CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY AT KENYA COMMERCIAL BANK

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FUFILLMENT OF THE REQUIREMENTS OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

DECLARATION

This management research project is my original work and has not been presented for a degree in any other university.

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This research project has been submitted for examination with my approval as the University supervisor.

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ACKNOWLEDGEMENT

This work owes credit to a great number of individuals. Limitations of time and space impede me from mentioning them all. However, I am compelled to mention a few for their outstanding contribution.

Firstly, I am greatly indebted to my supervisor Prof. Aosa for his insight, cristicism, suggestions, patience, time and support from conception to the final submission of this project.

I also wish to thank all lecturers in the School of Business for their display of high level of professionalism in their work. They not only imparted knowledge and understanding but cultivated in us an insatiable desire to learn more.

Secondly my gratitude goes to my MBA colleagues particularly Cherop, Johny, Kioko and James. Kudos! We made it this far.

Finally, I wish to extend my sincere thanks to my family and friends for their understanding and persistent encouragement. I did not merit any of these.

Thank you and may the Lord God Almighty abundantly bless you.

DEDICATION

To my father, Mr. Absalom Abebe, this far we have come. This work would not have seen the light of day in the absence of your moral and financial support. You understood me when I could not express myself. I say thank you.

To my mother, Mrs. Zilper Auma Abebe, for instilling in me virtues of resilience and hard work early in my life. This work is a mark to your contribution in my life.

To the Almighty God for giving us the energy and courage to do this course at the University of Nairobi.

ABSTRACT

Corporate social responsibility and sustainability are two integrated issues whose ultimate goal is to impact on the triple bottom line which is the social contribution, economic contribution and environmental contribution. The challenge for companies is to implement best practice policies to CSR and sustainability development that seeks to ensure coherence between social, economic and environmental objectives.

The study is on CSR and sustainability at Kenya Commercial Bank. The objective of this research study was to determine the motivation behind CSR at KCB and also to find out the CSR and sustainability practices at KCB.

The research was conducted through a case study which involved interviews with KCB senior managers. Out of the sample target of 5 senior managers, 4 of the were interviewed thus representing 80% of the sample target. The data was analysed through content analysis. Finding from the study indicates that KCB is motivated to indulge in CSR by a sense of moral obligation, desire to solve societal problem and also to enhance its corporate image. The main CSR practice are on environment, education, enterprise development, health and humanitarian intervention which all impact on the triple bottom line of the KCB.

The study suffered a major limitation as it was conducted solely on KCB and hence did not take into account other commercial banks in Kenya. This was due to limitation of time and resources.

The researchers suggest that similar research should be carried out on Islamic banks and preferably the whole banking industry in Kenya. Also another study may be carried out to find out whether banks measure the impact of their operation on the social, economic and environmental causes with regards to CSR and Sustainability.

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ABREVIATIONS AND ACRONYMS

BSDG – Business Solution Development Goal

CBK – Central Bank Of Kenya

CR – Corporate Responsibility

CSR – Corporate Social Responsibility

GRI – Global Reporting Initiatives

IFC – International Finance Corporation

KCB – Kenya Commercial Bank

SRI – Socially Responsible Investment

CHAPTER ONE: INTRODUCTION

1.1 Background

The last twenty years have seen a radical change in the private sector's relationship both with the state and civil society. Globalization, deregulation, privatization and a redrawing of the lines between state and market have changed the basis on which private enterprise is expected to contribute to the public good. Meanwhile, the relationship between companies and civil society has moved on from paternalistic philanthropy to a re-examination of the roles, rights and responsibilities of business in society. These dynamics combined with the macro changes have led to the emergence of a new approach to Corporate Social Responsibility (CSR), with companies recognizing that improving their own impacts and addressing wider social and environmental problems will be crucial in securing their long-term success. Increasingly, high profile companies are implementing CSR processes such as public commitment to standards, community investment, continuous improvement, stakeholder engagement and corporate reporting on social and environmental performance (Raynard and Forester, 2002).

According to Mwaura (2004) developing countries, such as Kenya, many responsibilities previously carried out by the state have been shifted to the corporate sector. This shift is partly due to the failure of the state to handle the emerging social and environmental problems. These trends, together with pressure from consumers in developed countries and historical mistrust towards international business, has put demand on corporations to develop CSR strategies to handle the increased responsibilities.

Today, increased competition and commercial pressure are combining with rising regulatory standards and consumer demand to create a whole new playfield for business. Traditional expectations of business are also changing. It is no longer enough to simply employ people, make profit and pay taxes. Companies are now expected to act responsibly, be accountable and benefit society as a whole (Johnson, 2003).

1.1.1 Corporate Social Responsibility and Sustainability

Corporate social responsibility (CSR) is the set of standards to which a company subscribes in order to make its impact on society and has the potential to make positive contributions to the development of society and businesses. The majority of definitions integrate the three dimensions of economic, environmental and social aspects into the definition, what is usually called the triple bottom line. Engagement in CSR ensures decision makers in the organizations' consider the interests of society by taking responsibility for the impact of their activities on all stakeholders (customers, suppliers, government employees, shareholders, communities) and other as well as the environment. A number of core development issues are already central to the international CSR agenda. They include labour standards, human rights, education, health, child labour, poverty reduction, conflict and environmental impacts (Adam 2002).

Raynard and Forstater (2002) describe CSR as a means by which businesses are managed. By understanding its stakeholders, a business is better able to manage its own development and impact. The drivers of this CSR engagement are therefore many and varied. Externally they are as diverse as the CSR initiatives themselves, and originate from the activities and pressures exerted by investors, consumers, public authorities, NGOs, trade unions and others. Internally these drivers can be grouped generically around six main realities: reputation, brand, profitability, efficiency, recruitment, competitiveness and risk management. It is these which determine engagement in CSR.

Kotler and Lee (2005), in a detailed discussion stated that CSR engagements could help companies increase sales and market share, strengthen brand positioning, improve corporate image, attract, motivate and retain employees, reduce operating costs and enhance appeal to investors and financial analysts. These perceived benefits are as a result of using CSR to create competitive advantage and hence making CSR a strategic tool for positioning the companies. It is therefore an undeniable fact that CSR is an element of strategic decision making that cannot be ignored. Managers of businesses are therefore being called to action and not just to pay lip service to the idea of good corporate citizenship by doing a few social works.

The CSR movement is spreading over the world and in recent years a large number of methods and frameworks have been developed, the majority being developed in the West. One of the most used and quoted model is Carroll´s (1991) Pyramid of Corporate Social Responsibility. In indicates that CSR constitutes of four kinds of social responsibilities;

economic, legal, ethical and philanthropic. The economic component is about the responsibility to profit and this responsibility serves as the base for the other components. With regard to the legal aspect, society expects organisations to comply with the laws and regulations. Ethical component or responsibilities are about how society expects organisations to embrace values and norms even if the values and norms might constitute a higher standard of performance than required by law while philanthropic responsibilities are those actions that society expect for a company to be a good corporate citizen.

CSR is also discussed by Crane & Matten (2004) as the triple bottom line which considers that companies do not only have one objective, profitability, but that they also have objectives of adding environmental and social value to society. The concept of sustainability is generally regarded as having emerged from the environmental perspective. Sustainability in the environmental perspective is about how to manage physical resources so that they are conserved for the future whereas economic sustainability is about the economic performance of the organisation itself. A broader concept of economic sustainability in the triple bottom line model includes the company´s impact on the economic framework in which it is embedded.

The development of the social perspective has not developed as fast as the environmental and economic perspectives. The key issue in the social perspective on sustainability is that of social justice. Admittedly, over the past ten years some countries in Africa seen significant progress in strengthening the human rights and CSR aspects of their legislation like in Kenya (Mwaura, 2004) however, government capacity for enforcement remains a serious limitation and reduces the effectiveness of legislation as a driver for CSR.

Sustainability and CSR are two integrated issues. The concept of sustainability was originally used in the discussion on environmental issues. Later social development was added and the concept was no longer limited to the environment, but also came to include society and the economy (Jabareeen, 2005). However, as pointed out by Manderson (2006), the precise meaning of sustainability remains unclear and there is a clear lack of operative definitions. Porter and Kramer (2006) define sustainability as meeting the needs of the present without compromising the ability of future generations to meet their own needs. Often the concept of sustainability is modeled into three dimensions, the economic, social and environmental dimensions known as the Triple Bottom Line.

The importance attached to different aspects of sustainable development and thereby to CSR that is to economic, environmental and social issues may differ between countries. This suggests that in a Kenyan context different emphasis may be put on each of the three dimensions of the Triple Bottom Line than will be the case in a more developed country. In Africa, legal responsibilities have a lower priority than in developed countries. This does not necessarily mean that companies flaunt the law, but it is far less of a pressure for good conduct. There are several reasons for this. Firstly, in much of Africa, the legal infrastructure is poorly developed and often lacks independence, resources and administrative efficiency. Many African countries also lag behind the developed world in terms of incorporating human rights and other issues relevant to CSR into their legislation (Mwaura, 2004).

Lantos (2002) states that CSR is morally mandatory and goes beyond fulfilling a firm's economic and legal obligations to its ethical responsibilities to avoid harm or social injuries, even if the business might not appear to benefit from this. Hence, a corporation is morally responsible to any individuals or groups where it might inflict actual or potential injury from a particular course of action. CSR is also known by many other names such as corporate citizenship, corporate sustainability, stakeholder management, environmental management, business ethics and corporate social performance among others (Kotler and Lee, 2005).

1.1.2 Banking Industry In Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalised in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system (Central Bank of Kenya, 2009).

According to Central Bank of Kenya (2009) Commercial Banks and Mortgage Finance Institutions are licensed and regulated pursuant to the provisions of the Banking Act and the Regulations and Prudential Guidelines issued there under. They are the dominant players in the Kenyan Banking system and closer attention is paid to them while conducting off-site and on-site surveillance to ensure that they are in compliance with the laws and regulations. Currently there are there are 46 licensed commercial banks and 1 mortgage finance company and one hundred and nine foreign exchange bureaus. Out of the 46 institutions, 32 are locally owned and 14 are foreign owned. The locally owned financial institutions comprise 3 banks with significant shareholding by the Government and State Corporations, 28 commercial banks and 1 mortgage finance institution. The banks have come together under the Kenya Bankers Association (KBA), which is a lobby for the banking sector's interests. The KBA serves a forum to address issues affecting members.

Over the last few years, the Banking sector in Kenya has continued to growth in assets, deposits, profitability and products offering. The growth has been mainly underpinned by; an industry wide branch network expansion strategy both in Kenya and in the East African community region. Automation of a large number of services has also improved growth and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market (Central Bank of Kenya, 2009).

1.1.3 Overview of Kenya Commercial Bank

KCB is a Public Limited Company with its shares trading at the Nairobi Stock Exchange (NSE). It is owned 26.2% by Government of Kenya and 73.8% by the public. These figures have since changed to 23.6%. KCB has over 160 branches across all regions in Kenya, Uganda, Tanzania, Southern Sudan and Rwanda. KCB's vision is 'To be the preferred financial solution provider in Africa with global reach.' The mission statement is 'To grow our existing business whilst building the platform to be the preferred Financial solution provider in Africa with a global reach.'

The history of KCB dates back to 1896 when its predecessor the National Bank of India, opened a small branch in Mombasa. In 1958 Grindlays Bank of Britain merged with National Bank of India to form National and Grindlays Bank. Upon independence the Government of Kenya acquired a 60% shareholding in National & Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the Government acquired 100% of the shares to take full control of National and Grindlays Bank. The bank was then renamed KCB. The Government reduced its shareholding to 26.2% following the rights issue exercise in 2004, which raised KShs2.45 billion in additional capital for the bank. The bank has grown through acquisition and establishment of subsidiaries beginning in 1972 with Savings & Loan (K) Ltd, a mortgage finance institution. That ownership now stands at 23.6% (Sustainability Report, 2007).

KCB has a wide range of personal products and business banking products which includes saving accounts, current accounts and credit facilities. The loans are both secured and unsecured. Treasury products at KCB are a one stop shop for foreign exchange and money market with dealers who have a global network of over 100 correspondent banks. Cash management is also part of services provided by KCB. Last but not least KCB offers Institutional banking to cater for liability side of businesses which focuses on the acquisition, retention and management of key liability of clients who provide the bank with deposit liabilities. The range of product under institutional banking are current accounts, term deposits, treasury products, cash management, asset based financing, trade finance, temporary overdrafts, custody services, personal loan, card products, mortgage and other banking services.

1.2 The Research Problem

The conception of corporate social responsibility (CSR) implies that companies voluntarily integrate social and environmental concerns in their operations and interaction with stakeholders. Porter and Kramer (2006) stress that a firm's CSR strategy is related to its core business. The strategy has the potential to create social benefits beyond what is possible for individual donors, foundations and governments. CSR has no universally accepted definition because the complexity of coming up with a universally agreed characterization of CSR is partly a result of the fact that social problems differ from society to society and this tend to define the role that business has play in society as well as the expectations of society on how and to what extent business should help in solving social and environmental problems (Masaka, 2008). This stresses that CSR agenda should be localized to meet the social and environment needs of areas where the company is operating and hence the variation CSR practices amongst different companies.

Studies carried out locally indicate that companies need to do more in the society. Kweyu (1993) found out that CSR is viewed as important to managers of financial institution. A study by Ngahu (1987) revealed that managers are over proportionately concerned with consumer aspect as opposed to social aspect. She observed that this may be attributed to direct link between needs and profits than social and profits. Korir (2006) found that management at Kenya Revenue Authority perceived CSR as important for companies because the company operations affect the society through its activities while Kiarie (1997) conducted a survey of medium scale executives in Nairobi and established a very high level of awareness and engagement with respect to CSR. Makua (2006) also found out that customers are more loyal to companies that engage in CSR.

KCB has made a great impact in the lives of Kenyans through its investments in CSR and sustainability programmes over the years. KCB has the largest branch network with over 160 branches and its merger with Savings and Loan Mortgage institution has greatly increased its scope of operation. This study seeks to address one research questions. What is the nature and motivation of CSR and Sustainability at KCB?

1.3 Objectives of the study

This study has two objectives namely

i. To establish the motivation behind CSR at Kenya Commercial Bank

ii. To determine CSR practices within Kenya Commercial Bank

1.4 Value of the Study

This study in expected to be of significance in various way. Firstly, the CSR assessment from the study will generate a base of information which other firms can use to develop a CSR strategy. A CSR strategy is a road map for moving ahead on CSR issues. It sets the firm's direction and scope over the long term with regard to CSR, allowing the firm to be successful by using its resources within its unique environment to meet market needs and fulfill stakeholder expectations.

Secondly to policy makers, the study will give a glimpse of how CSR through the triple bottom line approach that includes social contribution, environmental contribution and economical contribution can be harnessed by policy maker to achieve both the millennium development goal and also vision 2030 which is a critical blue print for economic growth and development in Kenya. This is because government alone cannot achieve this goal without help from other stakeholders such as corporate bodies. This study will also be important as an addition to the knowledge by scholars in the regard to CSR and provide breakthrough for further research especially commercial banks.

CHAPTER TWO: LITERATURE REVIEW

2.1 Corporate Social Responsibility and Sustainability

The intensive ethical debate since 1950s has influenced businesses to be more humane, ethical and transparent giving rise to conscience over sustainable development, corporate citizenship, sustainable entrepreneurship, triple bottom line, business ethics and CSR (Marrewijk 2003). Simm (2002) declared that CSR is an evolving concept that currently does not have a universally accepted definition. Generally, CSR is understood to be the way firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society.

Most recently, Carroll (2004) reproduced his 1991 CSR pyramid once again, but this time attempted to incorporate the notion of stakeholders, in terms of which economic responsibility contains the admonition to “do what is required by global capitalism”, legal responsibility holds that companies “do what is required by global stakeholders”, ethical responsibility means to “do what is expected by global stakeholders”, and philanthropic responsibility to means “do what is desired by global stakeholders” (author’s original emphasis).

Sustainability is closely connected to the concept of CSR. A basic model for the modern version of CSR is the four part model developed by Carroll (1991). According to this model, a firm has economic, legal, ethical and philanthropic responsibilities. The latter two areas, ethical and philanthropic, are central for a firm’s CSR work (Matten and Moon, 2004). These two areas have then been further developed into a multidimensional model of CSR consisting of the environmental and social dimensions which concern the corporation.

An integrated model of sustainability and CSR was developed by Marrewijk (2003). This is the model refers to sustainability as the “ultimate goal” but also introduces CSR within the framework. The Triple Bottom Line model of sustainability (social, economic and environmental issues) is incorporated into corporate responsibility (CR). In this model, corporate responsibility can be understood as the balancing of the economic, social and environmental roles that companies play when conducting business. Hence, CSR refers to when firms balance the three elements of sustainable development (the Triple Bottom Line). In this study the term sustainable development will be used when referring to general beliefs about or attitudes to social and environmental issues. CSR-strategy is primarily used when referring to the firm’s strategic policies and plans of CSR. Also, Corporate Responsibility (CR) and Corporate Social Responsibility (CSR) are used synonymously. There has been a trend among corporations to move from the concept of CSR to CR since CSR may give the impression of only including social issues leaving environmental issues out.

CSR is a concept that has been widely discussed among many authors. There are two schools of thoughts when approaching the term CSR, some authors argue that the primary goal for a company is to maximize the profit while others believe that a company should go beyond and above what is legally required and behave ethically. Friedman (1998) has a traditional view about business, and how it should be conducted. Friedman explains that business managers represent the shareholders and are accountable for engaging in activities that benefit the company. The main task for the business managers is to maximize the firm value. Friedman is of the opinion that engaging in CSR can be harmful for the company since the manager will spend time and resources on CSR activities instead of running the business as efficiently as possible. However, Kitonga (2004) conducted a study of the relationship between corporate social responsibility & financial performance in Kenya. The study indicated that there was a positive relationship between these two factors. Consequently the findings from Kitonga are contradictory to Friedmans perception of CSR and business, companies can be ethical and engage in CSR activities and still be profitable.

Blowfield and Frynas (2005) argue that when it comes to planning and implementing the CSR agenda within firms, in general these efforts are quite poor or inadequate. The main reason for this is due to lack of monitoring these CSR efforts and that the state is not involved. As a result initiatives such as codes of conduct loses its function, they are not precise and are not consistent throughout the company. However, CSR can reform and become a useful tool by improving for instance the codes of conduct or engaging in partnerships.

Auka (2006) in his study of factors that influence CSR and perceived benefits in Kenyan banks found out that three most important factors that influence the extent of practice in CSR were corporate image, moral obligation and solving societal problems in that order. Other moderate factors were company policy, publicity and profitability and the factors with little influence were pressure from society and regulation compliance.

CSR literature from the west identifies several driving forces behind the growing trend towards CSR initiatives. First, there is a growing market pressure whereby customers, employees, or capital markets exert some form of preference, pressure or signal. Social and ethical issues have received increasing public attention or as market signals apart from the traditional price and brand preferences. The growth of the ethical investment industry is another indication of how much emphasis people are now apparently placing on the social and ethical behaviour of companies. Second, there has been an increasing regulatory pressure ranging from reporting requirements to government regulations that introduce compulsory business standards upon which companies of all sizes have to abide.

Third, increased power of communications (e.g., internet, electronic media, and others) have driven consumers and pressure groups like social activists, non-governmental organisations (NGOs) and trade unions to scrutinise the activities of companies more effectively and develop strategies that may influence companies to act in a socially responsible way. Fourth, there is a competitive advantage that companies believe they can reap by being socially responsible. They foresee that by communicating effectively about their social, environmental and economic contributions, they can strengthen their brand, enhance their corporate reputation with customers and suppliers, and attract and retain a committed and skilled workforce. Indeed, extant literature asserts that, the commitment towards CSR will in turn lead to better performance in terms of profitability, competitiveness and risk management (Porter and Kramer, 2006; Johnson 2003).

Consequently, these factors give rise to the issues of corporate risks, in the form of legal risks or what is emerging as moral risks. The former entails adverse consequences for the company or its officers arising from non-compliance with the law, while the latter is concerned with reputation which may not involve legal action. However, moral or reputational risks can exert intense pressure on management and damage business goodwill and its survival, if neglected or abandoned (Zadek, 2002).

Kivuitu (2005) described CSR activities in Kenya as philanthropic his survey suggest that the cause receiving the highest proportion of corporate donations is health and medical provision, and donations are also directed towards education and training; HIV/AIDS; agriculture and food security; and underprivileged children. Otachi (2005) carried out a research on the extent of involvement in CSR by public universities in Kenya and found out that there was very low involvement in CSR and this was mainly due to lack of finances, inadequate human resource and resistant to change by the management.

O'Dwyer (2003) in examining the managerial conceptions of corporate social responsibility, highlighted three key somewhat overlapping rationales: proactive enlightened self interest, the voluntary recognition of corporate social responsibility by companies as long as this enhanced or failed to inhibit corporate economic welfare; reactive enlightened self- interest, being primarily instigated by external pressure imposed on companies deriving from many, often overlapping, sources such as legislation, local communities, pressure groups with single issue agendas, and the print media. With some managers believing that there is no doubt that there are cases where you act out of a sense of obligation because you think it is a good cause and it does not necessarily have any payback for you.

Zadek (2002) describes the development of CSR in terms of three generations:· The first generation of CSR showed companies can be responsible in ways that do not detract from, and may contribute to commercial success. This is the most traditional and widespread form of CSR, most often manifested as corporate philanthropy. This rose to new heights in the 1990s, with huge amounts of money being donated by such individuals as Ted Turner and Bill Gates. It is not part of the main business of the company but may add commercial value through reputation enhancement.

A second generation is now developing where companies, and whole industries, see CSR as an integral part of long-term business strategy**.** This is where the companies taking a lead in the field of CSR are now positioned. There is a growing body of evidence that taking CSR seriously is good for business. Leadership by pioneering companies and business leaders has been crucial in moving companies towards second generation CSR.

A third generation of CSR is needed in order to make a significant contribution to addressing poverty, exclusion and environmental degradation. This will go beyond voluntary approaches by individual companies and will involve leadership companies and organisations influencing the market in which they operate and how it is regulated to remould whole markets toward sustainability. This will need to involve both partnerships with civil society and changes in public policy, which both reward CSR and penalize poor performance. This could include changes to the corporate tax regime, mandatory social and environmental reporting and support for consumer education

2.2 Corporate Social Responsibility Dimensions and Practices

The Green Paper (2001) by the Commission of the European Communities identifies two main dimensions of CSR, an internal dimension relating to practices internal to the company and an external dimension involving the external stakeholders. Internal dimension as per the commission of relates to practices internal to the company which need to be modified to incorporate CSR practices. This includes human resource management, work safety and health measures, adaptation to change and management of environmental change.

CSR practices in human resources management can be successfully implemented in an organization through precise management of its own work force. Work safety and health measures as stated in the Green Paper are worker safety and labour health that have been documented to be having a direct impact on productivity of the labour force. Another internal practice is adaptation to change. According to the Green Paper (2001) by the Commission of the European Communities, mergers and acquisition of restructuring in a socially responsible manner means to balance and take into consideration the interests and concerns of all those who are affected by the changes and decisions through seeking the participation and involvement of those affected. Management of Environmental impacts deals with optimization of resource utilization and reducing environmentally damaging effluents can reduce the environmental impact..

The other dimension which is the external dimension is described by the Commission of the European Communities as practices concerning external stakeholders. This includes local communities, business partners and human rights.

2.3 Potential benefits of implementing Corporate Social Responsibility

Auka (2006) in his study of perceived benefits of CSR in Kenyan banks found out that corporate image ranked highest in terms of benefits derived from CSR while other benefits perceived to be moderate were increased sales, customer loyalty, keeping with competition, increased profits and increases productivity and quality. Auka also found out that factors ranked low in CSR perceived benefits were retain employees, access to capital, risk management and minimization of unnecessary regulations.

Recent years have seen a growth in the breadth of topic considered under the CSR umbrella. However, the implementation of CSR leads to various advantages for the companies that will try them. Businesses now acknowledge that it is in their interest to consult their stakeholders and also that by demonstrating social responsibility gain specific benefit, although not all can be quantified in a direct measurable way. More specifically Adams and Zutshi (2004) based on a review of literature points out the CSR benefit such as better recruitment and retention of staff in which Simms (2002) claims that acting responsibly and being accountable for social and environmental impacts assist organizations in attracting and retaining the most talented people.

Adam (2002) suggested that CSR improved internal decision making and cost savings by ensuring that better internal control system and decision making together with cost savings resulted in continuous improvements. Improved operational and process efficiency results in reduced risk and improved safety at work (Kings, 2002).

Improved corporate image and relations with stakeholders as evidence of organizations benefiting by practicing CSR can be seen in a study of 10 entrepreneurs who had developed successful ventures (Joyner and Payne 2002). The study found that all 10 organisations and their entrepreneurs went beyond requirements of law with respect to CSR and in their interaction with stakeholders. The organizations benefited by growing in size and establishing their presence in the community. Joyner and Payne also identified a positive link between firm's value, business ethics, corporate social responsibility and financial performance, indicating that investors may be making money through socially responsible investments as well as adhering to their own values.

2.4 Corporate Social Responsibilty and Banking

In a study by Business Solution Development Global BSDG (2008), the integration of sustainability into the banking sector has taken two key directions. First, is the pursuit of environmental and social responsibility in a bank's operations through environmental initiatives (such as recycling programs or improvements in energy efficiency) and socially responsible initiatives (such as support for cultural events, improved human resource practices and charitable donations).

Second is the integration of sustainability into a bank's core businesses through the integration of environmental and social considerations into product design, mission policy and strategies. Examples include the integration of environmental criteria into lending and investment strategy, and the development of new products that provide environmental businesses with easier access to capital.

The second of these categories has the potential to influence business on a larger scale. By integrating sustainability into a bank's business strategy and decision-making processes, institutions can support environmentally or socially responsible projects, innovative technologies and sustainable enterprises. Kivuitu (2005) claims bank are emerging that specialise in the provision of services to micro- and small enterprises which cannot access mainstream banking services hence assisting in directly tackling development challenges

The interdependency between a bank's profitability and the environmental record of its clients has influenced the business strategy of both banks and their corporate clients. This has happened in several ways such as to decrease their exposure to environmental liability and to improve risk management, bankers started to look more closely at the environmental performance of their clients. They developed mechanisms to assess the environmental risk exposure of their customers, and to protect themselves from potential losses (IFC, 2007). Another reason is the growing concern about clients' environmental performance, manifested in lending and investments decisions began to act as an additional driver of sustainability in the private sector. Companies were given one more reason to pursue environmentally and socially sound solutions.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The research was be conducted through a case study. A case study is an in depth investigation of an individual group, institution or phenomena (Mugenda and Mugenda 1999). Kothari (2009) defines a case study as a very powerful form of qualitative analysis that involves a careful observation of a social unit such as a company, family, institution, cultural , group or even the entire community.

The case study obtained in-depth information that describes existing CSR engagement by KCB and motivators in relation to CSR. The importance of using a case study is that enables an in-depth understanding of activity patterns of the concerned unit facilitating intensive study of concerned unit which is not possible with different methods. It also avails possibility of obtaining the inside facts from experienced personnel.

3.2 Data Collection

The types of data collected for this study are both primary and secondary data. Primary data was collected using an interview guide which is non structured. A non-structured interview has open-ended, flexible, explanatory questions, more like an open conversation. Non-structured interviews were appropriate because the researcher had little knowledge about the research area.

The main interviewees were the top level managers because CSR decisions are mostly top management decisions. Secondary data was collected from internal company sources.

3.3 Data Analysis

The collected data from interviews was analyzed using content analysis technique because the study solicited for data that is qualitative in nature, and given the case study was conducted in a single organization where most interviewees are drawn from.

Content analysis was relevant to this study since it did not set barriers hence the interviewees could express their opinion fully. According to Mugenda and Mugenda (1999) content analysis involves observation and detailed description of objects, items or phenomena that comprise the sample. This allows for qualitative description of data from the interview.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter addresses results of the research objectives outlined in chapter one this study. This section covers data analysis, results and discussion. The case study on CSR and Sustainability at KCB was analyzed by content analysis due to qualitative nature of the data collected through interviews. Out of the 5 selected senior managers to be interviewed the study managed to interview 4 of the senior managers thus representing 80% of the target sample.

4.2 Motivation in Corporate Social Responsibility at Kenya Commercial Bank

In recognition of the importance of Corporate Social Responsibility (CSR) and Sustainability, KCB through the Board constituted the KCB Foundation which meets monthly to set guidelines for the bank's CSR involvement. KCB is committed to the principle of responsible corporate citizenship and makes CSR an integral part of its annual business plans. The KCB Foundation facilitates corporate social responsibility initiatives for the KCB Group. The Foundation supports community and sustainability programmes in the markets where the bank operates in Kenya, Uganda, Southern Sudan, Tanzania and Rwanda. This support is driven by a strong belief that KCB has a moral obligation to the society in which it operates. This is because business affect the society and its environment through its utilization of both natural resources and human resources hence KCB not only has an economic responsibility but also a social and environment responsibility.

Taking care of stakeholders through stakeholders dialogue has been an integral part of the CSR initiatives undertaken by KCB towards in fulfilling its moral obligation. KCB has regular stakeholder consultation whereby programmes are in place for assessing the impacts of the banks operations on stakeholders. The KCB Reputation Survey and customer survey conducted annually is some of the stakeholder engagement programmes.

TABLE 4.1 Stakeholders Survey Results

Stakeholder	Key Issues/ Concerns	Engagement Approach
Employees	Job security Better remuneration Employment equity Labour relations Human resources practices Training and Career Development.	Job recognition Staff surveys Public advertisement of vacancies
CBK	Regulatory compliance Compliance to prudential guidelines	Customer relations CBK supervision Kenya Banker's Association membership
Shareholders	Return on Investment Corporate governance Stakeholder engagement Economic, environmental and social impact KCB's reputation Corporate governance	AGMs and Special General meetings Dividend policy Election of Board of Directors
Community	Funding and Implementation of CSR programmes Progress reports on initiatives Environment protection Community development and social impact Employment opportunities and economic impact	CSR Surveys Reports on media Use of NEMA guidelines
KRA	Compliance to tax laws Tax collection on behalf of the authority	Filing tax returns Remittance of tax and advisory to employees External/ Internal Audits
Media	Substantial influence over other stakeholders. Current interest on social and economic impact/ performance Confidentiality of client information	Provision of Press information.

Stakeholder	Key Issues/ Concerns	Engagement Approach
Suppliers	Contracts and relationship to KCB KCB financial performance	• Prompt payment as per invoice clearance; procurements liaising with finance department • Policies on supplier selection • Open and Public tender advertisement and a witnessing of the selection process for interested parties
Capital Markets Authority	KCB's performance. Adherence to regulatory requirements.	• Ensure fair and efficient trading at the stock exchange • Audits from CMA, external audits and internal audits
Kenya Bankers Association (KBA)	Adherence to industry standards	• Attending meetings • Annual membership subscription • Active involvement in meetings
Correspondent Banks/ Trading Partners	Public policy development and lobbying Ethical market practices i.e. fair competition	• Membership in associations
Customers	Timely and quality services Acceptable charges Ongoing financial performance	• Customer surveys • Dedicated customer service staff • Advertising • Marketing communications • Feedback forms • Suggestion boxes • Widespread branch network
Trade union	Labour relations according to the Collective Bargaining Agreement (CBA) Labour practices and decent work conditions	• Implementing the CBA agreement • Recognising members of the union
NCBDA	Annual membership fees Maintenance of a clean city	• Clearance of membership fee dues • Environment - conscious operations • Supporting various initiatives such city beautification
Nairobi City Council	Revenue generation Compliance with local government legislation Natural resource management KCB's social, economic and environmental impact	• Payment of rates in time • Adherence to rules and regulations

Source: KCB Sustainability Report 2007

The extract above show KCBs' stakeholder concerns and the engagement approach employed by the management for the different categories of stakeholders.

The second motivation for engaging in CSR and sustainability was solving societal problems. Given that the government has abandoned some of its duties in the society due to budget constraints and poor governance, corporate companies are stepping in to fill this gap. This is based on the assumption that business will on thrive when the communities around which they operate are doing well. Therefore tacking societal problems goes a long way in being associated with the community and hence promoting public goodwill.

Both moral obligation and solving societal and environmental problems results in good corporate image which is the ultimate goal of the KCB. Banks that perform well with regard to CSR can build reputation, while those that perform poorly can damage brand and company value when exposed. This is particularly important for banks with high-value retail brands, which are often the focus of media, activist and consumer pressure. Reputation, or brand equity, is founded on values such as trust, credibility, reliability, quality and consistency. Even for banks that do not have direct retail exposure through brands, their reputation as a supply chain partner for addressing CSR issues can make the difference between a business opportunity positively realized and an uphill climb to respectability. It is with regards to this that KCB has been a good corporate citizen and this can be traced from year 2007 when KCB became the first bank to publish a sustainability report thus raising the bar for other banks to follow suite.

Other motivators which rank lowly though are recognized by KCB are operational efficiencies and cost saving through minimizing risks, enhanced ability to recruit, develop and retain staff as at result of pride in the company's products and practices and last but not least is improved relations with regulators.

In its Guiding Corporate Principles, KCB is committed to being a responsible corporate citizen in the markets in which it operate. This is achieved by continuously improving the ways in which KCB contribute directly or indirectly to the general well being of the communities. KCB has had a long history of partnerships with the community. Through its extensive branch network KCB team up with institutions of the needy and other partners to enhance the quality of the lives of community stakeholders.

4.3 Corporate Social Responsibility Practices At Kenya Commercial Bank

KCB foundation has initiated various programmes that ensures prudent and impactful investment of limited resources in addressing the community need. The CSR practices are divided into core focus area and secondary focus areas. The focus area is which receive 80% of the available foundation fund while secondary areas receive 20% of the funds. The total budgeted fund being 100 million Kenyan shilling for year 2010.

Core focus areas include environment, education and enterprise development. In the first category environment practices involved are tree planting, riverine protection and conservation, land conservation, waste management, sanitation, climate change and green agenda with clear deliverables on mitigating environmental impacts, energy efficiency, recycling and friendly technology.

Under core focus areas, the second category which is education will cover areas such as support for the needy public and community education centres/schools, providing of learning material, infrastructure and provisions, special learning centres and establishments for example schools for deaf, handicapped, awareness and empowerment campaigns

Third is enterprise development which will mainly be driven by corporate partnership with business schools, business development agencies, business association and KCB Biashara club. This covers areas like nurturing and developing business ideas, business incubation, funding for ideas and concepts, financing special business start ups and business promotion and networking activities.

Secondary focus areas will on the other hand cover two categories, health and humanitarian interventions. Health covers areas such as medical camp and donation of medical equipments and supplies to needy hospitals and medical centres. Lastly humanitarian intervention will be primarily a response a recovery contribution from KCB foundation covering disaster responses and recovery together with provision of goods and basic supplies to needy communities.

The CSR budget for 2010 is Ksh. 100 million which is free of any operating components and has been apportioned as per the respective focus areas or themes.

TABLE 4.2 CSR and Sustainability Budget Allocation Distribution by thematic areas

Core Focus Areas	**Percentage**	**Amout in Millions**
Environment	30%	Ksh 30
Education	27%	Ksh 27
Enterprise Development	23%	Ksh 23
Secondary Focus Areas		
Health	10%	Ksh 10
Humanitarian Intervention	10%	Ksh 10
	Totals	Ksh 100

Source: Research data

The above table helps to rank the various CSR practices interms of budgetary allocation and also in terms of priority. Environmental contribution is ranked highest and therefore allocated 30% of funds. Education is second with 27% allocation while enterprise development is third with 23% of the budget allocation.

TABLE 4.3 CSR and Sustainability Budget Allocation Distribution by market

Market	**Percentage**	**Amount in millions**	**Number of Branches**
Kenya	65%	Ksh 65	168
Tanzania	8%	Ksh 8	11
Southern Sudan	14%	Ksh 14	9
Uganda	8%	Ksh 8	13
Rwanda	5%	Ksh 5	9
Grand total		Ksh 100	210

Source: Research data

The above table shows the budgetary allocations distribution by market.

TABLE 4.4 Key Flagship activities and Partnerships

Focus Area	**Key Flagship event**	**In partnership with…….**
Environment	KCB 3 million tree planting campaign	Local forestry authorities and UNEP
Education	Scholarship programmes	Education ministry and NGOs

Enterprise Development	Business development partnership with universities	Local universities and business schools
Health	Renal treatment and research	Local health hospitals and Health ministry
Humanitarian Intervention	Water harvesting for drought areas	Water Ministry, supply of water equipments

Source: Research data

The implementation of the CSR practices will be such that KCB will implement one key activity in each focus area while supporting other minor need within each theme.

4.4 Discussion of results

The study has revealed that KCB's CSR and sustainability is motivated by moral obligation towards society, solving societal problems and enhancing corporate image. This is in line with Auka (2006) in his study of factors that influence CSR and perceived benefits in Kenyan banks which he found out that three most important factors that influence the extent of practice in CSR were corporate image, moral obligation and solving societal problems in that order.

The study found out that the ultimate goal for KCB in its CSR initiatives was maintaining good corporate image which is in accordance to Auka (2006) study of perceived benefits of

CSR in Kenyan banks found out that corporate image ranked highest in terms of benefits derived from CSR while other benefits perceived to be moderate were increased sales, customer loyalty, keeping with competition, increased profits and increases productivity and quality

According the results of the study solving societal problem was as a step towards aiding the government to achieve its goals since most responsibilities have been abandoned by government just like Mwaura (2004) noted that developing countries, such as Kenya, many responsibilities previously carried out by the state have been shifted to the corporate sector. This shift is partly due to the failure of the state to handle the emerging social and environmental problems.

The study findings indicate that KCB is actively involved in CSR and sustainability causes and this is in agreement with Kweyu (1993) who found out that CSR is viewed as important to managers of financial institution. Kiarie (1997) in his survey of medium scale executives in Nairobi and established a very high level of awareness and engagement with respect to CSR. This represents the extent to which companies are taking the CSR and sustainability campaign a notch higher with specific regards to KCB..

KCB has regular stakeholder consultation whereby programmes are in place for assessing the impacts of the banks operations on stakeholders. The KCB Reputation Survey and customer survey conducted annually which corresponds to Joyne and Payne (2002) who in their study indicated that improved corporate image and relations with stakeholders as evidence of organizations benefiting by practicing CSR can be seen in a study of 10 entrepreneurs who had developed successful ventures. Raynard and Forstater (2002) describe CSR as a means by which businesses are managed. By understanding its stakeholders KCB is better able to manage its own development and impact.

KCB engages in CSR practices that create a huge impact to the society, environment and economic development of the society hence KCB has concentrate its activites on environment, education, enterprise development, health and humanitarian intervention which a very critical in contributing to the triple bottom line. This resonates with Crane & Matten (2004) assertion that in the triple bottom line companies do not only have one objective, profitability, but that they also have objectives of adding environmental and social value to society. Porter and Kramer (2006) also stress that a firm's CSR strategy is related to its core business and this is reflected on the CSR and sustainability engagement of KCB like contributions towards enterprise development through loans, environmental sustainability, education among others.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The study on CSR and Sustainability at KCB had two objectives. First to find the motives of KCB in engaging in CSR and Sustainability causes and secondly to identify the CSR and Sustainability practices at KCB.

5.1.1 Motivators of Corporate social responsibility at Kenya Commercial Bank

The findings from the study indicate that KCB has been actively involved in CSR and Sustainability causes in the last four years. This has been motivated by the fact that society faces increased problems with regards to poverty, education, natural disasters, depletion of natural resources and others. KCB believes that with increased social and environmental problems banks can help in creating better quality of life by solving societal and environmental problems. Banks also contribute to societal and environmental problems hence it is important to correct some of the problems. The societal problems have become alarming to the point that the something must be done. Therefore more than ever before businesses are expected to play a role in combating social and environmental problems.

Moral obligation has also been cited as another motivator since business are artificial persons and should put a human face in their operations and days to day running of business. KCB believes that a socially responsible business tend to have more long-term profits as suggested by Joyner and Payne (2002). Adam (2002) found that strong social performance would decrease costs hence increase profitability while at the same time improving relationship with stakeholders.

The third greatest motivator is corporate reputation which happens to be the greatest perceived benefit of engaging in CSR and sustainability at KCB. KCB like all other banks is sensitive when it come to reputation since bank are custodian of customers money and therefore would like to protect its good public standing in order for clients to have confidence in the bank.

5.1.2 Corporate Social Responsibility Practices at Kenya Commercial Bank

The study through its finding indicates that KCB has been involved in various CSR and sustainability practices that are presumed to be more impactful to the society and environment in which the bank operates underpinned by focus on economic, social and environmental sustainability.

In enterprise development KCB has initiated micro credits to its customers with very low and competitive interest rates. This is facilitated corporate partnership with business schools, business development agencies, business association and other clubs. These practices involve nurturing and developing business ideas, business incubation, funding for ideas and concepts, financing special business start ups and business promotion and networking activities.

In education KCB also runs a scholarship programme, support for the needy public and community education centre/schools, providing of learning material, infrastructure and provisions, special learning centers’ and establishments for example schools for deaf, handicapped, awareness and empowerment campaigns. In environmental initiatives KCB also works intensively on waste management and environmental issues like tree planting, riverine protection and conservation, land conservation, waste management, sanitation, climate change and green agenda. The vision is to create an environmental movement where all companies, large and small, contribute with something in the work of improving the environment.

Secondary focus areas will on the other hand cover health and humanitarian interventions. These practices involve areas such as medical camp and donation of medical equipments and supplies to needy hospitals and medical as well as humanitarian recovery contribution from KCB foundation covering disaster responses and recovery together with provision of goods and basic supplies to needy communities.

KCB believes in making investment in community development. With the registration of the KCB Foundation in 2007, KCB now have a vehicle to ensure it develop a coherent approach to our broader social and environmental responsibilities. The key pillars of our initiatives are entrepreneurship, health and humanitarian, education, environment, as well as welfare. The Foundation has increased our corporate donations and focused them more clearly on causes where it can make the most difference.

5.2 Recommendations

Review and continuous improvements of CSR and Sustainability practices at KCB is crucial because environmental and societal needs keep changing. Therefore it is crucial for bank to be dynamic and most importantly localize the CSR and Sustainability agenda so as to benefit the immediate society and solve the environmental problem in the local area. Sometimes when CSR projects have been finalized there is a tendency to sometimes not review or reflect on improvement areas. It seems to be a lack of continuous improvement within the CSR and Sustainability framework.

Organisations are joining the global campaign against climate change hence commercial banks in Kenya are headed for major changes in financial reporting. It may soon be a requirement to quantify and report in their financial statements the cost of their activities to the environment. Currently most Kenyan bank treat environmental matters as part of the Corporate Social Responsibility (CSR) programmes, yet these same businesses have not been under any obligation to quantify how their CSR programmes make up for the damage they cause the environment. It will no longer be enough to just state that a company plants a certain number of trees without quantifying how the number of trees planted compensates for the damage done by other aspects of the company’s operations. Also to be assessed is a company’s waste disposal system and how it impacts on the environment. Banks will therefore be required to balance out the cost to the environment against measures such as CSR hence the bank need to start measuring the impact of it operations.

5.3 Suggestions for further research

This study was can be replicated to Islamic banks in order to identify the various practise and motives of Islamic bank in relation to Corporate Social Responsibility and Sustainability based on the Sharia Law in Islamic Banks in Kenya.

This study on CSR and Sustainability practices among bank can be done on the whole banking industry in Kenya so as to know the level of awareness and the contribution of bank to creating impact on the triple bottom line.

It will be interesting to do a study on how CSR and Sustainability will survive recession and global insecurity. Will companies ditch their social and environmental commitments when the going gets tough, or will they retain them, focusing on building reputation, attracting and retaining talent and cutting waste? Where CSR is integrated within the core business strategy it is likely to remain strong, however CSR being mostly philanthropic add-on is vulnerable to cost cutting. An important CSR issue will be how companies downsize, and what reasonable values-driven approach to downsizing might be. While responsible downsizing may not bring immediate benefits to a company struggling with the economic climate, in the long term it is likely to help them to build their reputation.

5.4 Conclusion

KCB has identified itself as a sustainability leader organisation that not only recognises the competitive advantages which stem from embracing CSR and Sustainability, but also the overall opportunities for business improvement, and the ethical responsibility of the organisation to promote CSR and sustainability more broadly. It understands its broader role in society and its potential influence within the community to foster sustainability.

Senior management and the Board publicly express their commitment to sustainability principles, incorporating them into their core values and long-term vision for the organisation. Management systems and organisational structures integrate CSR and Sustainability throughout and across the organisation, at every level of decision-making. Identified Board members take direct responsibility for ensuring the company is on track to achieve its sustainability objectives, which is echoed through the senior management structure and designated responsibilities, reporting lines and reward systems. The organisation is equally strong in its management of environmental, social and economic dimensions, together with the governance system underpinning each area. Stakeholders are identified and are engaged with to enhance the organisation's outcomes, through regular dialogue and continuous communication and feedback systems. The overall impact is a measured move towards being a more sustainable organisation.

The bank has indicated that its CSR and sustainability are driven three main motivators which are to solve societal and environmental problems, moral obligation and also corporate reputation. The practices in the broader perspective cover areas such as education, environment, enterprise development, health and humanitarian contribution.

CSR is therefore not an option in today's globalizing economy, in which there is increasing freedom of choice and a growing value-intensity of consumer wants and needs Rather it is an integral part and indeed is essential to the survival of socially acceptable, inclusive and sustainable global capitalism.

5.5 Limitations of the Study

Resource constraints (both time and funds) were major limitations. The study was confined to Kenya Commercial Bank due to time and resource constraints. This did not allow the researcher to compare the interview respondents from other commercial banks in Kenya. A large sample size for all the banks in Kenya would have been better suited to the study but it was not possible in the view of the scarcity of funds and time.

A lot of time was spent scheduling appointments with interviewees due to their busy work schedules and some interviewees had difficulty answering the questions especially those they considered confidential due to business reasons.

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APPENDIX I: LETTER OF REFERENCE

KCB Senior Managers

KENCOM House

Nairobi

Dear Sir/Madam,

RE: CSR and Sustainability at Kenya Commercial Bank

I am an MBA student at the University of Nairobi and my supervisor is Prof. Aosa Evans. My research project is on CSR and Sustainablity at KCB.

I would appreciate if you take some time and respond to the questions concerning Sustainability and CSR at Kenya Commercial Bank. Your response will be kept completely confidential and will be used only for the purpose of this research. There will be no specific mention of any issue you consider confidential about KCB. Should you be interested in the outcome of the study, we shall be willing to share with you the results.

Your cooperation in participating in this study will be highly appreciated.

Thank you in anticipation

Yours Faithfully

Pacioli Abebe P. A.

APPENDIX II: Interview Questions Guideline

1. Does KCB have a CSR policy?

2. Who is/are responsible for formulating CSR policy?

3. What are the CSR practices undertaken by KCB with regards to:-

   Community development

   Environmental protection

   Human rights

   Business Partners

   Any other……………………………….

4. How do you prioritize you CSR practices above?

5. What is the annual budget for CSR?

6. How is the budget for CSR determined?

7. What is the motivation behind CSR at KCB?

APPENDIX III: Data Collection Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAM – LOWER KABETE CAMPUS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 06/10/2010

TO WHOM IT MAY CONCERN

The bearer of this letter PACIOL I ABEBE PONTIFFA AWUOR

Registration No: D61/8814/2006

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA OFFICE
P. O. Box 30197
NAIROBI

DR. W.N. IRAKI
CO-ORDINATOR, MBA PROGRAM