performance for companies. However, research on environmental corporate social responsibility and financial performance remains inadequately explored in Kenya. Therefore, the study examined the effect of environmental corporate social responsibility on mobile telecommunications companies' financial performance in Kenya. The target population comprised employees of Safaricom Plc, Airtel Kenya, and Telkom Kenya, working in the CSR, finance, and marketing departments at the companies' headquarters, all located in Nairobi. The study applied a descriptive design, and data was collected through questionnaires and analyzed by Statistical Packages for Social Sciences. The study's descriptive and inferential findings demonstrated a significant relationship between environmental corporate social responsibility and mobile telecommunications companies' financial performance. The study concluded that minimizing environmental impacts through emission reduction, product innovation, and efficient resource use enhances the reputation of mobile telecommunication companies. Hence, environmental corporate social responsibility enhances financial performance by increasing demand for the companies' products.*

***Keywords:*** *Environmental Corporate Social Responsibility, Financial Performance, Mobile Telecommunication Companies*

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## 1. Introduction

Corporate social responsibility incorporates initiatives that companies implement to mitigate their effects on the environment and promote social wellbeing (Galant & Cadez, 2017). Corporate social responsibility (CSR) has become an integral business practice among mobile telecommunication companies worldwide. Camilleri (2017) opined that companies establish policies and procedures that integrate social, environmental, and consumer concerns into business operations to enhance their financial performance. To a great extent, mobile telecommunication companies' services are consumer-driven; thus, corporate social responsibility is of great importance to their performance. The concept enhances consumer trust in organizations through active participation in community initiatives. The initiatives further drive attention to the company products. Therefore, CSR is critical in promoting an organizations' public image (Carroll & Buchholtz, 2017).

According to Pillay (2015), corporate social responsibility increases satisfaction among consumers regarding a particular organization. Generally, customers maintain loyalty to a company's products after observing that it cares about the community through CSR programs. Investment in social responsibility initiatives for community wellness has a positive impact on potential customers. It improves its sales, earnings, and financial performance. Mobile telecommunication companies aim to positively impact society while maximizing the creation of shared value for the shareholders and stakeholders (Carroll & Buchholtz, 2017). Therefore, the companies ought to consider CSR practices as a core and well-integrated component of their products.

Mobile telecommunication companies provide not only financial contributions to the communities but also unlock the intellectual assets of the people, which are required to attain a positive impact through corporate social responsibility (Tarus, 2015). The concept further acts as a framework for improving the business's impact on the community, cost minimization, and seizing business opportunities from the CSR programs. It enhances better access to talent, lower capital constraints, and a good company reputation. As such, CSR has a long-term horizon in delivering appropriate business innovations for reducing costs, optimizing returns, and enhancing effective financial performance. According to Aggarwal (2013), CSR operates through environmental, social, and corporate governance dimensions.

The environmental corporate social responsibility dimension focuses on minimizing the adverse effects of a firm's activities on the environment. Mainly, it entails participating in environmentally friendly operations that are beneficial to the stakeholders, particularly the community (Waworuntu, Wantah, & Rusmanto, 2014). Environmental CSR contributes to improving the natural environment and forms positive and beneficial externalities. Further, it enhances financing effectiveness, financial transparency, and indirectly reduces the misuse of company cash flow. In this context, mobile telecommunications companies committed to environmental investment programs have a high likelihood of gaining more profit than the competition. Lu, Wang, and Lee (2013) maintained that environmental CSR heightens environmental awareness, making environmentally conscious companies more attractive to the consumers. Therefore, environmental CSR practices promote customer's interest in a firm's products, which leads to more sales, increased revenues, and improved financial performance.

Corporate social responsibility has attracted attention among companies globally; thus, significant resources are committed to CSR projects due to their associated financial benefits (Aggarwal, 2013). For instance, in Kenya, Safaricom Plc spends approximately Ksh 350 million each year on CSR through its CSI arm, the Safaricom Foundation (Safaricom PLC, 2018). However, whether investing in the environmental CSR dimension contributes to better financial performance in mobile telecommunication companies remains unclear. This is because previous studies present contradictory results on the relationship between CSR and firms' financial performance. Some studies demonstrate a positive relationship, while others indicate a negative or no correlation between the two variables. Some of the studies that have established a negative relationship between CSR and financial performance include a study by Baird, Geylani, and Roberts (2012); Peng and Yang (2014); and a study by Galant and Cadez (2017).

On the other hand, studies that have indicated a positive relationship between CSR and financial performance include a study by Waworuntu, Wantah, and Rusmanto (2014) and Lu, Wang, and Lee (2013). Moreover, previous studies have demonstrated little attention to the relationship between environmental corporate social responsibility and financial performance. Hence, the current research focused on filling the knowledge gap by examining the effect of environmental corporate social responsibility on mobile telecommunications companies' financial performance in Kenya.

## 2. Objective of the Study

The objective of the study was to examine the effect of environmental corporate social responsibility on the financial performance of mobile telecommunication companies in Kenya.

## 3. Review of Literature

Environmental corporate social responsibility is concerned with how companies incorporate environmental issues into their operations. Primarily, the CSR dimension seeks to eliminate waste and emissions and maximize resource efficiency and productivity (Jiang, Xue & Xue, 2018). Companies with higher environmental responsibility perform well financially. They are likely to reduce the company's stock volatility, thus reducing the cost of the companies' equity, and possibly improve business performance. Tschopp and Nastanski (2014) noted that environmental responsibility is vital in enhancing mobile telecommunication companies' competitiveness. Incorporating environmental protection in company processes and operations attracts more consumers to purchase their products, therefore, increasing returns. According to Qiu, Shaukat, and Tharyan (2016), organizations that have implemented initiatives geared towards the natural environment protection enhance their reputation by building a positive image among individuals concerned about the environment's well-being and the needs of future generations.

Moreover, environmentally conscious companies save on costs in several ways, including efficient utilization of the available resources. They also avoid incurring costs associated with the failure to adhere to existing regulations regarding environmental conservation, which include emission reduction regulations, among others (Jiang et al., 2018). Emission reduction in firms pertains to efforts aimed at minimizing their adverse effects on the environment by releasing toxic waste to the surroundings. The elements commonly used in measuring a firm's emission reduction include gas emission and e-waste reduction policies and strategies. The emission reduction concept also incorporates compliance with existing environmental preservation standards, such as ISO 14000 or EMS, environmental restoration programs, water recycling strategies, carbon offsets, and environmental expenditures. Product innovation involves creating or introducing new, improved, and more efficient products (Qiu et al., 2016). Reduction in product costs increases net earnings and profitability, which is an indicator of improved financial performance.

Various scholars and researchers have sought to determine whether environmental CSR affects financial performance. Research by Waworuntu, Wantah, and Rusmanto (2014) examined the relationship between CSR and financial performance in the top listed companies within the ASEAN region. Results revealed a moderate and positive relationship between CSR and financial performance. Furthermore, Mwangi and Jerotich (2013) examined the influence of a firm's activities in the environmental CSR dimension on financial performance. Findings demonstrated that CSR plays a minimal role in enhancing financial performance.

Similarly, a study by Han, Kim, and Yu (2016) indicated a positive relationship between environmental CSR initiatives and a firm's financial performance among the Korean Stock Market firms. Based on the findings, sufficient environmental corporate social responsibility practices increase the stakeholders' willingness to invest. Therefore, environmental corporate social responsibility could contribute to improved financial performance. Mogaka (2016) also identified a positive relationship between environmental CSR and financial performance. The study indicated that firms in the telecommunications industry achieve a higher return on equity (ROE) and return on assets (ROA) whenever they increase their expenditure on environmental CSR, therefore achieving higher financial performance in the long-run.

The findings by Han et al. (2016) relate to the results of a study by Qiu (2012) who established that increased CSR efforts, particularly those relating to the environment and philanthropy, help strengthen the confidence of the investors and the public, as well as creditors, suppliers, and other crucial stakeholders. Such improved confidence facilitates the stability of a company's financing and routine operations, further enhancing its financial performance in the long-run. A similar study by Nyoro (2015) identified a positive relationship between environmental CSR and financial performance. The study indicated that firms in the telecommunications industry achieve a higher return on equity (ROE) and return on assets (ROA) whenever they increase their expenditure on environmental CSR, therefore achieving higher financial performance.

The past empirical research works reveal several knowledge gaps. First, is not clear whether environmental corporate social responsibility affects financial performance. While some studies indicate a low, moderate, positive relationship, others demonstrate a negative relationship between environmental CSR and financial performance. For instance, Mwangi and Jerotich (2013) studies showed that environmental CSR presents a minimal effect on a firm's financial performance. However, research works by Han, Kim, and Yu (2016), Nyoro (2015), and Waworuntu, Wantah, and Rusmanto (2014), and Mogaka (2016) indicated a positive relationship between environmental CSR and a firm's financial performance. The current study focused on examining the effect of environmental CSR on the financial performance of mobile telecommunications companies in Kenya. The key parameters included; emission reduction, product innovation, emission reduction, and environmental CSR programs' expenditures.

## 4. Research Methodology

The study applied a descriptive research design. Erickson (2017) noted that the descriptive research approach focuses on determining how an item occurs, or the relationship between variables. Descriptive studies investigate variables by answering the when, how, who, where, and what questions. Moreover, the descriptive approach describes phenomena's features, therefore providing a clear account of how different variables relate to attitudes, facts, and opinions (Mitchell & Jolley, 2013). A survey was conducted, and data collection was done through standardized questionnaires. Surveys are closely associated with deductive logic, and are standard approaches for data collection from samples, which are then analyzed statistically. The study's target population comprised operational, supervisory, and senior management employees at the Safaricom Plc, Airtel, and Telkom Kenya. The target population specifically included employees in the companies' CSR, finance, and marketing departments. Data was analyzed using inferential and descriptive statistics. Descriptive statistics involved the use of measures of central tendencies and standard deviations, while inferential statistics included the use of multiple correlations and regression analysis.

## 5. Results

This section outlines the descriptive and inferential findings that indicate whether environmental corporate social responsibility affects the financial performance of mobile telecommunications companies in Kenya.

### 5.1: Effect of Environmental Corporate Social Responsibility on Financial Performance

The study sought to establish whether environmental corporate social responsibility affects financial performance of mobile telecommunications companies in Kenya. Key parameters of environmental CSR dimension; emission reduction, product innovation, and resource use have been described and findings are illustrated on Tables 1, 2, and 3.

**Table 1: Emission Reduction**

| **Emission Reduction** | **N** | **SA**<br>**5** | **A**<br>**4** | **N**<br>**3** | **D**<br>**2** | **SD**<br>**1** | **Mean** | **Std. Dev** |
|---|---|---|---|---|---|---|---|---|
| Well outlined principles or policies on environmental practices promote financial performance of telecommunication Companies. | 84 | 51.4% | 42.8% | 4.8% | - | - | 4.45 | .609 |
| My company has implemented effective strategies aimed at greenhouse gas reduction and e-waste reduction for the last five years leading to cost minimization. | 84 | 33.3% | 38.1% | 17.9% | 6% | 4.8% | 3.89 | 1.087 |
| My company is highly committed towards ensuring compliance with the existing environmental preservation standards, including EMS or ISO 14000. | 84 | 32.1% | 59.5% | 8.3% | - | - | 4.24 | .594 |
| My company funds or contributes towards different environmental restoration programs, including tree planting among others. | 84 | 53.6% | 35.7% | 10.7% | - | - | 4.43 | .682 |

The results in Table 1 demonstrate that the emission reduction element of environmental CSR affects mobile telecommunications companies' financial performance in Kenya. The study revealed that financial performance is influenced by the policies and principles guiding environmental practices. A mean of 4.45 implies that environmental practices have a substantial indirect impact on financial performance. Mobile telecommunications companies have established strategies for greenhouse gas and e-waste reductions that prevent the community from hazardous effects. They are also committed to compliance with environmental preservation standards including EMS or ISO 14000. The study further revealed that mobile telecommunications companies in Kenya incur expenditures on environmental CSR programs such as tree planting to restore the environment to the desirable condition. The findings concur with the study by Mwangi and Jerotich (2013), who evaluated the relationship between CSR and the financial performance of manufacturing and construction companies listed in the Nairobi Securities Exchange, primarily focusing on the aspect of their environmental practices.

**Table 2: Product Innovation**

| **Product Innovation** | **N** | **SA**<br>**5** | **A**<br>**4** | **N**<br>**3** | **D**<br>**2** | **SD**<br>**1** | **Mean** | **Std. Dev** |
|---|---|---|---|---|---|---|---|---|
| My company emphasizes on the production and utilization of eco-design or eco-friendly products in order to sell more to the customers. | 84 | 50% | 39.3% | 10.9% | - | - | 4.39 | .677 |
| For the last five years, My company has increasingly insisted on the use of clean technology, such as wind power, solar power, biofuels, etc. to appeal more to the potential customers. | 84 | 35.7% | 34.5% | 20.2% | 8.3% | 1.2% | 3.95 | 1.005 |
| For the last five years, My company has been financing projects that aim at environmental conservation. | 84 | 28.6% | 45.2% | 17.9% | 4.8% | 3.6% | 3.90 | .989 |
| For the last five years, My company has implemented strategies that aim at minimizing the impact of their products on the environment | 84 | 53.6% | 33.3% | 10.7% | 2.4% | - | 4.38 | .775 |

The study revealed that the production and utilization of eco-design or eco-friendly products improve telecommunications companies' sales and revenue. Findings further showed that the use of clean energy increased their products' attractiveness to the customers, and the financial performance of mobile telecommunications companies in Kenya. The mobile telecommunication companies maintain their customers by providing products with minimal impact on the environment. This promotes the flow of revenue and financial performance improvement. The findings agree with those of Waworuntu, Wantah, and Rusmanto (2014), who conducted a study examining the relationship between CSR and financial performance in the top listed companies within the ASEAN region, majorly concentrating on their environmental practices. The study established that there is a moderate to a strong positive relationship between financial performance and environmental CSR.

**Table 3: Resource Use**

| **Resource Use** | **N** | **SA**<br>**5** | **A**<br>**4** | **N**<br>**3** | **D**<br>**2** | **SD**<br>**1** | **Mean** | **Std. Dev** |
|---|---|---|---|---|---|---|---|---|
| My company has clearly outlined energy efficiency policies or processes. | 84 | 56% | 23.8% | 15.5% | 2.4% | 2.4% | 4.29 | .976 |
| For the last five years, has implemented innovations that focus on increasing awareness and visibility of resource use in the supply chain which enhance increased sales. | 84 | 21.4% | 56% | 16.7% | 4.8% | 1.2% | 3.92 | .824 |
| There are well defined energy efficiency targets in My company. | 84 | 39.2% | 46.4% | 13.1% | 1.2% | - | 4.24 | .722 |
| For the last five years, My company has taken a keen interest in tracking such costs as energy consumption, water consumption, and staff time used in environmental activities to promote desirable financial performance. | 84 | 47.6% | 32.1% | 16.7%) | 3.6% | - | 4.24 | .859 |

The study findings showed that energy efficiency policies and processes reduce cost and promote mobile telecommunications companies' financial performance. The study further revealed that costs were reduced through energy efficiency policies, and desirable financial performance was promoted on the process. The companies usually implement innovations that increase awareness and visibility of resource use in the supply chain. Tracking costs such as energy consumption, water consumption, and staff time used in environmental activities resulted in enhanced performance. The findings concur with the study by Mwangi and Jerotich (2013), who evaluated the relationship between CSR and the financial performance of manufacturing and construction companies listed in the Nairobi Securities Exchange, primarily focusing on the aspect of their environmental practices.

**5.4: Financial Performance**

The research sought views of respondents in regard to environmental CSR and financial performance of telecommunication companies in Kenya and findings are illustrated in Table 4 below.

**Table 4: Financial Performance**

| Financial Performance | N | SA<br>5 | A<br>4 | N<br>3 | D<br>2 | SD<br>1 | Mean | Std. Dev |
|---|---|---|---|---|---|---|---|---|
| CSR contributes to an upward trend of our revenues and improves profitability. | 84 | 61.9% | 35.7% | 2.4% | - | - | 4.60 | .540 |
| CSR promotes company image hence attracting more members which increases equity capital. | 84 | 64.3% | 33.3% | 2.4% | - | - | 4.14 | .933 |
| New investment opportunities are identified through CSR and influence return on investment. | 84 | 42.9% | 35.7% | 15.5% | 4.8% | 1.2% | 4.62 | .536 |
| CSR leads to increased sales volume resulting into increased profits. | 84 | 50% | 40.5% | 9.5% | - | - | 4.40 | .661 |

The study findings revealed that CSR contributes to an upward trend of revenues and improves financial performance. Environmental CSR also enhances the growth of revenue hence the financial performance of telecommunication companies in Kenya. Furthermore, it promotes company image hence attracting more members, which increases equity capital and contributes to financial performance. Based on the descriptive findings, CSR leads to more customers' attraction and the consumption of more products. This promotes financial performance in mobile telecommunication companies in Kenya.

**5.5: Correlation Analysis**

Correlation analysis was applied to establish the relationship between environmental CSR and financial performance of mobile telecommunication companies in Kenya. Results are illustrated on Tables 5.

**Table 5: Correlation between Environmental Corporate Social Responsibility and Financial Performance**

| | | Financial Performance |
|---|---|---|
| Environmental Corporate Social Responsibility | Pearson Correlation | .723** |
| | Sig. (2-tailed) | .000 |
| | N | 84 |

**. Correlation is significant at the 0.01 level (2-tailed).

The study revealed that the financial performance of telecommunication companies is partly dependent on environmental CSR practices. Pearson correlation coefficient results showed that the relationship between environmental CSR and financial performance was positive, strong, and statically significant at a 99% confidence level. The results imply that the continued provision of environmentally friendly products attracted more customers. This leads to increased sales revenue hence contributing to improved financial performance. Emission reduction meant that these companies considered community health interests, which helped build a positive image within the community. On the other hand, product innovation leads to cost reduction and efficiency in resource use, and minimization of wastage while maximizing a firm's value, thus contributing to increased financial performance.

**5.6: Regression Analysis**

Regression analysis was conducted to indicate the relationship through the prediction of financial performance changes in parameters of environmental CSR. It outlines the regression model, ANOVA and the coefficients as illustrated on Tables 6, 7 and 8.

**Table 6: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .723[a] | .522 | .516 | .22762 |

a. Predictors: (Constant), Environmental Corporate Social Responsibility

The multiple correlation coefficient value (R=0.723) showed a strong, positive, and statistically significant relationship between environmental CSR and financial performance. Coefficient determination value ($R^2$=0.522) showed that environmental CSR accounted for a 52.2% variation in mobile telecommunication companies' financial performance.

**Table 7: Analysis of Variance (ANOVA)**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 4.644 | 1 | 4.644 | 89.639 | .000[b] |
| | Residual | 4.249 | 82 | .052 | | |
| | Total | 8.893 | 83 | | | |

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Environmental Corporate Social Responsibility

Analysis of variance (ANOVA) was carried out to determine whether the overall regression model fitted to the data. The results shows that parameters within the environmental CSR dimension affected the financial performance significantly {F=89.639; P< 0.05)}.

**Table 8: Regression Analysis Coefficients**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.834 | .279 | | 6.577 | .000 |
| | Environmental Corporate Social Responsibility | .627 | .066 | .723 | 9.568 | .000 |

a. Dependent Variable: Financial Performance

The findings are interpreted as; $Y= 1.834 + 0.627X_1 + \varepsilon$.

The results revealed that financial performance changed by 0.627 units when environmental CSR varied by one unit. The study sought to determine whether environmental corporate social responsibility affect mobile telecommunications companies' financial performance in Kenya. Based on the regression analysis findings, the beta coefficient ($\beta$=0.627; p=0.000 <0.05) was significant at a 95% confidence level. Therefore, the study concludes that environmental CSR practices affects the financial performance of mobile telecommunication companies in Kenya.

## 6. Conclusion

The study concludes that the financial performance of mobile telecommunication companies is influenced by environmental CSR practices. Notably, the study established that financial performance of the firms changed by 0.627 units whenever environmental CSR varied by one unit. Moreover, the multiple correlation coefficient value (R=0.723) indicated a strong, positive, and statistically significant relationship between environmental CSR and financial performance of the mobile telecommunications companies in Kenya. According to the study, the key indicators affecting financial performance include; emission reduction, product innovation, and resource use. Emission reduction is about catering to the health interests of the community. Minimizing environmental impacts in terms of emission reduction makes firms more attractive to the community members and customers. As a result, there is an increased demand for the firm's products, which contributes to an increase in their revenues and better financial performance. Product innovation promotes the development of products and processes that are environmentally friendly and more efficient. Furthermore, appropriate resource use leads to efficiency, thus cost reduction and improved financial performance. Therefore, corporate social responsibility in the environmental CSR dimension contributes to higher financial performance, as evidenced by the study findings.

## 7. Recommendation

Based on the conclusion on the study findings, mobile telecommunication companies should focus more on environmental corporate social responsibility. Environmentally friendly companies are more attractive to the community and customers. Practices in the CSR dimension promote product demand due to an enhanced company image and reputation, leading to an increase in revenue, and higher financial performance.

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