A SURVEY OF FACTORS THAT INFLUENCE THE COPORATE SOCIAL RESPONSIBILITY BEHAVIOUR OF COMMERCIAL BANKS IN KENYA

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A PROPOSAL FOR RESEARCH PROJECT FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA), FACULTY OF COMMERCE, UNIVERSITY OF NAIROBI

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DECLARATION

This is my original work and has not been submitted for a degree in any other university.

Signed...

Thuo David Murunyu

Date 04/03/06

The project has been submitted for examination with my approval as the university supervisor

Signed...

Prof. K'Obonyo

Date 04/03/06

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I feel duty bound to acknowledge the many people who were instrumental in the completion of this project.

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I am grateful to my family, particularly my wife Grace who kept me accountable almost daily. My dad and mum who encouraged me all the way.

Lastly and certainly not the least, I wish to acknowledge and be grateful to God Almighty who has made it possible for me to cross every milestone on the path of life.

DEDICATION

To my parents, who have always inspired me to achieve just a little bit more.

ABSTRACT

This study was undertaken to determine the factors that drive organizations to engage in Corporate Social Responsibility.

The study took the form of a survey. Primary data was collected using a structured questionnaire. It specifically focused on the Commercial Banks operating in Kenya. They represent an important sector in the economy of Kenya. Secondly, they have been very visible in the area of Corporate Social Responsibility.

The study results revealed that factors that influence involvement in CSR to a very great extent include, staff contribution and initiatives, customer preference for institutions that are involved in CSR, government pressure/ encouragement and profitability. Factors such as business environment, industry dynamics, the HIV/AIDS issue, and occurrences of catastrophes influenced CSR involvement to a moderate extent.

The findings on activities that commercial banks have been involved in as part of their CSR revealed that there was less involvement in each activity from 2001 to 2003 but the level of involvement increased from the year 2004 to 2005. Most of the organizations were involved in activities that involved education, HIV/AIDS, environmental issues and child welfare.

CHAPTER ONE: BACKGROUND

Profit making organizations have become powerful agents of change in society all over the world. They have dedicated part of the resources at their disposal to contribute to the welfare of their employees and society at large. An example in Kenya is the Barclays Bank of Kenya Ltd, which has committed 1% of their annual profits to Corporate Social Responsibility (CSR), Annual Reports BBK, 2003. It is now common to see organizations at the forefront of tackling issues affecting society such as HIV/AIDS, poverty alleviation and the environment in the name of Corporate Social Responsibility.

Corporate Social Responsibility (CSR) has been defined as the obligation of a firm to use its resources in ways that benefit the society, through committed participation as a member of society, taking into account the society at large independent of direct gains to the company (Kok et al., 2001). This definition is appealing because it points out that the firm is obligated to contribute its resources. In addition, it brings attention to the fact that the organization is a corporate citizen with obligations to fulfil to society, as do other citizens. Lastly, the organization will make its contribution to the society without the expectation of any reciprocal direct economic benefits in return.

Corporate Social Responsibility, it has been observed takes either a reactive or a proactive perspective (Hemingway and Maclagan, 2004). In some cases it may assume both. It may be a reaction to certain environmental stimuli such as the demands of a powerful stakeholder or in response to an urgent need in society such as famine. This is a responsive level approach to CSR. Business enterprises are viewed to be responsible when they engage in CSR, regardless of public opinion.

However, CSR has some sceptics. Drucker says that if you find an executive, who wants to take on social responsibilities, fire him, fast (Bakan, 2004). Friedman (1962) sees the corporation as the property of stockholders and CSR as diverting their money for reasons that cannot connect to its bottom line. CSR would only be meaningful if, in some way it increased shareholders value.

The worldwide domestic liberalization of the erstwhile command economies and the simultaneous globalization of the hitherto closed economies are unleashing more of the "animal spirits of capitalism and competition" (Chakraborty et al., 2004). This has the potential of assuring economies of choice in terms of products and services. However, it has the potential of creating in society a state of inequality, unfair business practices, social upheaval, and environment pollution among others.

According to Milton Friedman (1962) the social responsibility of business is to use its resources and engage in activities that increase its profits. However, business enterprises whose only goal is to maximize profit and shareholders wealth are short term oriented. This is because they can extract a fearful cost especially in societies where ethical, legal structures and governance are weak. For example, According to World Bank estimates, upto 80 billion US Dollars a year are given as bribes to officials in developing countries (Pacini, Swingen and Rogers, 2002). It is therefore in the interest of government that more and more firms embrace the spirit and practice of CSR.

The history of enduring companies suggests that it is indeed possible to go beyond profit maximization. They have demonstrated that by simultaneously attending to a variety of stakeholders and focusing on composite goals, rather than profit maximization alone it is possible to acquire and maintain industry leadership (Chakraborty et al, 2004). The survival of modern corporations is dependent on meeting the diverse expectations of all their stakeholders.

Business enterprises are involved in CSR for various reasons. It can be viewed as efforts by firms to manage their corporate image. They are also perceived negatively as an attempt to manipulate stakeholders into believing a view that they project themselves through the use of various communication media. This view reduces CSR activities to publicity stunts.

CSR, on the other hand, may be seen as efforts on the part of a firm to engage in strategic moves that are necessitated by the environment. The organization must respond to the changes in their operating environment in order to assure them of survival. The efforts may be seen as a way these organizations attempt to improve their acceptability in society and gain entry into areas that would otherwise remain closed to them. It is also a means to stem the possibility of social upheaval.

The growth of socially responsible investment may be another reason that leads to increased focus on CSR by profit making firms. Socially responsible investment or ethical investment is broadly defined as the integration of personal values, social considerations and economic factors into the investment decision. Financial return is not the only criterion driving investments (Michelson et al, 2004) Firms that engage in CSR activities may better attract institutional and individual investors. The ability to attract such investment may translate to cost advantages and better pricing for their products.

There is a growing view that CSR efforts may not be wholly attributed to corporate policy or efforts. The level of involvement of a firm may be as a result of the personal attributes of managers. This may come as an effect of psychological egoism of a manager, that is self-interest of a manger, or as an effect of social values and religious teaching. Many world religions teach the values of philanthropy, besides Christianity the importance of helping other people who are less fortunate than oneself can be found in Buddhism, Judaism and Islam (Smart, 1989). Hence, the view that managerial discretion is an important driver of CSR.

1.1.1 The Kenyan Context

Recently, two of the leading manufacturing firms in Kenya have adopted CSR reporting. East African Breweries and British American Tobacco (BAT) companies are engaged in the production of items that may be detrimental to human health. The firms have been supporting CSR activities that are unrelated to their core areas of operations. There is need to establish the reasons behind the recent moves to be seen as socially responsible for these particular firms and others operating in Kenya. The motivation to engage in a socially responsible behaviour may be due to changes in three variables, namely business dynamics, societal dynamics and government pressure.

The question one would ask is whether business enterprises in Kenya have had to change strategic tactics due to environmental changes. To really succeed you need to be an integral part of the community in which you operate. Firms may be responding, for example to increased customer awareness or pressure from actions of competitors, among others. CSR in this case may be adopted for the purposes of survival. It is important to establish whether the Kenyan environment has changed to the extent that it requires CSR.

The second question would be whether society has changed to require the organizations operating and profiting from it to show actions in meeting social responsibility. Access to knowledge through the Internet and other media may have educated Kenyans on the impact of business on the environment and society. The actions of other societies in the world may have triggered similar actions locally. An example is the growing activism against the Tobacco industry in Kenya. It is necessary to establish whether society has become more demanding of business organization operating in Kenya.

Lastly, the link between actions of government through parliament and other agencies and firms engaging in CSR need to be investigated. For example, the pending legislation on Tobacco may have triggered BAT to engage in CSR. The Donde Bill may have triggered increased levels of engagement in social activities by Kenyan Banks. This is because the actions of the government may be symptomatic of lack of self-regulation on the part of firms. There is need to know whether actions of government have led to increased involvement in CSR.

Further more, it is important to ask whether the government has inhibited the growth of CSR. The Kenyan government unlike counterparts in Africa has not given tax incentives for corporate contributions to CSR.

1.1.2 The Kenyan Banking Sector

There are currently 44 Commercial Banks operating in Kenya. Their sources of income are primarily from interest charges, fees and commissions earned from provision of services and foreign exchange trading income. They may be categorized into three on the basis of ownership namely, foreign owned, locally owned and those whose ownership is partly foreign and partly local. Commercial Banks are involved in various activities that are socially related. Some examples are Barclays Bank Kenya Ltd, which has committed 1% of their annual profits to CSR (Annual Reports BBK, 2003) and is involved in Girl Child Education. Standard Chartered bank is involved in organizing the Annual Nairobi Marathon, Kenya Commercial Bank has sponsored the Safari Rally events for the 2005 season and I&M Bank is involved in raising money for the afforestation of Karura forest.

The growth of profits in the banking sector in Kenya in the face of rising poverty has resulted in negative sentiments by the public. The passing in parliament of the Central Bank of Kenya (Amendment) Act 2000 otherwise known as the 'Donde bill' was a reaction to frustrations with unreasonable escalation of bank charges (Budget Speech for Financial Year 2004/5). Those able to access banking services are faced with overwhelming charges and punitive interest rates for overdrafts and loan facilities. The result may be seen in the in Duplum rule adopted by the minister of finance in the Budget Report of 2004/2005 (Budget Speech for Financial Year 2004/5). According to an internal survey of bank contribution to CSR in Kenya, more banks than ever before are funding social development programmes.

1.2 STATEMENT OF THE PROBLEM

The passing in parliament of the Central Bank of Kenya (Amendment) Act 2000, referred to as the Donde bill was a reaction to frustrations with unreasonable escalation of bank charges (Budget Speech for Financial Year 2004/5). Those able to access services are faced by the overwhelming charges and punitive interest rates for overdrafts and loan facilities. The result may be seen in the in Duplum rule adopted by the minister of finance in the Budget Report of 2004/2005 (Budget Speech for Financial Year 2004/5). In the same budget speech the minister invoked Section 44 of the Banking Act, which provides that permission must be sought from the Minister for Finance to raise bank charges This may be an example of failure of self-regulation from the banking sector. These regulatory moves reflect perceived insensitivity of the banking sector to the socio-economic needs of the Kenyan society. The Donde bill in particular was motivated by the concern that the banking sector, which was reporting near abnormal annual profits, was frustrating the efforts of the Kenyan government and investors to jump start the economy, spur economic growth and thus alleviate poverty that was getting worse each day. Further still the Finance Minister, claims that multinational banks are only profit driven and not interested in helping more people access banking services. This has been exhibited by their closing down of rural branches (Pg 27, Daily Nation, June 29, 2005)

Some of the studies undertaken in this area include Managers Attitude and Response Towards Social Responsibility: The Case of Large Manufacturing Firms in Nairobi (Kamau A., 2001) whose findings were that managers have a positive attitude towards social responsibility. However, the study found that attitude had very little influence on the implementation of social responsibility. A second study, Social Responsibility: Attitude and Awareness of Executives of Medium Scale Manufacturing Firms in Nairobi (Kiarie, 1997) found that there was a relationship between awareness, attitude and implementation of social responsibility. Despite having a high level of awareness, the managers' attitude was less favourable towards social responsibility. These studies show clearly that managers have ambivalent attitude towards social responsibility. This raises the question as to what motivates firms to undertake social responsibility activities particularly in the Kenyan context. No study was found that has addressed the issue of motivation underlying social responsibility behaviours. It is this gap in knowledge that the proposed study seeks to address.

This is what has motivated the proposed study. The questions that underline the research problem are: What are the Kenyan bank's responses to the socio-economic issues of the Kenyan society. What is the motivation for those responses? The proposed study has attempted to search for answers to these questions.

1.3 OBJECTIVES OF THE STUDY

1. To establish the social responsibility activities by Kenyan banks
2. To determine factors that motivate Corporate Social Responsibility behaviour by banks in Kenya.

1.4 IMPORTANCE OF THE STUDY

The findings of this research project will be important to the following groups of people

1. Scholars who may be interested in the area of Corporate Social Responsibility in Kenya
2. Managers of organizations in Kenya who may be involved in Corporate Social Responsibility. It would also interest managers of organizations that are yet to explore this area
3. Stakeholders in the Kenyan society who may seek to know how firms address societal issues

CHAPTER TWO: LITERATURE REVIEW

It has been conventionally accepted that business enterprises are set up largely (and to some extent solely) to enhance the owners' wealth (Mclachlan and Gardner, 2004). Most of the business textbooks define business enterprises as an entity set up for the purpose of wealth generation. This definition like many others brings out the centrality of the owners' interest above all other interest. As a matter of fact, any definition of a business enterprise that does not place the supremacy of wealth creation to the owner is not acceptable. Actually the contravention of this ideology is often met with serious resistance from some of those practicing business as well as the advocates of this line of thought. For instance, Milton Friedman argues that the sole aim of a business is to maximize profits for its shareholders (Abbarno 2001, McLachlan and Gardner, 2004). According to him, no other goal is primal to upset that of value creation to the owners. Even when pressed with the question of social responsibility, he is emphatic that the social responsibility a firm has to the society is to increase profits by legal means.

2.1 Corporate Social Responsibility

Corporate Social Responsibility (CSR) comes in as a response to societal expectation on business entities. Snider et al (2003) views it more as a relationship between the business and the larger society. An exact definition of CSR is elusive, since the benefits regarding the association of businesses and society fluctuate with relevant issues (Pinkston and Archie, 1996). As such, viewpoints have varied and still do. One thing that is clear however is that the concept of social responsibility opens up interests beyond those of the owners and exalts the position of the society. Kok et al (2001) defines CSR as the obligation of the firm to use its resources in ways to benefit society and that this should be independent of direct gains to the company.

To accommodate part of the thinking that businesses exist for the purpose of wealth generation, Carroll (1999) provides a more inclusive definition of CSR. In his definition he contends that there are four components of CSR, namely: economic, legal, ethical and discretionary. In this perspective, he recognizes businesses as not only existing within a context, but part and parcel of it. He looks at businesses more as corporate citizens of the society. To that end therefore he says businesses have a fundamental responsibility to make profits and grow. This component is what he calls the economic component and is in line with for instance the theory of the firm and so forth. The legal component is the duty businesses have to obey the law and play by the "rules of the game", while the ethical component looks at the respect of the right of others. The discretionary component involves philanthropic activities that support the larger community (Snider et al 2003)

2.1.1 Corporate Social Responsibility as a Strategy

Environmental dynamics at play have meant that businesses make necessary adjustments to the way they do things. Businesses have had to match their capabilities to their environment through the concept of strategy (Ansoff 1990). Rue and Holland (1986) argue that strategy describes the way an organization pursues its goals given the environmental conditions. That means that if there were changes in the environment, there should be similar efforts by the organization to match the changes. CSR can be viewed as such an effort.

One can say that CSR is a response by the business enterprises to the pressures exerted by the society. The society in this case has been demanding more from the business sector, partly because of the recognition that first, the businesses are co-citizens in the society and secondly, that businesses are not motivated towards meeting their side of responsibility. This recognition alters the interest and power balances that favour businesses.

2.1.2 The Agency Problem and CSR

The agency question and the theory of the firm further drive the point home. Both of them address themselves to the "sanctity" of the owner's interest. The agency theory to start with is birthed out of the desire to show the inherent problems that exist if the owners' interests are not supreme to those of managers. The theory questions if in fact the activities and intentions of managers are directed towards benefiting the owners. On the other hand, the theory of the firm, argues that the concern of management is to maximize shareholder value (Hemingway and Maclagan 2004). It expressly indicates the interest of the owners remains the sole priority of the any business.

The Agency problem arises from separation of ownership and control, (Jensen and Meckling, 1976). The traditional argument is that owners wish to maximize profits but their designated agents may have neither the interest nor the incentive to do so. (Berle and Means, 1932) Thus, while the owners are focused on cost reduction to maximize profits, managers will be involved in cost augmenting activities that may erode shareholders' profits (Jensen and Meckling, 1976). Another view is that managers at their discretion indulge their need for power, prestige and status (Baumol, 1959) may engage in 'wasteful activities' such as social responsibility. However, this argument assumes that shareholders are focused on short-term gains as opposed to future survival and growth.

The emergence of social responsible investment counters this view. Socially Responsible Investment integrates personal values, social considerations and economic factors into the investment decision, (Michelson et al., 2004). As far as CSR is concerned the divide between management on the one hand and investors on the other is non-existent. Both recognize the benefits of conducting business in an ethical manner.

It has been argued that financial performance and social performance might be positively correlated in the long run because social performance confers better resource competitiveness, lower transaction costs, employee quality and motivation and customer goodwill (Cochran and Wood 1984; Hart 1995; Waddock and Graves 1997) At the same time, low levels of social performance may increase a firm's financial risk. (Ullmann, 1985) This has thrown the investors concerned with long run growth in the same basket with managers. As a society gets more educated and investment minded the tendency for agency related problem based on short run profit maximization by shareholder is minimized.

However the above line of thought is not shared across the board. Other quarters believe that business enterprises are part of a community and therefore serve the varied interests, (Snider et al., 2003) for instance, provide a more accommodating perspective. According to them, they believe that business exists to serve the greater community as well as the direct beneficiaries of the companies operations. With these perspectives, one desires to examine the interaction of business and society may be to at least understand the nature of the relationship and interests presented.

2.1.3 Business and Society

Business enterprises do not exist in a vacuum. They exist and operate within a context. The context otherwise referred to as the environment which presents both opportunities as well as constraints to business. On the other hand, businesses do dispose of their output to society. Thuo (2003) views this business – context relationship as an open system. He argues that business organizations as well as other organizations depend on the environment for the provision of inputs as well as disposal of their output. In other words, both the business and the environment affect each other in a mutual relationship. Problems may arise when the relationship between these two variables cease to be symbiotic.

The environment is an amalgamation of a number of factors. Different businesses face the specific components of the environment in varied ways. Meaning that while some environmental components may weigh heavily on some business organizations, the same may not be the case for other businesses.

One environmental component that however affects all businesses significantly is the society. The interaction of business and society is close and interdependent to some extent. For instance, businesses depend on the society for the provision of labour, expertise, markets et cetera. On the other hand, the society depends on the businesses to provide goods and services, employment et cetera.

While the role of the society to the business is more explicit and rather expected, the role of the business to society is neither expected nor explicit save the commercial one. This status begs for more explicit action on the part of the business enterprises to match not only societal input but also societal expectation.

2.1.4 Shifting Positions within the Stakeholder Matrix

Central to the issue of CSR is recognition that modern corporation, not only serve the interests of shareholders, but the diverse expectations of all their stakeholders. (Chakraborty et al., 2004) recognize both primary and secondary stakeholders. Primary stakeholders are employees, managers, owners, suppliers and customers. Secondary stakeholders are individuals or groups that influence the environment in which business operates. Examples of secondary stakeholders are NGO's, governments and communities. All stakeholders can impose costs on an organization. They see the secondary stakeholders requiring more urgency than the primary. This is because their impact may be drastic. For example, the government can shut down a business in hours.

Freeman (1984) identifies three levels in the process of managing relationships with stakeholder groups. First, is to identify stakeholders and their perceived stakes. Secondly, determine the organization's processes of managing the relationships. Thirdly, understand the set of transactions and bargains between an organization and its stakeholders. In mapping these relationships we can be guided by a stakeholder matrix. A stakeholder matrix is a tool that is used in helping to understand the different stakeholders to a given organization and how such stakeholders influence the organization. Two variables namely, power and interests are used to segment stakeholders.

A given stakeholder can therefore be plotted on any segment depending on how much power and interest they wield. Definitely those occupying the high power high interest segment are given significant attention while those who have low interest and low power are accorded little or no attention.

Owners of businesses are unquestionably expected to occupy the high interest high power segment. Except in cases where such owners own a stake that cannot influence decision-making. Going with the former however, we recognize that for a long time, owners have been the sole occupiers of this segment. However over time, different stakeholders have found themselves in this segment. Some by default while others by studied manoeuvres. Somehow due to environmental dynamics, the society has landed in the said segment. This has been noted by the fact the while in the past the society had little or no say, today, it has serious influence to the nature and direction business firms take.

2.2 Factors That Affect An Organization's Involvement in CSR

The theory of the firm, which is to maximize shareholders wealth, seems to bring into question the whole concept of CSR. It can be argued that CSR is in danger of being seen as 'good money chasing after bad'. The question that one would ask is whether CSR in any way adds value to the organization, (Hemmingway and Maclagan, 2004) propose two key dimensions for the analysis of CSR in practice

1. The motivational basis
2. Locus of responsibility

The motivation perspective can be further split into both commercial and altruistic/individual interests

2.2.1 Commercial Factors

2.2.1.1 Strategic theory of the firm perspective

This can be seen as the business enterprise responding to changes in the environment in order to be competitive. This perspective is in line with maximizing shareholder's wealth. Moon (2002) argues that the motivation of engaging in CSR can be associated by some kind of self-interest. Changes in the environment such as the activities of competitors in adopting CSR strategies can result in a firm following suit. The requirement of a stakeholder whose bargaining power has increased may require the organization to develop capabilities to enable it to survive. It may then be manipulation of stakeholder groups in order to seek the survival of the firm (Desmond & Crane)

This is largely linked to managing the environment as a means to an end i.e. concerning the commercial need to achieve financial targets (Hemingway and Maclagan 2004, Desmond and Crane, 2004) refer to this as the "blind faith" of economic egoism; that is the pervading economic morality of the firm, at the expense of any kind of morality

2.2.1.2 Corporate Image Management

It has been argued that CSR disclosures and reporting can be viewed as corporate image management or a strategic marketing activity. Gray et al, (1995) say that stakeholders are included in corporate affairs as a mechanism by which to satisfy pressures on them in order to demonstrate satisfactory CSR. It involves the conditioning of stakeholder groups in terms of presenting a view of the firm that the organization is comfortable with. This in some cases involves the employment of various communication media such as advertising and public relations. In order to improve the competitive position by delivering the messages designed to create and maintain a good image (Adkins 1999). The normal activities of profit making may attract negative public opinion in some cases. An example is the case of commercial banks in Kenya.

2.2.1.3 To Cover up Corporate Misdeeds

Companies have been accused of taking a public ethical stance in order to project a 'good' image, regardless of their unpublicised unethical practices. (Caulkin, 2002). Business enterprises that manufacture potentially harmful products may be involved in CSR to assuage the impact of negative publicity that arises from their activities. For example, the CSR activities of tobacco firms that may lead the public to associate them with their good deeds as opposed to the harmful health effects that their products have.

2.2.1.4 Labour Management

Moon (2002) attributes business community involvement to issues of recruitment, the economic development of the area. It is the goal of business enterprises to attract and retain the desired human resource. Employees prefer to work for companies that demonstrate community involvement. Volunteer programs help recruit and retain highly qualified employees. (Caudron, 1994, Wild, 1993)

2.2.1.5 Attracting Investors

The growth of institutional and individual investors who desire to invest in firms that are socially responsible is a factor that drives firms to adopt CSR. Any individual or group which truly cares about ethical, moral, religious or political principles should in theory at least want to invest their money in accordance with their principles (Miller, 1992). Firms that seek to attract new investment to fund growth are in competition with other firms, in particular other players in the industry, who may be more competitive when it comes to social responsibility. The ability to attract investment at low rates may translate to a cost advantage, which in turn affects product pricing.

2.2.2 Individual Factors (Managers Values)

Managers exhibit their personal values through the exercise of managerial discretion. Maclagan argues that to establish responsibility one must consider the values, motives and choices of those involved in policy formulation. This places the value of the individual manager highly as far as CSR issues are concerned. Stern, Dietz and Kalof (1993) have identified three value orientations and perspectives that shape practices. We can examine managers' values from these perspectives

- Egocentric perspective

In this perspective people adhere to the philosophy that what is good for each individual will benefit society as a whole, (Miller, 1992) says that individuals work or even invest in ways consistent with their personal values. Managers engage in activities they believe will benefit society. However, in serving one's interest one may go against the interests of those they seek to aid.

- Social – Altruistic Perspective

Schwartz (1970) holds that an individual experiences a sense of moral obligation. The person acts when one believes that adverse consequences are likely to occur to others and they can help prevent the occurrence. These people believe in the greatest good for the greatest number of people.

- Eco-centric Perspective

This view holds the cyclical nature of the social and natural laws. The people who apply such values judge issues such as profit maximization as not ends without limits. They would then want to strike a balance.

2.2.3 Universal factors that affect CSR

In conclusion the level of an organization involvement in CSR may be driven by the following factors. This is in spite of the factors mentioned above.

2.2.3.1 Profitability of an Organization

The level of involvement of an organization will be affected by profitability. This can be seen directly for example where corporations set aside a certain percentage of their profits to CSR. Tata Steel spends on average of five percent of its profits on a portfolio of social activities (Chakraborty et al, 2004). A local example is Barclays Bank of Kenya, which commits one percent of its profits to CSR. It is therefore, clear that what they plough back to society has a direct relation to profits.

2.2.3.2 Government Regulation

In some Industries lack of ethical leadership may provoke government intervention in the form of regulations. Public choice theory suggests that government regulation of this nature is prompted as elected officials respond to voter demand (Dienhart, 2004). Examples may be where industries dump pollutants into water bodies and in the air. The tobacco industry in Kenya has attracted legislation to regulate its advertising. They have to include a Ministry of health warning on their adverts. In this and other ways the government requires some minimum standards that business enterprises have to adhere to.

2.3 The Kenyan Banking Sector

There are 44 Commercial Banks operating in Kenya. They sources of income are primarily from interest income, fees and commissions earned from provision of services and foreign exchange trading income. They can be divided into three groups according to ownership namely, foreign owned, locally owned and those whose ownership is partly foreign and local.

Commercial Banks are involved in various activities that are socially related. Some examples are Barclays Bank Kenya Ltd, which has committed 1% of their annual profits to CSR (Annual Reports BBK, 2003) and is involved in Girl Child Education. Standard Chartered bank is involved in organizing the Nairobi Marathon, Kenya Commercial Bank has sponsored the Safari Rally events for the 2005 season and I&M Bank is involved in raising money for the afforestation of Karura forest.

The passing in parliament of the Central Bank of Kenya (Amendment) Act 2000, referred to as the Donde bill was a reaction to frustrations with unreasonable escalation of bank charges (Budget Speech for Financial Year 2004/5). Those able to access services are faced by the overwhelming charges and punitive interest rates for overdrafts and loan facilities. The result may be seen in the in Duplum rule adopted by the Minister of Finance in the Budget Report of 2004/2005 (Budget Speech for Financial Year 2004/5). In the same budget speech the Minister invoked Section 44 of the Banking Act, which provides that permission must be sought from the minister of finance to raise bank charges This may be an example of failure of self-regulation from the banking sector. These regulatory moves reflect perceived insensitivity of the banking sector to the socio-economic needs of the Kenyan society. The Donde bill in particular was motivated by the concern that the banking sector, which was reporting near abnormal annual profits, was frustrating the efforts of the Kenyan government and investors to jump start the economy, spur economic growth and thus alleviate poverty that was getting worse each day. Further still the Finance Minister, claims that multinational banks are only profit driven and not interested in helping more people access banking services. This has been exhibited by their closing down of rural branches (Pg 27, Daily Nation, June 29, 2005)

2.4 Previous Studies

Some of the studies undertaken in this area include Managers Attitude and Response Towards Social Responsibility: The Case of Large Manufacturing Firms in Nairobi

(Kamau A., 2001) whose findings were that managers have a positive attitude towards social responsibility. However, the study found that attitude had very little influence on the implementation of social responsibility. A second study, Social Responsibility: Attitude and Awareness of Executives of Medium Scale Manufacturing Firms in Nairobi (Kiarie, 1997) found that there was a relationship between awareness, attitude and implementation of social responsibility. Despite having a high level of awareness, the managers' attitude was less favourable towards social responsibility. These studies show clearly that managers have ambivalent attitude towards social responsibility.

CHAPTER THREE: RESEARCH METHODOLOGY

The research design used was the survey method. Primary data was collected from all the banks.

3.1 Population and Sample Size

All the commercial banks operating in Kenya will form the population of the study. There are 44 banks that are registered by the Central Banks of Kenya. They can be divided into three different strata according to ownership profile. Namely, Foreign owned, locally owned and those that have both foreign and local ownership. All the 44 banks were studied.

3.2 Data Collection

Primary data was used in this study. Data was collected using a structured questionnaire. This type of questionnaire has been used in similar studies for example, Wambua (1996) and Kiruthi (2001). The questionnaire is divided into two parts, A and B. Part A is targeted at the background data of the respondents, while part B is intended to capture data relevant to the objectives of the study. The "drop and pick later method" was used. The researcher engaged the services of a research assistant to help in data collection.

3.3 Data analysis and Presentation

Questionnaire had been edited for completeness and consistency. The data was largely quantitative and thus descriptive statistics was derived. Percentages were used to analyse the data, as they adequately met the objectives of the study. The findings were presented visually using pie charts.

CHAPTER FOUR: STUDY FINDINGS

4.1 Introduction

This chapter provides the results of the survey. The study was centered on some key factors that influence corporate social responsibility of the Commercial Banks in Kenya. The results are based on a response rate of 31%.

4.2 Extent of Environmental influence on CSR involvement

Thirty one percent (31%) of the respondents indicated that the business environment required that they get involved in CSR to a very great extent. A similar 31% indicated that the business environment did influence their involvement in CSR to a great extent. The remaining 23% and 15% indicated that the business environment affected their involvement in CSR to a less and moderate extent respectively.

4.3 Extent of investors influence on CSR Decisions

38% of the respondents indicated that investors influenced their CSR decisions to a very great extent, 31% to a moderate and 23% to a less extent. Eight percent (8%) indicate that there was no such requirement.

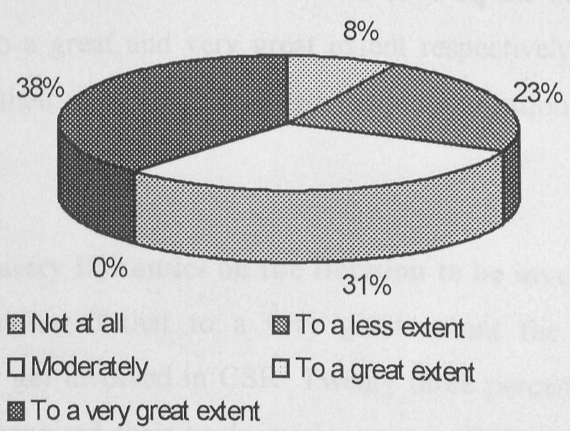

Figure 1: Extent of investors influence on CSR decisions

4.4 Extent of influence of Profitability on CSR Involvement

31% of the respondents indicated that profitability influenced their organisation to get involved in CSR to a very great extent. 31% indicated that profitability influenced their involvement in CSR to a great extent. A similar 23% viewed the influence as moderate same as those indicated that the influence was to a less extent.

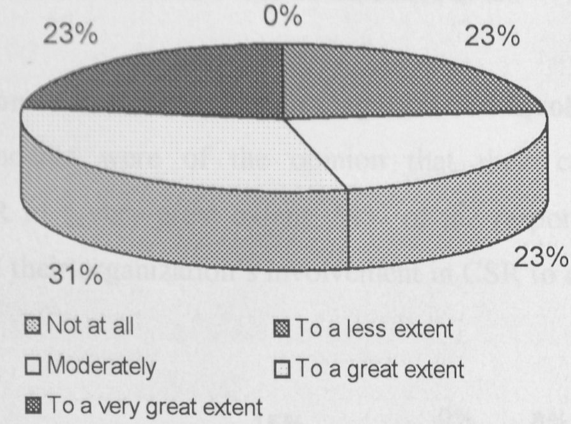

Figure 2: Extent of influence of Profitability on CSR Involvement

4.5 Extent of Staff contribution to CSR Decisions

38% of the respondents were of opinion that staff contribute moderately to their respective organization's involvement in CSR. 31% and 23% on the other hand were of the view that staff did so to a great and very great extent respectively. Only 8% of the respondents indicated that their staff contributed to their organization's involvement in CSR to less extent.

4.6 Extent of Banking Industry Dynamics on the Decision to be involved in CSR

38% of the respondents indicated that to a very great extent the banking industry dynamics required that they get involved in CSR. Twenty three percent (23%) indicated that the industry dynamics required their bank involvement in CSR to a great extent. A similar percentage was of the opinion that the dynamics did so only to a moderate extent while 15% felt that the said influence was to a less extent.

4.7 The Extent of Government Influence on CSR

While 31% and 38% of the respondents indicated that the government encouraged their organizations to get involved in CSR to a very great extent and a great extent respectively, 15% of them indicated that the government's influence on CSR was moderate. 8% were of the opinion that the influence was to a less extent, while a similar percentage was of the view that there was no influence at all.

4.8 Extent of Customer Preference for an Organization involved in CSR

15%of the respondents were of the opinion that their customers preferred their involvement in CSR to a very great extent. 54% of the respondents indicated that their customers preferred their organization's involvement in CSR to a great extent, while 23%

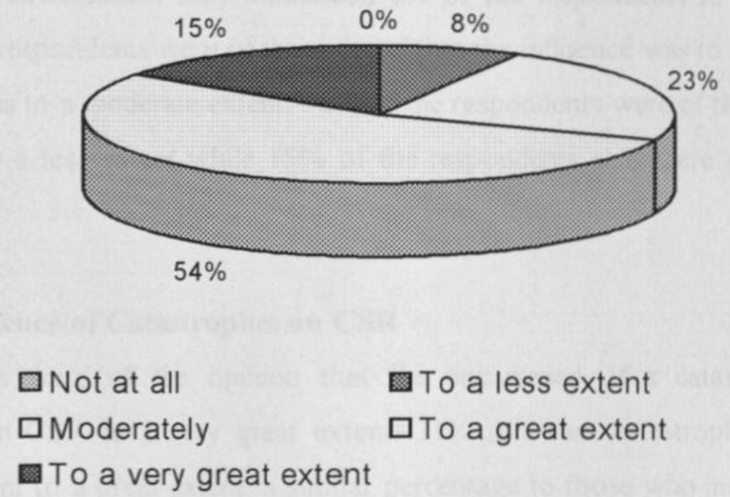

Figure 3: Extent of Customer Preference for an Organization involved in CSR

and 8% viewed their customer preference for a bank that is involved in CSR to a moderate extent and less extent respectively.

4.9 Extent of Organizational Response to Needs to the Needs of the Underprivileged

15% of the respondents indicated that their organizations respond to the needs of the under privileged to a very great extent. 23%were of the opinion that the response was to a great extent. 31 % viewed their organizational response as moderate while a similar 31% indicated that the response was to a less extent

4.10 The Extent of HIV/AIDS influence CSR Involvement

23% of the respondents indicated that the HIV/AIDS has influenced their involvement in CSR to a very great extent. 31% indicated that the influence was to a great extent. 38% of the respondents were of the view that HIV/AAIDS has influenced CSR decisions to a moderate extent. 8% felt the influence was to a less extent while a similar percentage was of the opinion the influence was nil. But it's worth noting that most of the influence on the HIV/AIDS was due to staff being affected or infected.

4.11 Extent of Natural Environmental Influence on CSR Decisions

The need to protect the environment only influenced 8% or the respondents to a very great extent. 31% of the respondents were of the opinion that the influence was to a great extent while 8% felt it was to a moderate extent. 38% of the respondents were of the view that the influence was to a less extent while 15% of the respondents said there was no influence at all.

4.12 The Extent of Influence of Catastrophes on CSR

23% of the respondents were of the opinion that the occurrence of a catastrophe influenced involvement in CSR to a very great extent. 31% said that catastrophes did influence their involvement to a great extent, a similar percentage to those who indicated that the influence was to a moderate extent. 15% of the respondents were of the opinion that occurrence of catastrophe did not influence CSR decisions at all.

4.2 Areas (Activities) of Involvement in CSR

The findings are based on 85% response rate, as 15% of the respondents did not complete this part of the questionnaire

20% of the respondents indicated that their organizations were involved in education in the year 2001, 2002 and 2003. 60% of the organizations were involved in education in 2004 while 40% of the organizations were involved in 2005.

On the activity of water drilling, respondents indicated that only 10% of the banks had engaged in this activity by the year 2005. 30% of the organizations were involved in the issue of HIV/AIDS in the year 2001,2002 and 2003. In 2004 and 2005 involvement in this activity increased to 60% and 50% respectively.

20% of the respondents indicated that their organizations were involved in environmental issues between 2001 and 2002. In year 2003 and 2004 there was an increase in involvement in this activity to 30% and 60% respectively. Involvement in environmental activities declined to 30% in 2005.

10% of the respondents were involved in famine relief efforts between 2001 and 2003. There was an increase in this activity in 2004 to 50%. The number of organizations involved declined in 2005 to 40%.

20% of the respondents were involved in child welfare in the years 2001 and 2002. This number increased to 30%, 40% and 50% in year 2003,2004 and 2005 respectively. Respondents indicated that 10% were involved in sports in year 2001, 20% were involved in the year 2002. 30% of the organizations were involved in sport activities in the years 2003,2004 and 2005.

Table 1: Extent of Involvement in Various Activities by Organizations

ACTIVITY	2001 (%)	2002 (%)	2003 (%)	2004 (%)	2005 (%)
EDUCATION	20	20	20	60	40
WATER	10	10	10	10	10
HIV/AIDS	30	30	30	60	50
ENVIRONMENT	20	20	30	60	30
FAMINE RELIEF	10	10	10	50	40
CHILD WELFARE	20	20	30	40	50
SPORTS	10	20	30	30	30

CHAPTER FIVE: OBSERVATIONS, CONCLUSIONS AND RECOMMENDATIONS

On the question of whether the business environment requires commercial banks to be involved in CSR the findings reveal that 62% believe that this affects their involvement to a very great extent and to a great extent. This indicates that as the dynamics of business change, involvement in CSR is likely to change accordingly. The findings were similar to those seeking to establish the influence of industry dynamics on CSR. 61% indicated that industry dynamics influence their CSR decisions to a very great and a great extent. Therefore as industry forces change we are likely to see a change in CSR involvement.

On the question of whether their investors require them to be involved in CSR, the respondents 54% were of the view that the investors only influenced their CSR decisions to a moderate and to a less extent. The level of influence of investors is much less than that of their business environment.

On the issue of profitability, most of the respondents felt that it influenced their CSR decisions to a great extent. We can expect that when profitability increases then we will observe an increase in CSR involvement. It is in line with decision making in most organizations where budgets for activities are constrained by level of profitability.

The influence of Staff contribution to CSR involvement tends to be more moderate in comparison with profitability for example. This reflects that a change in staff contribution will affect CSR involvement moderately. The impact on CSR decisions of staff contribution will be less than the impact of a change in business environment or industry dynamics.

Governmental influence on CSR involvement was observed to be great. This indicates that a government policy change to require more CSR behavior from organizations would translate to a change in CSR involvement. The government should be encouraged to make it much easier for organizations to contribute to CSR.

The influence of customer preference for banks that were involved in CSR was great but more moderate in comparison with the influence of the government. However all respondents were of the opinion that customers affected their CSR decisions at least to some extent. Customers can therefore be considered an important factor in CSR involvement. If they were to require organizations to be more involved we would see an increase in CSR involvement.

The influence of the underprivileged in society on CSR decisions was not strong. However, when these results are compared with those that sought to establish the influence of the HIV/AIDS issue on CSR, the latter seems to have more influence than the former. It was noted that the fact that staff members were among those affected increased the influence of HIV/AIDS in CSR involvement.

On the issue of the environment, most of the respondents felt that this factor did not have a strong influence CSR involvement. But the banks seemed to respond more to catastrophic occurrences with 54% observing that it influenced them greatly. Catastrophes are however not predictable and organizations may be making ad hoc decisions and not as policy decisions

In conclusion, factors that influence involvement in CSR to a very great extent include, staff contribution and initiatives, customer preference for institutions that are involved in CSR, government pressure/ encouragement and profitability. Factors such as business environment, industry dynamics, the HIV/AIDS issue, and occurrences of catastrophes influenced CSR involvement to a moderate extent.

The findings on activities that commercial banks have been involved in as part of their CSR revealed that there was less involvement in each activity from 2001 to 2003 but the level of involvement increased from the year 2004 to 2005. Most of the organizations were undertook activities that involved education, HIV/AIDS, environmental issues and child welfare. The activity that was not very popular was water drilling with only 10% of the organizations having been involved by the year 2005.

The factors identified by the researcher and presented to the respondents were fairly exhaustive since the respondents did not indicate other factors though were requested to do so. The respondents only tended to emphasize the factors provided on the questionnaire.

The extent and areas of involvement differ from one organization to another. On some areas of CSR involvement, some organizations have been involved for a period equal or exceeding five years. This is a clear indication of the organization's structured and formal involvement in those areas. However in some areas, organization were involved more in a spontaneous fashion.

5.2 Limitations of the study

Most of the organizations were not keen to respond to the questionnaire and even when telephone calls were made, a good number were non-committal to filling in the questionnaire. Others due to information outflow policy could not have anyone answer the question other than the authorized person though other staff members may have known the CSR involvement.

The scope of the study focused on the commercial banks and therefore the findings may not be shared by other organizations outside this scope. Thus the study limits its findings to this sector.

5.3 Suggestions for further research.

Going through this study, one becomes more aware of organizations involvement in CSR. What however is not clear is their level of involvement in the light of their profitability. While an organization may seem to be well involved in CSR, the extent of involvement in comparison to the profits made by the organizations may be just be a "drop in the ocean. CSR involvement should be thought of as ploughing back to the society a portion of their profits in meeting some of the society needs. Such involvement should be seen to

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be consistent with the levels of profitability attained. To be able to ascertain this, a study should be carried out match profits levels against CSR involvement.

Secondly, a study can also be done to examine CSR involvement of organizations in non-monetary areas. In some case the provision of moral support to initiatives that may not necessarily involve money. For instance, involvement against social injustice like violence against women, child labour etc. The study concentrated on external stakeholders. A study on internal stakeholders would be appropriate.

Finally, because this study largely focused on the banking sector, it would go well if studies were done in other industries and sub-sectors to ascertain and understand involvement in CSR. This may form a basis for encouraging more involvement of organizations in CSR.

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APPENDIX 1

QUESTIONNAIRE

PART A

1. Name of your bank ________________________________

2. Years of existence in Kenya (optional)

   ____

3. Designation of respondent ________________________________

4. Is your company foreign owned, locally owned or jointly owned by locals and foreigners? ________________________________

PART B

Kindly indicate the extent to which the following apply to your organization by ticking as appropriate

	Not at all	To a less extent	To a moderate extent	To a great extent	To a very great extent
1. Our business environment requires our organization to be involved in CSR					
2. Our investors require us to be involved in CSR					
3. Our profitability influences our involvement in CSR					
4. Our staff contribute to our organizations involvement in CSR					
5. The banking industry dynamics require us to be involved in CSR					
6. The government has encouraged our engagement in CSR					
7. Our customers prefer an organization that is involved in CSR					
8. Our organization responds to the needs of the underprivileged					

	Not at all	To a less extent	To a moderate extent	To a great extent	To a very great extent
9. The issue of HIV/AIDS has influenced our involvement in CSR					
10. The need to protect our environment through initiatives such as afforestation etc has influenced our in CSR					
11. The occurrence of catastrophes such as famine etc influences our involvement in CSR					

12. Any other factors that influence your organization's involvement in CSR, please specify____

13. Has your organization been involved in CSR activities in the areas indicated below in the last five years? Please tick as appropriate

AREA	2000	2001	2002	2003	2004	2005
Education						
Water						
HIV/AIDS						
Environment						
Famine relief						
Child welfare						
Sports						
Others specify						