

**FACTORS INFLUENCING THE PRACTICE OF CORPORATE SOCIAL  
RESPONSIBILITY BY COMMERCIAL BANKS IN KENYA**

**BY**

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# DECLARATION

## STUDENT'S DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.


Signature: .....  ..... Date: ..... 10/11/11 .....

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## SUPERVISOR'S DECLARATION

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

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I take this opportunity to give thanks to the Almighty God for seeing me through the completion of this project.

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Thank you all. May the Almighty God bless you abundantly.

## **DEDICATION**

I dedicate this work to my family and all those who supported me in the completion of this project.

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## **ABSTRACT**

Corporate Social Responsibility (CSR) is basically what an organization does to positively influence the society in which it exists. It could take the form of community relations, volunteer assistance programs, healthcare initiatives, special education / training programs and scholarships, preservation of cultural heritage and beautification of cities/towns. The main purpose of this study was to determine the forces driving commercial banks in Kenya towards CSR.

A descriptive survey was used in this study. It enabled the researcher to describe the findings in terms of their means and modes across the commercial banks under study. The population focused on the 43 commercial banks in Kenya. A questionnaire with open ended and closed ended question was developed by the researcher and used in data collection. Company's reports on CSR issues and journals were used to gather secondary data. Data analysis tools used in the research were Excel and SPSS and data was presented in form of tables and graphs.

The study revealed that forces driving commercial banks towards the CSR activities included the shifting paradigms and criticality of stakeholder's relationships, shrinking role of government, increased customer interest and changes in their preferences and also not forgetting the growing investor pressure. The benefits that accrue to banks practicing CSR are the improvement corporate image and reputation in the market through public relations marketing, direct acquisition of new customers and enhancing good governance relations.

Out of the 43 institutions on which the questionnaires were administered, only 29 responded. This gave a response rate of 68 percent. This limited the study as it targeted all the licensed commercial banks in Kenya. The second limitation of the study was that it focused mainly on the banking industry. The study was based on descriptive survey as the research design which is generalized in nature. Another study could be done using a case study as it is more specific. Further research could be a similar study to be carried out on other companies that are not in the category of commercial banks

to find out forces motivating other companies to practice CSR. A research project can also be done on public institutions to see the factors and benefits they will get from engaging in CSR activities.

In conclusion it was noted that banks should channel more resources to CSR activities, set-up specific departments comprising specialized personnel with the sole mandate of initiating and implementing CSR activities as well as measuring the impact of this activities on the intended targets and on the banks financial performance.

# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the study

Corporate Social Responsibility (CSR) is basically what an organization does to positively influence the society in which it exists. It could take the form of community relations, volunteer assistance programs, healthcare initiatives, special education / training programs and scholarships, preservation of cultural heritage and beautification of cities/towns. The philosophy is basically to give back to society, what it (business) has taken from it in the course of its quest for creation of wealth. CSR is one of the most critical issues facing businesses today. Companies who fail to recognize this and respond appropriately will put at risk not only their bottom line, but their very survival (Ghoshal and Moran, 1996).

World Business Council For Sustainable Development (WBCSD) report (2001), notes that a universally accepted definition of CSR has yet to emerge, however it offers considered guidance on the three main related aspects of the doctrine: its underlying purpose or rationale, the nature of commitment that it involves; and the broad implications for what businesses should actually do to give expression to it. Corporate social responsibility is the commitment of business to contribute to sustainable development, working with employees, their families, the local community and society at large to improve their quality of life. Commercial banks are known to provide different services to these people. It should be accepted that interaction with the wider social community is part of the trading environment. The same community provides both the customers and the resources to fulfill business objectives. As such this community is influenced by the benefits gleaned from the trading world and so it shares a degree of responsibility for how these banks perform and contribute.

### 1.1.1 Corporate Social Responsibility

CSR is about how companies manage the business processes to produce an overall positive impact on society (Agle, Mitchel and Sonnenfeld, 1999) and in turn be used as a strategy for business growth. CSR is seriously considering the impact of the

company's action on society (Burke and Logsdon, 1996).

Corporate Social Responsibility (CSR) is basically what an organization does to positively influence the society in which it exists. It could take the form of community relations, volunteer assistance programs, healthcare initiatives, special education / training programs and scholarships, preservation of cultural heritage and beautification of cities/towns. The philosophy is basically to give back to society, what it (business) has taken from it in the course of its quest for creation of wealth (Ghoshal and Moran, 1996).

There are various forces driving commercial banks towards the CSR activities, the major driving forces are the shifting paradigms and criticality of stakeholder's relationships, shrinking role of government, increased customer interest and changes in their preferences and also not forgetting the growing investor pressure. The benefits of CSR to a business include the improvement of its corporate image and reputation in the market through public relations marketing while engaging the community in development and recreational activities. It could also lead to the direct acquisition of new customers and enhancing good governance relations.

CSR helps commercial banks and businesses to understand the role of social responsibility in corporate positioning, assess the impact of their organization on society and stakeholders, gauge effect on overall corporate reputation, research the effectiveness of current initiatives through information generated and to review current principles and policies (Dierkes, 1995).

Further CSR helps businesses to investigate understanding of emerging issues, assess awareness of current activity and additional opportunities, evaluate impact on society, provide a coherent ethical framework for businesses, and assess the effectiveness of internal and external communications in order to identify future expectations (Brown, 1998).

### **1.1.2 The Commercial Banks in Kenya**

There are forty-three licensed commercial banks and one mortgage finance institution in Kenya. Five banks are foreign owned but not locally incorporate while nine are foreign owned but locally incorporated. Five banks have government participation while twenty-four banks are locally owned. Nine of the major banks are listed on the Nairobi Stock Exchange. The commercial banks offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking (Central Bank of Kenya, 2011).

The role of banks in an economy is paramount because they execute monetary policy and provide means for facilitating payment for goods and services in the domestic and international trade. Commercial banks are custodians of depositor's funds and operate by receiving cash deposits from the general public and loaning them out to the needy at statutorily allowed. It should be accepted that interaction of the banks with the wider social community is part of the trading environment. The same community provides both the customers and the resources to fulfill business objectives for the banks. As such this community is influenced by the benefits gleaned from the trading world and so it shares a degree of responsibility for how these banks perform and contribute.

CSR helps commercial banks and businesses to understand the role of social responsibility in corporate positioning, assess the impact of their organization on society and stakeholders, gauge effect on overall corporate reputation, research the effectiveness of current initiatives through information generated and to review current principles and policies (Dierkes, 1995). Further CSR helps commercial banks to investigate understanding of emerging issues/developments, assess awareness of current activity and additional opportunities, evaluate impact on society (national or local), provide a coherent ethical framework for businesses, and assess the effectiveness of internal and external communications and to identify future expectations (Bansal and Roth, 2000).

A factor prohibiting business firms in Kenya especially local business firms from getting involved in communal activities is the associated costs. In fact, most business

may take it as a distraction from the core business but on the other hand the costs of not being responsive may outweigh the costs of being involved in communal activities (Wamalwa, 1999). Business entities in Kenya are joining the bandwagon of giving back to communities in which they operate. Some of the activities supported by Kenyan firms include, employing the local community, developing the local community, participating in social activities, applying ethical standards in business, providing information to the public, monitoring company actions, supporting higher education and giving expertise to communities. Recently corporate entities have come forth to help communities afflicted by drought.

## **1.2 Research Problem**

Today's business leaders are inundated with new risks and challenges to their corporate standing and reputation. Fair or not, big businesses are being called to justify their approach to a growing array of social, environmental and economic concerns. Despite economic downturns, many companies are concluding that they cannot afford not to invest in being seen as responsible. Global pressures are forcing corporations to think differently about their societal impact.

Theoretical arguments on the role of corporate social responsibility are mixed. According to Clarkson (1991) the position that the only social responsibility of commercial banks are to keep the law and maximize their profits is not sound because moral responsibilities go beyond legal duties and that groups, not only individuals, have moral and social responsibilities. The position that the main responsibility of commercial bank is to balance the interests of all stakeholders is not sound either. The bank's responsibilities towards its employees or members are stronger than those it has towards other stakeholders. Studies show that the commercial banks should make profit but they are not expected to do so at the cost of the business community in which the bank operates. Both the bank and the community should support each other in order to fulfill each others' business expectations. Social responsibility should be considered as an essential element in the creation of a favorable business climate.

Corporations have responsibilities to their shareholders and other interest groups. Despite a disagreement over the prioritization of those “stakes,” theorists agree that respect for other than economic issues is necessary. Taking this into consideration, what then is the financial pay-off? Businesses, NGO’S and academia have approached a Business Case for Sustainability (BCS) in many ways, trying to prove or disprove that valuing the social and environmental side of business activities has a positive impact on the bottom line, i.e. that the “enlightened self interest” of companies in decreasing the environmental degradation and improving the social impact creates economic value, or an economic advantage over social and environmental laggards (Freeman, 1984).

Vance (1975) argued that good corporate social performance is associated with decline in stock prices relative to market average. He stated that higher social performance leads to lower financial performance. This reflects Friedman’s (1962) neoclassical argument that firms have only one social responsibility, which is to increase profits. The implication of this is that by increasing their social performance, firms will unnecessarily incur costs and reduce their profitability.

Locally, Wamalwa (1999) conducted a study on the awareness and Practice of corporate Social Responsibility in Kenya while Kwalanda (2007) did a study on corporate social responsibility at Safaricom Ltd. Anyona (2005) found out that social responsibility has an overall effect on the performance of commercial banks in Kenya. Kweyu (1993) in his study showed that the attitude bank managers had towards CSR mattered. Mulwa (2002) showed in his study that customers preferred companies that engaged in CSR activities. The studies carried out solely tried to explain the importance of practicing CSR by various companies. A knowledge gap exists in identifying the forces motivating banks to practice CSR. This study therefore seeks to fill this gap and answer the research question what are the forces motivating the practice of CSR by commercial banks in Kenya?

### **1.3 Research Objective**

The research objective was to determine the forces motivating CSR practice by commercial banks in Kenya.

### **1.4 Value of the Study**

According to Ghoshal and Moran (1996), CSR is one of the most critical issues facing businesses today. Companies who fail to recognize this and respond appropriately will put at risk not only their bottom line but their survival. The banking industry is faced with the challenge of being involved with corporate responsibility issues.

The findings of the research will enable the bank management who are policy makers in designing policies that incorporate social responsibility. CSR has become a high profile issue and as companies have begun to recognize the significant opportunities for both competitive advantage and risks associated with CSR performance. By practicing corporate responsibility, banks will create a competitive edge and further in convincing customers that they are concerned about the community at large.

Employees will also benefit from the study since it will create awareness on them on how their institutions are contributing towards CSR. In addition, they will benefit from the study as they give feedback on their involvement in strategy formulation. This will highlight the importance of incorporating corporate responsibility in strategy formulation. The study will have further outlined the benefits derived from corporate social responsibility.

The study will also benefit academicians and future researchers as it will be a source of reference on issues pertaining to CSR. The study will act as a learning base and provide more insight and the understanding of the role and benefits of CSR. The study can also be used as referral material on business assignments.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter gives a comprehensive review of the literature surrounding the role and importance of Corporate Social Responsibility, the forces motivating corporations towards CSR and lastly the benefits of implementing corporate social responsibility.

### **2.2 The Role and Importance of Corporate Social Responsibility**

Corporate social responsibility (CSR) is about the acknowledging that sustainable competitive advantage requires companies to be economically viable, environmentally sound and socially responsible (Esty, 1999). Starting with, adhering to principles of transparency, accountability such as compliance with ILO conventions or national legislation, or quality standards, corporate social responsibility engages companies to adapt themselves to local stakeholder interests and to respond to their shareholders, customers and ultimately to their local and global stakeholders. Rapid political, economic and technological developments have led to an ever more complex operating environments for business, governments and society. The importance of building alliances and partnership has also increased. There is a growing awareness of the need to develop new types of consultation and partnership between companies and their secondary stakeholders- communities, governments, non-governmental organizations and the general public.

According to Greening and Turgan (2000), people responsible for developing new markets, and building business and community relationships in the increasingly important emerging economies are seen as the new actors of the economic, social and environmental progress around the globe. It is argued that the leadership companies of the future will be those that base their mission and their corporate strategies around creating, measuring and managing value.

The expanding role of private sector has resulted in an increasing focus on their corporate behavior, which has led to the need to build reputation and relationships based on CSR. Companies are expected to adhere to universal standards on human rights and environmental issues and to engage with stakeholders when formulating and implementing corporate strategy.

Issues such as environmental sustainability, human rights, corporate governance, and employee relations are more important than ever. Corporate social responsibility has become the subject of significant media attention as the public has developed a growing interest in and awareness of companies' behavior on a range of social issues. According to several studies, consumers, investors and others are increasingly demanding that companies be accountable to the full range of stakeholders impacted by their operations and are calling upon companies to help find solutions to a variety of social issues ranging from racial inequality to environmental degradation. As CSR has become a more high-profile issue - and as companies have begun to recognize the significant opportunities for both competitive advantage and risks associated with their CSR performance - boards of directors are becoming increasingly involved in shaping and assessing policies and practices on a wide range of social issues.

## **2.3 Forces Motivating Corporations towards CSR**

In the current volatile business environment most firms will agree that their traditional views of competitiveness and of the success factors for survival and profitability have been immensely challenged. Some of the main forces leading firms to lean towards corporate social responsibility as a major tool for survival include the following:

### **2.3.1 Shifting Paradigms and the Criticality of Stakeholder Relationships**

The term stakeholder has been defined as any group or individual who can affect or is affected by the achievement of a firm's objectives (Freeman, 1984) Primary stakeholders have interests that are directly linked to the fortunes of a company including shareholders and investors, employees, customers, suppliers and residents of the communities where the company operates. Some theorists have also added individuals

and groups that speak for the natural environment non-human species and future generations to this list (Greening and Turgan, 2000).

Secondary stakeholders, on the other hand have indirect influences on an organization or less affected by its activities. They include the media and pressure groups, and others that inhabit the business and social networks of the organization. A typology of stakeholders reveals the variety of interests or “stakes” that groups of people hold in organizations or causes. The stakes of investors, for example are based on equity. Other direct stakeholders, including customers, employees, competitors, suppliers and debt holders, have economic stakes or interests in a company. They can directly affect or be affected by a corporation’s financial success. Labor unions, community groups, environmental organizations, human rights organizations and consumer advocates have a stake in the company’s impact on people and the environment as well as their economic impact.

Increasingly large companies including members of the world Business council on sustainable development are using the term sustainability to reconcile how value is created for firms as well as for their stakeholders in economic, social and environmental terms. This more inclusive approach is based on the premise that corporate performance should be assessed against a triple bottom line of economic development, environmental quality and social justice or equity (Esty, 1999). Companies are increasingly learning their way into sustainability issues- whether it be the rapidly growth of ethical finance, the increasing interest of consumers in certified sustainable products and services or the downward lateral ward pressure on supply chain partners to demonstrate environmental and social responsibility.

Firms that place a premium on ethics and social performance make the most money. Clarkson’s research suggests that companies that concentrate exclusively on the bottom line often make poor decisions. This may be because they lack information from stakeholders and the environment that would allow them to anticipate opportunities and solve problems they are small and less costly to remedy (Clarkson, 1991).

### **2.3.2 Shrinking Government Role**

The government has always played the role of safeguarding its people against exploitation of all sorts but with the shrinking government resources and increased criticisms regarding government inefficiencies in the regulatory process, firms have resorted to looking around for other ways of improving their performance and ensuring their survival in the ever turbulent business environment. Corporate social responsibility with time is taking the lead in terms of involuntarily shaping business to operate efficiently (Clarkson, 1991).

Governments are no longer able to solve developmental challenges and achieve "sustainable" development on their own. In seeking to raise the country's socio-economic status, there is consensus that other sectors such as the private sector and the NGOs have a role in development. International organizations and institutions (UN, UNDP; World Bank, EU) are all emphasizing a wider role for business and including corporate social responsibility into their agenda. Beginning from 1995 the World Bank and UN are running Partners for Development Program with over 30 countries with some of the world's well-known multinational companies.

### **2.3.3 Demands for Increased Disclosure**

There is a rising demand for corporate disclosure from stakeholders, customers, suppliers, employees, communities, investors and activist organizations. Every individual is interested in knowing how the company they are investing in is giving back to the society. Companies are therefore forced to participate in CSR activities (Greening and Turgan, 2000). With higher social awareness about the crucial role companies play in creating and distributing value-added activities locally and internationally, their internal governing structures and varying external impacts have come under closer scrutiny.

It is believed that corporate governance's emphasis on shareholder rights, which require transparent and accountable management structures, contribute to stakeholder interest, as well as to economic efficiency. According to the Cadbury Report on

Corporate Governance (1992), Corporate Governance (CG) is defined as “the system by which companies are directed and controlled”. That is, CG is about improving board structures and procedures to make a company more accountable to shareholders, covering issues such as financial reporting, transparency and audit, remuneration of directors, separation of powers and minority shareholders. At its broadest, CG can be seen as the full set of relationships between a company's management, its board and its stakeholders, including but not exclusively shareholders.

Companies identify stakeholder awareness and investor and peer pressures as being key drivers for an increased business focus on developing a CSR strategy. As a result, companies need to be not only implementing corporate social responsibility strategies to ensure they are managing the needs of various internal and external stakeholders, but they also need to balance their actual and perceived CSR performance.

#### **2.3.4 Increased Customer Interest**

Ethical conduct, environmental and social consciousness of companies make a difference in purchasing decisions of customers. Consumers are showing willingness to respond to companies who implement corporate social responsibility strategies. In fact according to the Council for Economic Priorities, a non-profit making public service research organization's millennium poll on corporate social responsibility, over one in five consumers report either rewarding or punishing companies in the past year based on their perceived social performance (Gauthier, 1984).

Corporate Social Responsibility (CSR) is not an altruistic pursuit. It is one of the most critical issues facing business today. Companies who fail to recognize this and respond appropriately will put at risk not only their bottom line, but their very survival (Ghoshal and Moran, 1996). The impact of business on society has never been greater, and so too the impact of society on business.

#### **2.3.5 Growing Investor Pressure**

The Social Investment Forum reports that in the United States of America in 1999, there was more than two trillion dollars in assets under management in portfolios that

use screens linked to ethics, the environment, and corporate social responsibility before making any investment decision. Investors are changing the way they assess companies' performance and are making investment decisions based on criteria that includes issues of social ethical relevance (Husted, 1994).

CSR has become an international norm and a standard emphasizing the importance of human and social capital for global development. In western free-market economies, there is growing recognition by companies of the value people place on corporate social and environmental action. The manifestation of this trend is increasingly found in the choices consumers make about the products they buy and the companies in which people choose to have a stake, either as employees or investors (Esty, 1999).

### **2.3.6 Competitive Labor Markets**

Employees are looking more and more beyond paychecks and benefits to seek employers whose policies and operating practices that are geared towards a social responsible organization. With the advent of such employees, in order to employ and maintain such employees, companies are being forced not only to giving back to communities they operate in but also striving to improve the quality of life in the workplace (Burke and Logsdon, 1996).

Most employees today want to know whether the companies they work for are socially responsible. Out of the profits that these companies make employees want to know how much is being given back to the society in order to make it a better world to live in. Employees want to feel proud that their employers care about the community in which they live in (Greening and Turgan 2000).

### **2.3.7 Supplier Relations**

Many companies are ensuring that all of their respective partners in business conduct themselves in a socially responsible manner since stakeholders are becoming increasingly interested in business affairs. This results in some companies imposing codes of conduct on both their suppliers and customers (Esty, 1999).

Companies want to deal with suppliers that are diligent in their businesses and care about the society at large. They do not want to deal with suppliers who are known to have unorthodox ways of carrying out their businesses (Husted, 1994).

## **2.4 Benefits of Implementing Corporate Social Responsibility**

Today's business landscape requires companies to navigate a complex and evolving set of economic, environmental and social challenges, and address stakeholder demands for greater transparency, accountability and responsibility. These factors affect all aspects of business operations - from supply chain to marketplace and employee productivity to investor return. To compete successfully, a company needs to develop responsible business policies and practices and make them an integral part of its mission, values, strategy and operations. CSR covers the spectrum from business ethics, governance and accountability, to human rights, the environment and community investment. It also takes into account the way employers treat their workforce and the fundamental principles of the business – its mission and vision. There are lots of ways for the business to be socially responsible, from encouraging investors to examine the ethics of the other companies they invest in, to overhauling the working practices to give the workforce more flexibility (Husted, 1994).

According to Vance (1975) sponsorship is the purest form of enlightened self-interest. They further point out that there is little or no confusion about the motives and intentions of either party and the mutuality of is usually high. One of the core benefits of a company being socially responsible or sponsoring social activities is the enhancement and maintenance of a good reputation. Jim Collins coauthor of Built To Last underlines this by saying that we are going to see companies increasingly assume that what they stand for in an enduring sense is more important than what they sell. In fact to be perceived as a caring responsible organization has commercial value as evidenced by the more organization sponsoring activities globally. Sponsorship is significantly more cost-effective than advertising in building empathy, confidence and brand recognition.

Direct product promotion is another benefit that can be derived from sponsoring social activities for example tying sales of a product to donations to specific charities or activities. For example a supermarket chain Tesco developed a campaign to help schools buy computers and software. Each 25 pounds spent at the store earned a voucher to give to a school, which the school could eventually exchange for computer goods; 200 vouchers obtained a software package while 4000 vouchers a computer (Wamalwa, 1999).

Other benefits apart from increased awareness that a company exists and image enhancement may include using sponsorship for change of public opinion or reinforcement, direct acquisition of new customers, impressing upon the would be employees and developing good relations with investors and government relations (Griffin and Mahon, 1997). Although there is opposition to this practice in terms of companies losing perspective of the real meaning of being good corporate citizens but proponents say that if there is a mutual benefit more companies will be encouraged to participate. In fact UK companies have linked sales largely consumer products to a wide range of good causes and some research shows that sponsorship scores over other advertising media by the length of people's memory.

In 1975 Vance summed this up by saying that the degree to which sponsorship continues to grow will depend to a large extent on its reputation. That in turn depends increasingly on how adept companies become at managing the conflict between short-term sales activities from longer-term community investment, and the need to ensure consistency between social responsibility and marketing objectives in sponsorship.

According to the Department of Trade and Industry (DTI) in the US, an increasing number of companies of all sizes are finding that there are real business benefits from being socially responsible. About 80% of FTSE-100 companies now provide information about their environmental performance, social impact, or both. And these trends are not confined to big business. A recent MORI survey found that 61% of small and medium sized enterprises were involved "a great deal" or "a fair amount" in the local community. Involvement in the support of local charities has long been a

mainstay of businesses keen to put something back into the local community. For instance in Scotland, there are an estimated 50,000 voluntary organizations with an annual income in 2001 of £2.1 billion. When firms associate with some of them can raise their profile locally and nationally, and generate valuable goodwill for the business name. Some firms give their employees time to volunteer or raise money for charities through regular company fund-raising events. Others sponsor local charity events or donate products and equipment that can be offered as prizes or perhaps used to furnish premises. Providing products and services at cost price can also be an enormous help to non-profit organizations.

According to Business for Social Responsibility Organization in the US, being socially responsible can improve financial performance and access to capital, enhance brand image and sales, attract and retain a quality workforce, improve decision-making on critical issues, help you manage risks more efficiently and reduce long-term costs. On a smaller scale, community events often get lots of publicity in the local media (Burke and Logsdon, 1996). A picture of a sponsored jog with participants wearing your company logo could find its way on to the local television news or the front page of the local paper. Not only do these kinds of activities raise the business's profile, they also start to build a positive association in the public's mind, effectively branding the firms' business as one that thinks about more than just profit. And in these socially-responsible times, a socially-responsible outlook is an excellent way to connect with potential customers.

Growing media and stakeholder attention has made it increasingly important and cost effective for companies to develop governance structures that proactively incorporate and address CSR issues. Benefits to companies that have such structures in place include: (1) enhanced corporate reputation among shareholders, customers, employees, communities and others, (2) reduced exposure to adverse publicity stemming from high-profile consumer or shareholder campaigns, and (3) reduced costs associated with the inclusion of shareholder resolutions in annual proxy statements (Berman, Wicks and Kotha, 1999).

Having formal mechanisms in place to raise CSR issues at the board level can help companies proactively identify and address situations or practices that could pose liabilities to the company. Engaging directors in discussions and planning about issues facing the company and their potential impacts allows companies to benefit from the expertise and experience of their board members. As a result, companies have the opportunity to resolve problems before they result in costly legal actions or government intervention. Soliciting input and direction on social issues from a diverse board of directors can provide a company with valuable insight about what is going on in the communities in which it operates and within society more broadly. It can also help the company understand how it is perceived by stakeholders and the future issues and concerns that could place demands on it. Such information can help companies better define their priorities and long-term strategic vision. It can also aid in the alignment of business activities with principles or ethical codes by identifying where there are gaps between the two.

Boards that regularly incorporate social and environmental issues into decision-making can be an indication that a company is engaging in practices that satisfy and go beyond regulatory compliance requirements. Companies that demonstrate such behavior are often given less scrutiny and freer reign by both national and local government entities. In the U.S., for example, federal and state agencies overseeing environmental and workplace regulations have formal programs that recognize and reward companies that have taken proactive measures to reduce adverse environmental, health, and safety impacts. In many cases, such companies are subject to fewer inspections and paperwork, and may be given preference or "fast-track" treatment when applying for operating permits, zoning variances, or other forms of governmental permission (Berman, Wicks and Jones, 1999).

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter outlines the overall methodology that was used to carry out the study. This includes the research design, population, data collection methods and data analysis.

### **3.2 Research Design**

A descriptive survey was used in this study. Descriptive studies describe a phenomena or characteristic associated with a subject population. They are characterized by systematic collection of data from members of a given population through questionnaires and interviews. They also follow procedures such as identifying target population, development of questionnaires and field test, selection of a relevant sample, administration of questionnaires in person or by mail, descriptive analysis of data using tables, means, frequencies and percentages.

The descriptive survey enabled the researcher to describe the findings in terms of their means, median, and mode across the commercial banks under the study which will give the study data a better presentation format. The focus in this study was forces motivating commercial banks in Kenya to practice CSR.

### **3.3 Population of the Study**

Cooper and Schindler (2003) define population as the total collection of elements about which we wish to make some inferences. The population of this study was all the forty-three commercial banks in Kenya (Central bank of Kenya journal, 2011). The researcher collected data using a census survey since the population was not large. This population enabled the researcher to have general observations which in turn helped in attaining general conclusions on the forces driving commercial banks towards CSR.

Respondents were predominantly managers and officers in the departments responsible for organizing CSR activities in the various banks.

### **3.4 Data Collection**

Data collection methods involved the use of both primary and secondary data. Primary data was derived from questionnaires administered through drop and pick later method to respondents who comprise of managers in public relations departments in the banks. The questionnaire used in this study contained a mix of questions, allowing both open-ended and specific responses to a broad range of questions. The closed ended questions enabled the researcher to collect quantitative data while open-ended questions enabled the researcher to collect qualitative data. The questionnaire was divided into two sections: background of the respondents and forces driving the banks towards CSR. Secondary data was gathered from library material, company journals and reports, media publications and various Internet search engines covering the benefits of Corporate Social Responsibility to commercial banks in Kenya.

### **3.5 Data Analysis**

Data for this study was analyzed using descriptive statistics, such as frequencies, percentages and measures of central tendency, with the application of the statistical package for social sciences (SPSS) software. Descriptive statistics were used to describe the basic features of the data in the study; they provide simple summaries about the sample and measures. The data was then presented in tables, cross tabulation charts and graphs. Inferences were also drawn from the results obtained.

Anderson and Poole (2001), postulates that once data has been collected, the researcher must be able to interpret the data reliably. The process can involve summarizing and categorizing the data to a temporary manageable length, identify themes, analyze and assess. It is from this point that the researcher will look for meaning within the data and often relating findings to previous studies to see if these support existing research.

## **CHAPTER FOUR: DATA ANALYSIS RESULTS AND DISCUSSION**

### **4.1 Introduction**

This chapter presents the analysis, results and discussions based on the forces motivating the practice of CSR in the commercial banks in Kenya.

### **4.2 Data Analysis**

The data collected from the field was coded, analyzed and presented as descriptive statistics and summarized in tables. Out of the 43 institutions on which the questionnaires were administered, only 29 responded. This gives a response rate of 68% percent. Respondents were predominantly managers and officers in the departments responsible for organizing CSR activities in the various banks.

### **4.3 Forces Motivating the Practice of CSR by Commercial Banks in Kenya**

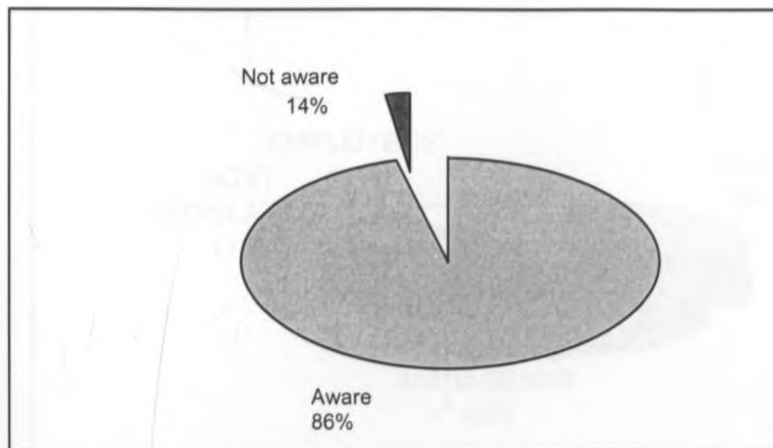
The following paragraphs explain the results of the study on the forces motivating commercial banks to practice CSR.

#### **4.3.1 Knowledge of CSR Concept and its Importance**

When asked if the banks had heard of the concept of (CSR) Corporate Social Responsibility most of the respondents (86 %) were aware or familiar with the concept, and 14 % of the respondents were not aware of the concept. The 14 % that were not aware or familiar with the concept of CSR returned their questionnaires blank and therefore data analysis was done based on the 86 % respondents that filled in their questionnaires.

A look at the figure 4.3.1 below shows that 86 % of the firms that responded were aware of the CSR concept while only 14% of them were not aware of the concept.

**Figure 4.3.1: Knowledge of CSR concept**



#### **4.3.2 Presence of a Formalized CSR policy**

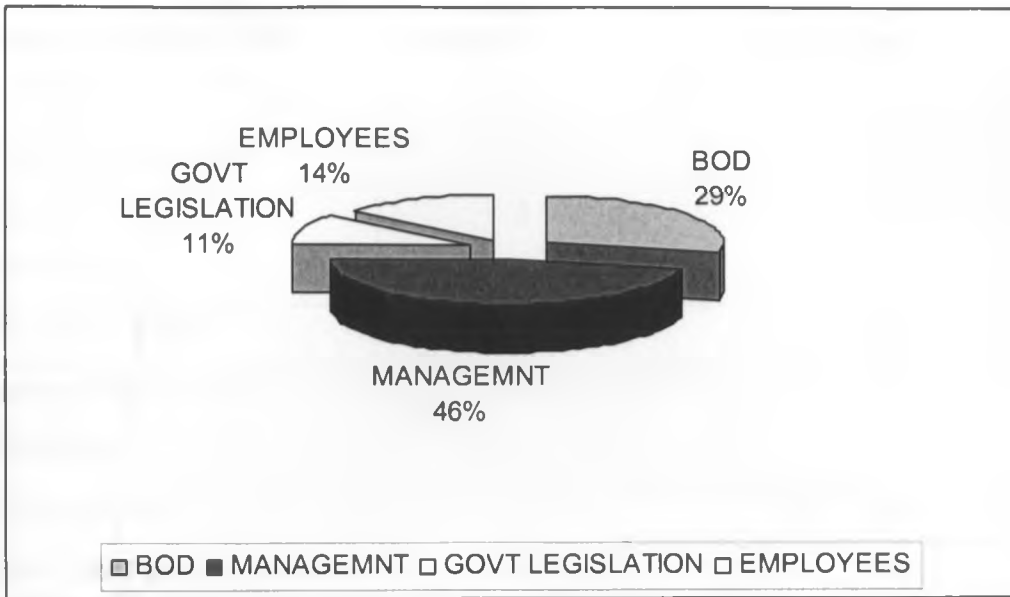
About seventy nine percent (78.6 %) of the respondents reported that their banks had a formalized policy on CSR or in place of it there was a code of ethics which guided or influenced their relationships within the organization as well as outside the organization. On the other hand 21.4 % of the respondents reported that there were no formalized policies on CSR in their organizations and they only operated informally depending on the strategy formulated for that particular year or a need arising for such an action to be taken.

#### **4.3.3 Who Initiated the Policy into the Organization**

The researcher intended to find out who and how the policy of CSR was initiated into the organizations. From the responses the findings are as shown below in figure 4.3.3.

46% of the respondents reported that management was involved in the initiation of the Corporate Social Responsibility in their organizations, 29% said that the Board of Directors were responsible, 14 % said the employees initiated the policies and lastly 11 % said it is was as a result of government legislation and influence that the CSR policies were initiated in their organization.

**Figure 4.3.3: How CSR Policy was initiated**



#### **4.3.4 CSR Department and Integration of CSR Objectives**

About sixty four percent (64 %) of the respondents integrated the CSR objectives and targets into their financial objectives which they make while 36% set the objectives alongside the financial objectives by aligning the objectives of CSR with the overall objectives of the organization for that period.

#### **4.3.5 Overall Responsibility for CSR operations**

The question on the specific departments which handles CSR operations and who has the overall responsibility for the CSR department and their seniority in the organizations were open ended and elicited a wide range of responses that were categorized as shown in Table 4.3.5 below.

Marketing department and the head of marketing seem to be in control of CSR activities in most banks with 50 %of the respondents indicating that the head of marketing has responsibility of driving the CSR agenda in their organizations, Corporate Affairs department was responsible for the CSR activities in 20.8% of the respondents, 8.3% of respondents had the Human Resources department, CSR committee and senior managers coordinating the CSR activities while only4.3% was done by the business development department.

**Table 4.3.5: Overall Responsibility for CSR operations**

<b>Responsibility for CSR activities</b>	<b>Frequency</b>	<b>Percentage</b>
Marketing Department	12	50
Corporate Affairs Department	5	20.8
HRM Department	2	8.3
Business development Department	1	4.3
CSR committee	2	8.3
Senior Managers	2	8.3
<b>TOTAL</b>	<b>24</b>	<b>100</b>

**4.3.6: Implementation of CSR Activities**

The implementation of CSR activities was done mostly by involving a team of employees by 41.7% of the commercial banks and only 8.3% of the commercial banks implemented the CSR activities by using External consultants and in some cases some banks would mix implementation strategies in an attempt to achieve the desired results as indicated by table 4.3.6 below.

**Table 4.3.6: Implementation of CSR Activities**

<b>CSR activities implementation</b>	<b>Frequency</b>	<b>Percentage</b>
Only monetary contributions are made	7	24.1
Through an in-house department / committee	5	17.2
Collaboration with a NGO	3	10.3
Involving a team of employees	12	41.5
By external consultants	2	6.9

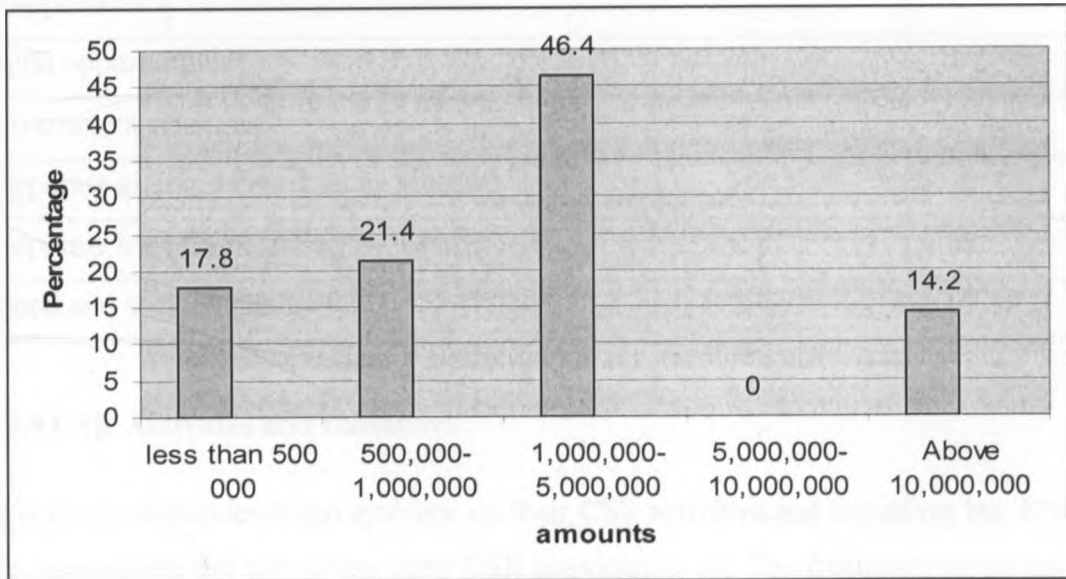
### 4.3.7 Allocation of Funds towards CSR Activities

When asked how funds are allocated for CSR activities in their respective commercial banks, 71.4 % of the respondents said that they were allocated as a fixed amount, and 28.6% said that the funds were allocated as a percentage of net profit for the previous year.

Most of the firms (80%) using a percent of income to allocate funds for their CSR activities had 1% of net profit as the amount set aside while 20% of them had amounts greater than 1 % but less than 10% set aside in their budgets for CSR activities .

As illustrated in figure 4.3. below organizations that set aside a fixed amount for their CSR activities, 17.8% of the commercial banks analyzed had set aside amounts less than Kshs.500,000 .00 for their CSR activities, 21.4% had between Kshs.500, 000.00 and Kshs.1, 000, 000.00 set aside for their CSR activities, 46.4% of the respondents had amounts of between Kshs.1, 000, 000.00 to Kshs.5,000,000.00, while 14.2% of the commercial banks set aside in their budgetary allocations amounts which are greater than Kshs.10,000,000.00 for their CSR activities in the particular year under review.

**Figure 4.3.7: Graph indicating Amount allocated for CSR activities**



#### 4.3.8 CSR topics considered to be most important in the organizations

The topic that was selected mostly by the respondents was that of responsible lending and sound banking practices with a frequency of 18 followed by Corporate giving's, Donations, Financial or material support with a frequency level of 16, Environmental issues with a frequency rate of 8 and the least selected was corporate trust foundations and sports and social amenities with a frequency rate of 2 giving an indication that the respondents considered the topic on Corporate giving's, Donations, Financial or material support mostly as compared to the others.

**Table 4.3.8: Most Important CSR topic in your Organization**

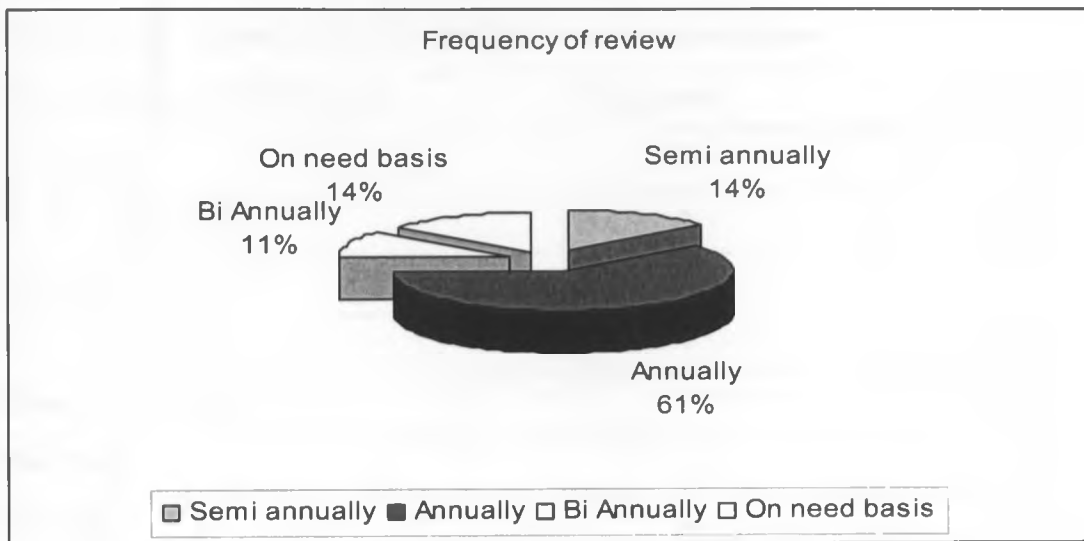
CSR Topic	Frequency	Rank
Responsible Lending and sound banking	18	1
Environmental issues	8	3
Employee benefits/Education of employees	5	5
Transparency	4	6
Co-operation with NGO's	3	9
Co-operation with learning institutions	6	4
Equal opportunities	4	6
Government relations	4	6
Corporate giving's Financial or Material	16	2
Corporate trust foundations	2	10
Sports and social amenities	2	10

#### 4.3.9 CSR Activities and Initiatives

68% of the respondents had a review on their CSR activities and initiatives but 32% of the respondents did not review their CSR activities at all. The frequency of review on the CSR activities is summarized in the figure below, which answered the question on

how frequently the review is done for the CSR activities undertaken by the commercial banks. A closer look at the figure 4.4 below indicates that out of the 68% of the respondents that had a review on their CSR activities, 61% did a review on the CSR activities on an annual basis, 14% did it on a semiannual basis, 14% of the respondents do review them on need basis and lastly 11% of the commercial banks do review them on a Bi annual basis.

**Figure 4.3.9: Frequency of CSR activity review**



#### 4.3.10 CSR Reporting

CSR activities are assessed and their impact on the target group is also assessed by 78% of the respondents where as 22% of the respondents did not make an attempt to assess the impact of the CSR activities on the target groups.

The respondents were asked if their commercial banks made thorough reports on their CSR performance as well as the financial performance. 68% of the respondents reported that they reported thoroughly on their CSR performances. The 68% was mainly made up of the big commercial banks and the medium sized banks. 32% of the commercial banks did not report on their CSR performance as well as their financial performance. Amongst those who reported on the CSR performances 60% of them communicated or reported on the activities on Hard copy report or publications and the

other 40% communicated the CSR activities via the internet on the respective banks web sites.

Table 4.3.10 below shows the responses on who is targeted by the CSR performance report. Out of the 23 respondents, 31.25% indicated that the CSR performance reports targets the Board of directors, 25% of the indicated that it targeted management, 18.8% of the respondents said it targeted the employees, 12.5% the public while 6.25% targeted the Government and a similar percentage other stakeholders.

**Table 4.3.10: Target group for the CSR Performance Report**

Target group for CSR report	Frequency	Percentage
Employees	3	18.8
Board of directors	5	31.25
Management	4	25
The Government	1	6.25
Other stake holders	1	6.25
The Public	2	12.5
<b>TOTAL</b>	<b>16</b>	<b>100</b>

#### 4.3.11: Effects of CSR on the Banks

The table 4.3.11 represents certain responses on the effects CSR has on the bank that were sampled and also on its employees. It shows, respondents strongly agree that besides profit making a company should also be actively engaging itself for the good of the society in which it operates. The respondents strongly agree that they are also familiar with the CSR concept. They felt and agreed that CSR activities had improved on their company's image to a large extent. They were neutral on the issue of being involved in decision making as regards CSR activities it was felt that management did not solicit for their input before making decisions on CSR policy and strategy formulation.

The table also indicates that the employees neither agreed nor disagreed on the aspect of CSR activities having forced them to work long hours to ensure it is enhanced.

**Table 4.3.11: Effects of CSR on the Banks**

<b>CSR effects on the banks</b>	<b>Mean</b>	<b>Std Dev</b>
Has an improved image on the bank	4.214	1.031
Has caused great market share and more profits to the bank	3.143	1.297
Forced me to work long hours to ensure it is enhanced	2.714	1.213
Bank asks me of my input to help make decisions on CSR issues	3.429	1.259
Besides profit making a company should also be actively engaging itself for the good of the society in which it operates	4.714	0.460
Am familiar with the concept of CSR and have heard of it.	4.714	0.6587

**4.3.12: Factors driving interest in CSR by commercial banks**

Table 4.3.12 presents factors driving the bank's interest in the voluntary participation in CSR activities. 34.4% of the respondents felt that their banks were getting involved in the voluntary measures of CSR for the reason of encouraging public reporting on economic, social and environmental performance in effect enhancing their image as frontrunners in CSR activities, 20.7% due to trade and competitive returns, 13.8% due to desire to give back to public and create awareness, equally 13.8% due to the desire to minimize financial, social and legislative risks, 10.4% to help define the business cases for CSR and finally 6.9 %for desire to influence public policy in order of importance respectively.

**Table 4.3.12: Factors driving interest in CSR by commercial banks**

<b>Factors driving interest in CSR</b>	<b>Frequency</b>	<b>Percentages</b>
Desire to influence public policy	2	6.9
Encourage public reporting on economic social and environmental performance	8	34.4
Desire to minimize financial, social and legislative risks	3	13.8
Trade and competitive returns	6	20.7
Help define Business cases for CSR	2	10.4
Desire to give back to public and create awareness	3	13.8
<b>TOTAL</b>	<b>24</b>	<b>100</b>

**4.3.13: Reasons for Engaging in CSR Activities**

As noted from the table 4.3.13 most of the cases reported that the reason why they engaged in CSR activities was that they had a positive effect of improving a company's reputation, 10 of the respondents said it is because the company considers it a moral obligation to do so, 8 do it as part of the PR marketing for the commercial banks and 4 said it was because of the external pressure for the government, consumer group and the tax incentives given by the government. None of the respondents cited that they were involved in CSR activities as a result of pressure or influence from Mother Company or foreign partner.

**Table 4.3.13: Reasons for Engaging in CSR Activities**

Reasons	Frequency	Rank
It is our competitive advantage	2	6
Part of our PR marketing	8	3
Improves company reputation	14	1
Help to attract and retain Employees	6	4
Our company considers it a moral obligation	10	2
Mother company/Foreign partner requirement	0	7
It is tax deductible	2	6
Me too factor/ others are doing it	4	5
External pressure from the government, consumer group	2	6

#### 4.3.14 CSR Projects Initiated by Organizations

The commercial banks were asked, through open ended questions, to state what specific CSR projects they had initiated in the past one year. Their responses are provided in Table 4.3.14.

From the above list a number of projects which have been initiated by the commercial banks in the past one year are mostly community based such as visiting children's homes to donate cloths and foodstuffs, helping in famine relief and organizing feeding programs in slums, sponsoring health campaign programs such as HIV awareness campaign in educational institutions and malaria prevention campaigns, sinking bore holes in arid and semi arid areas. Other commercial banks provided scholarships to institutions and students while some were sponsoring sports clubs as well as sporting events such as Nairobi marathon and Dettol heart run to raise funds for charity.

**Table 4.3.14: List of Initiated Projects**

<b>Projects Initiated by banks</b>	<b>Frequencies (times)</b>	<b>Rank</b>
Dettol heart run and Nairobi marathon	5	2
Children homes visit and providing cloths/food	12	1
Tree planting Karura forest and environment cleaning	5	2
Feeding program e.g. Korogocho slums and Kibagare centers	4	3
Famine relief donations	5	2
HIV campaigns in educational institutions	2	5
Thika school for the blind	1	6
Miles ahead in Kenya	1	6
Malaria campaign and hospital equipment	2	5
Sinking bore holes in arid and semi arid areas	1	6
Contributions to charitable organizations	2	5
Scholarships to institutions and students	4	3

**4.3.15: Non Financial benefits to commercial banks**

From Table 4.3.15 which indicates the non financial benefits of CSR activities, 20.8% of the respondents felt that the community around will be uplifted through goodwill acts by the banks, 8.3% felt the customer loyalty will be maintained, and 4.2% were of

the opinion that high stock prices and realization of the overall goals of the banks and conflict with the government agencies will be reduced.

It should be noted that from the responses received from the open ended questions on the non financial and financial benefits of practicing CSR, it came out clearly that respondents were not outright in singling out profits as the main financial benefit to banks participating in CSR activities instead they took a more subtle way of acknowledging that with enhanced corporate image, increased customer loyalty, increased employee loyalty and reduced risks it will definitely immensely contribute to the profitability of the banks.

**Table 4.3.15: Non Financial benefits to commercial banks**

<b>Non Financial returns</b>	<b>Frequency</b>	<b>Percentage</b>
Conflict with the government agencies will be reduced	1	4.1
Community around will be uplifted through goodwill acts by the banks	5	20.8
Community needs will be addressed and will be happy	2	8.3
Improved employee welfare	3	12.5
Bank will be regarded highly	4	16.7
Role model for other banks to follow	1	4.2
Banks image will be enhanced in its environment	4	16.7
Customer loyalty will be maintained	2	8.3
Create awareness for the products offered by the bank	1	4.2
High stock prices and realization of the overall goal	1	4.2
<b>TOTAL</b>	<b>24</b>	<b>100</b>

### 4.3.16 Non Financial Implications

The commercial banks were also requested to list some of the non financial costs of not participating in CSR activities. The respondents had a common opinion that banks that do not engage in CSR activities may not be popular among the people and their image may not also be fully enhanced in the public's eye. This may result to unimproved business relationship between the public and company which in turn may require the banks that are not practicing CSR to sink in a lot of money in advertising and public relations to enhance their image.

### 4.3.17: Future Targeted areas for CSR activities

Overall most of the respondents were keen to expand their CSR activities as indicated in table 4.3.17 below. The most favorable topic for expansion is the availing of resources for Scholarships for education and technology with a frequency of 8, organizing charitable events is second with a frequency of 6 while only one institution was keen in engaging in faster prevention of natural disasters.

**Table 4.3.17: Future Targeted areas for CSR activities**

Future CSR activity area	Frequency	Ranking
Environmental protection and maintaining the streets	3	5
Healthcare provision	4	4
Education and technology scholarships	8	1
Increase funding to match the profit growth	3	5
HIV campaigns among the young people	5	3
Faster preventive approach to national disasters	1	9
Youth areas and education	2	8
Sponsor more sporting activities among the youth	3	5
Organizing charitable events	6	2

## **4.4 Discussion**

The following paragraphs give discussions on the role and importance of CSR, its benefits and lastly the forces motivating commercial banks to practice CSR.

### **4.4.1 Role and Importance of CSR to Commercial Banks**

The findings of the research concur with the literature review available on the role and importance of Corporate Social Responsibility, the forces motivating corporations towards CSR and lastly the benefits of implementing corporate social responsibility. They also tend to give answers to the research question.

Companies are expected to adhere to universal standards on human rights and environmental issues and to engage with stakeholders when formulating and implementing corporate strategy. From the study it was evident that 50% of the commercial banks have a specific department that handles and deals in CSR operations and the concept is initiated by the top management and board of directors as shown by the 75% of the respondents who reported that the initiators of CSR in their organizations were top managers and the board members. This involvement by top management and assigning specific departments to handle the CSR function by commercial banks in Kenya and having formalized CSR policy, clearly underlines the strategic importance and role that CSR has in their organizations. It is well stated by Ghoshal and Moran (1996) that CSR is not an altruistic pursuit, it is one of the most critical issues facing business today and companies that fail to recognize this and respond appropriately will not only put at risk their bottom line, but also their very survival.

According to Greening and Turgan (2000), people responsible for developing new markets, and building business and community relationships in the increasingly important emerging economies are seen as the new actors of the economic, social and environmental progress around the globe. It is argued that the leading companies of the future will be those that base their mission and their corporate strategies around creating, measuring and managing value. CSR has become an international norm and a

standard emphasizing the importance of human and social capital for global development. The aspect of improving companies reputation and competitiveness in the market has led to an increase in the CSR activities as indicated by the study where by 34.4% of the cases reported that the reason why they engaged in CSR activities was that it can contribute to improving and maintaining their company's reputation which translates into increased financial performance.

With higher social awareness about the crucial role companies play in creating and distributing value-added activities locally and internationally, their internal governing structures and varying external impacts have come under closer scrutiny. Most of the respondents had funds set aside for CSR activities, firms (80%) using a percent of income had 1% of net profit as the amount set aside while 20% of them had amounts greater than 1 % but less than 10% set aside in their budgets for CSR activities. Most commercial banks give an amount of 1 million and above for allocation to CSR activities.

Today, the impact of CSR is beginning to be seen in communities throughout the world, from human rights and labor practices to healthcare and the environment. From the study, we can see that 86 % of the firms that responded were aware of the CSR concept and only 14% of them that were not aware of the concept which is an indication that they have started to appreciate the concept that is why they are engaging in CSR activities such as corporate giving's, donations, sponsorships of education, sports and health activities.

By looking at the topic most respondents selected on CSR activities we find that the mostly selected by the respondents was that on responsible Lending and banking practices with a frequency rate of 18 then followed by Corporate giving's, Donations, Financial or material support with a frequency level of 11. Responsible lending practices which were found out to be the most important topic will help a bank to minimize its risks of giving bad loans and defaulters and in so doing it will reduce the remedial causes and the possibilities of recovering on the bad loans. Employee training and welfare are also considered as part of the most important topics by the commercial

banks. This indicates that they are now realizing that organizations have a responsibility to facilitate, demonstrate and promote CSR for them to be successful.

#### **4.4.2 Forces Motivating Commercial Banks towards CSR**

Some of the main forces leading commercial banks to lean towards corporate social responsibility as a major tool for survival include the following: shifting paradigms and the criticality of stakeholder relationships, shrinking role of government, increased customer interest, growing investor pressure, competitive labor markets, and supplier relations. A corporate stakeholder relationships matter because they foster the co-operations and risk sharing that promote innovation and flexible responses to change in a global economy.

On the forces driving the commercial banks towards CSR activities, the term stakeholder has been defined as any group or individual who can affect or is affected by the achievement of a firm's objectives (Freeman,1984). Primary stakeholders have interests that are directly linked to the fortunes of a company including shareholders and investors, employees, customers, suppliers and residents of the communities where the company operates. Among other factors for existence of a company and profit making, other external forces have to compel it to behave in a manner that will enable the community around it to regard it highly. From our study factors driving interest in CSR include the encouraging of public reporting on economic, social and environmental performance. Many respondents felt that reporting on these issues drew greater attention within the organization and increased individual employee interest in corporate performance in these areas. Providing this information throughout the organization they said would lead employees to question their performance and to strive for improvement. Companies have a wide range of policies and programs in place, but without knowledge of performance it is impossible to assess policy implementation and correlate this with corporate performance.

Consumers are showing willingness to respond to companies who implement corporate social responsibility strategies. There is increasing evidence that the ethical conduct and environmental and social consciousness of companies make a difference in

customer purchasing decisions. This in turn will improve the image of the bank and encourage public reporting on economic and environmental performance.

Employees are looking more and more beyond paychecks and benefits to seek employers whose policies and operating practices that are geared towards a social responsible organization. From the study, 83% of the respondents are in support of their organizations engaging fully in CSR activities. They reckon that besides profit making a company should also be actively engaging itself in CSR for the good of society.

From our study on who is mainly targeted by the CSR report and who are behind the main forces influencing the organizations to comply, 37.5% of the respondents indicated that the CSR performance reports targets the Board of directors, 25% of the respondents indicated that it targeted management, 18.8% of the respondents felt it targeted the employees, and 6.25% felt that the Government, public and other stakeholders were targeted by the performance report as a way of complying to the regulations. This gives an indication on who are the major drivers of CSR agenda in their specific organization and from the above it is evident that management and board of directors are the main influencers of CSR and rightly so as Berman et al. (1999) observes that having formal mechanisms in place to raise CSR issues at the board level can help companies proactively identify and address CSR issues that could pose liabilities to the company. It is also an indication that an organization is engaging in practices that satisfy and go beyond regulatory compliance requirements.

By looking also at the factors deriving interest in CSR activities we find that 34.4% of the respondents felt that the bank was getting involved in the voluntary measures of CSR for the reason of encouraging public reporting on economic, social and environmental performance. 20.7% due to trade and competitive returns, 13.8% due to desire to give back to public and create awareness also the desire to minimize financial, social and legislative risks 13.8% to help define the business cases for CSR and finally 6.9 % for desire to influence public policy in order of importance respectively. These are some of the socio-economic issues that are enticing many commercial banks into

participating in CSR activities and most respondents believe that over time they may develop a competitive advantage within their industry. Whether through increased market share, increased trust in the organization, or better operational efficiency, there is certainly a business incentive behind the development and implementation of CSR policies and practices.

Overall three predominant drivers for strong social and environmental performance in commercial banks emerged: Top management and board of director's vision and mission, a reaction to internal and external pressure, and the desire to establish a competitive advantage over industry peers.

#### **4.4.3 Benefits of CSR to Commercial Banks**

To compete successfully, a company needs to develop responsible business policies and practices and make them an integral part of its mission, values, strategy and operations. CSR covers the spectrum from business ethics, governance and accountability, to human rights, the environment and community investment. It also takes into account the way employers treat their workforce and the fundamental principles of the business – its mission and vision.

One of the core benefits of a company being socially responsible or sponsoring social activities is the enhancement and maintenance of a good reputation. Other benefits apart from increased awareness that a company exists and image enhancement may include using sponsorship to change public opinion or reinforcement, direct acquisition of new customers, impressing upon the would be employees and developing good relations with investors and government relations (Griffin and Mahon, 1997).

According to Burke and Logsdon (1996) being socially responsible can improve financial performance and access to capital, enhance brand image and sales, attract and retain a quality workforce, improve decision-making on critical issues, help you manage risks more efficiently and reduce long-term costs. This is also evident from this study respondents indicated the following benefits, Increased profit, Access to capital, Reduced operating costs/increased operational efficiency, Enhanced brand image and

reputation, Increased sales and customer loyalty, Increased productivity and quality, Increased ability to attract and retain employees, Potentially, reduced regulatory oversight, Reducing risk and increased risk management.

On a smaller scale, community events often get lots of publicity in the local media. A picture of a sponsored marathon, for example, with participants wearing your company logo could find its way on to the local television news or the front page of the local paper. Not only do these kinds of activities raise the business's profile, they also start to build a positive association in the public's mind, effectively branding the firms' business as one that thinks about more than just profit. And in these socially responsible times, a socially responsible outlook is an excellent way to connect with potential customers. This kind of coverage and publicity costs only the time and other resources put in organizing the marathon which is a more effective and cheaper mode than buying time on all the media houses to promote a company's product or service.

Also a look at the non financial benefits indicates that, the responses to the question on non financial benefits of CSR activities, were as follows, where by 22% of the respondents felt that the community around will be uplifted through goodwill acts by the banks, 15% felt the customer loyalty will be maintained, and 2.4% were of the opinion that high stock prices and realization of the overall goals of the banks and conflict with the government agencies will be reduced. A good reputation is often very hard to build – and yet can be destroyed in less than a day. So much of a company's reputation results from 'trust' by stakeholders. A strong reputation in environmental and social responsibility can help a company build this trust.

One of the core benefits of a company being socially responsible or sponsoring social activities is the enhancement and maintenance of a good reputation as was found out from our study. Husted (1994) underlines this by saying that we are going to see companies increasingly assume that what they stand for in an enduring sense is more important than what they sell.

Benefits to companies that have such structures in place include: (1) enhanced corporate reputation among shareholders, customers, employees, communities and

others, (2) reduced exposure to adverse publicity stemming from high-profile consumer or shareholder campaigns, and (3) reduced costs associated with the inclusion of shareholder resolutions in annual proxy statements (Berman, Wicks and Kotha, 1999).

Benefits do not come without some challenges. The respondents also cited some challenges which they thought were felt in implementing the CSR and which therefore prevented the benefits from being accrued. These were Budgetary limitations or inadequate funds allocated to the CSR budgets and in some instances unwillingness to allocate funds at all to it, too many requests especially at the branch levels and inability to meet them, limited employee participation, lack of good CSR policies and strategies, lack of support from the directors, most banks were not able to quantify the benefits that accrue from the CSR activities, time constraint due to work load involved and among others logistics involved in delivering the projects.

Clarkson (1991) sums this up by saying that the degree to which sponsorship continues to grow will depend to a large extent on its reputation. That in turn depends increasingly on how adept companies become at managing the conflict between short-term CSR activities from longer-term community investment, and the need to ensure consistency between social responsibility and marketing objectives in sponsorship.

As part of the corporate culture, the ability to quantify return on investment is essential. While the potential benefits of CSR policies listed above are vast, expressing them in terms of financial gain and linking them directly to investment in these policies can be a difficult task. This link is necessary to gain company support of investment in social and environmental initiatives. The difficulty of quantifying the benefits derived from investment in CSR can make it difficult to advance CSR within an organization.

# CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter summarizes the findings and makes conclusions on this study on the forces motivating the of practice of CSR in the commercial banks in Kenya. It also includes the study limitations and recommendations for further research

## 5.2 Summary

The main purpose of the study was to establish the forces motivating commercial banks in Kenya towards CSR. In order to achieve this objective a questionnaire was developed, consisting both closed and open-ended questions. 29 commercial banks responded to the questionnaire out of the 43 sampled for the study giving a response rate of 68%. Out of the 68% of the respondents 86% of the proportion reported on having heard of CSR activities.

The research methodology was based on the fact that the study was a descriptive survey. This method allowed the collection of a large amount of descriptive information that was analyzed. The population focused on 43 commercial banks in Kenya. A questionnaire with open ended and closed ended question was developed by the researcher and used in data collection. Company's reports on CSR were issues were used together with journals to gather secondary data. Data analysis tools used in the research were Excel and SPSS and data was presented in form of tables and graphs.

The research findings indicate that the major forces driving commercial banks towards the CSR activities are the shifting paradigms and criticality of stakeholder's relationships, shrinking role of government, increased customer interest and changes in their preferences and also not forgetting the growing investor pressure. Responsible lending and good banking practices by the commercial banks does in fact minimize risks of accruing bad debts and costly recovery measures and other litigations that may arise from bad banking practices.

Bad debts are a cost to commercial banks as well to consumers who may end up overburdened with debts and file for bankruptcy, so it is hardly in their best interests to lend money if there is no chance of getting it back. Responsible lending means providing straightforward information that makes the terms of the loan or credit agreement absolutely clear, so that the customer understands the full implications for them and then applying strict, sensible criteria about how much they lend to any individual. These attempts to eliminate giving loans to customers who either are already overwhelmed by debts or have no ability of servicing the facility.

Good CSR practices entails identifying CSR activities that are in line and will contribute to the commercial bank's targets for that particular period as well as relevant to the targeted recipient, implementing the CSR activities, reviewing the impact of the CSR activities on the intended targets as well as on the commercial bank, reporting the outcome to the decision makers in the commercial banks, the government and other stakeholders by availing to them published CSR reports highlighting the success, constraints and future plans. The report should in essence clearly bring out the benefits of the CSR initiatives to the organization, to other stakeholders and to the cause of CSR crusade.

The major benefits to commercial banks that practiced CSR are the improvement of their corporate image and reputation in the market through public relations marketing while engaging the community in development and recreational activities. Therefore it is crucial for companies to be committed to improving the welfare of communities.

On the benefits of CSR to commercial banks it was found out that CSR lead to the improvement of their corporate image through public relations marketing while engaging the community in development and recreational activities. Most banks were fully engaged in the CSR activities as part of their image enhancement and to improve their competitive positions in the competitive environment they are operating under. This led to the direct acquisition of new customers, enhancing good governance relations.

### **5.3 Conclusion of the Study**

The findings of the research concur with the literature review available on CSR benefits and challenges. They also tend to give answers to the research question. Despite the fact that not all commercial banks are participating in the CSR activities there are benefits derived from such activities which should be reported to encourage the non-participating commercial banks to join in the act. Businesses do not have infinite resources and the only sustainable way of maximizing value of the scarce resources is by re-investing in the communities that support its activities. The community in which they operate recognizes the company's contribution and the company in turn takes a keen interest in its affairs.

The study revealed the forces driving the commercial banks towards CSR activities as the shifting paradigms and criticality of stakeholder's relationships, shrinking role of government, increased customer interest and changes in their preferences and also not forgetting the growing investor pressure. Although there is no great emphasis on the CSR compliance there are some indirect forces that compel the commercial banks to comply with CSR activities. The main role of CSR in commercial banks was found out to be enhancing competitive advantage and accountability by companies and to some extent the expanding role of the private sector.

The key benefits of CSR to commercial banks were found to be increased profit, access to capital, reduced operating costs/increased operational efficiency, enhanced brand image and reputation, increased sales and customer loyalty, increased productivity and quality, increased ability to attract and retain employees, potentially, reduced regulatory oversight, reducing risk and increased risk management, and keeping up with competitors.

In conclusion it was noted that banks should channel more resources to CSR activities, set-up specific departments comprising specialized personnel with the sole mandate of initiating and implementing CSR activities as well as measuring the impact of this activities on the intended targets and on the banks financial performance.

## **5.4 Limitations of the study**

Out of the 43 institutions on which the questionnaires were administered, only 29 responded. This gave a response rate of 68 percent. This limited the study as it targeted all the licensed commercial banks in Kenya. The second limitation of the study was that it focused mainly on the banking industry.

## **5.5 Recommendations for Policy and Practice**

The findings of the study indicate that there are a number of issues to be addressed. The issues that need to be addressed are; CSR should be made aware to all the employees and inculcated into the corporate culture, they should be informed of what the bank is doing as CSR involves more than just PR for the bank. It involves making, implementing, reviewing, reporting and re-evaluating CSR projects and their impact on the commercial banks and the intended targets. This in turn requires specialized personnel and therefore commercial banks should put more professionals to head and manage specific CSR departments. More funds should be allocated to CSR activities to make them more tangible and not a one off act but a long term venture.

On the benefits of CSR to commercial banks, both the bank and the community should support each other in order to fulfill each other's business expectations. This can be effectively done if the bank in their dealings takes the socio-cultural aspects into account with the community.

From the study it is evident that most small commercial banks did not have any CSR policy or activities which they carried out so they did not participate in the research from the onset while on the other hand the large and medium commercial banks participated in the research as some of them were fully engaged in the CSR activities as part of their image enhancement and to improve their competitive positions in the competitive environment they are operating under. So implementing a department to handle the CSR issues is an important idea to help boost the image of the commercial banks. There should be an independent verification on the activities which should be reported in the companies' financial reports or reported separately.

The government should lay down policies and regulations compelling companies to participate in CSR activities .There should be a way of monitoring this and ensuring compliance to the later.

### **5.6 Suggestions for Further Research**

The findings of the study indicate that there are a number of issues to be addressed and suggestions for further research. The study was based on descriptive survey as the research design which is generalized in nature. Another study could be done using a case study as it is more specific. Further research could be a similar study to be carried out on other companies that are not in the category of commercial banks to find out forces motivating other companies to practice CSR.

A research project can also be done on public institutions to see the factors and benefits they will get from engaging in CSR activities. Crucially further research should be done to determine how CSR contribution to a company's financial performance can be measured and to what extent can the benefits if any be quantified by the organizations.

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# APPENDICES

## Appendix I: Introduction Letter

Dorcas Wanjala  
University of Nairobi  
P.O Box 59404  
Nairobi

Dear Respondent,

I am carrying out a research on “Benefits of Practising Corporate Social Responsibility to the Commercial Banks in Kenya.” This is in partial fulfillment of the requirement for the Degree of Masters of Business Administration, University of Nairobi.

The main purpose of the study is to identify and document the benefits that commercial banks in Kenya can realize from practicing Corporate Social Responsibility.

The results of this study will be used to derive the benefits accruing from banks practicing CSR. I would be grateful if you could spare some time and provide the information in the attached questionnaire. The information requested is needed for purely academic purposes and will be treated in strict confidence, and will not be used for any other purpose other than for my research.

Thank you for your assistance.

Yours truly,

**Dorcas Wanjala**  
**RESEARCHER**

**Appendix II: List of Commercial Banks in Kenya**

1	AFRICN BANKING CORPORATION	NAIROBI
2	BANK OF AFRICA	NAIROBI
3	BANK OF BARODA (K) LTD	NAIROBI
4	BANK OF INDIA	NAIROBI
5	BARCLAYS BANK OF KENYA	NAIROBI
6	CHARTERHOUSE BANK LTD	NAIROBI
7	CHASE BANK (KENYA) LTD	NAIROBI
8	CITI BANK N.A	NAIROBI
9	CITY FINANCE BANK LTD	NAIROBI
10	COMMERCIAL BANK OF AFRICA	NAIROBI
11	CONSOLIDATED BANK OF KENYA LTD	NAIROBI
12	CO-OPERATIVE BANK OF KENYA	NAIROBI
13	CREDIT BANK LTD	NAIROBI
14	DEVELOPMENT BANK OF KENYA	NAIROBI
15	DIAMOND TRUST BANK KENYA LTD	NAIROBI
16	DUBAI BANK KENYA LTD	NAIROBI
17	ECOBANK	NAIROBI
18	EQUATORIAL COMMERCAIL BANK	NAIROBI
19	EQUITY BANK	NAIROBI
20	FAMILY BANK	NAIROBI
21	FIDELITY COMMERCAIL BANK	NAIROBI
22	FINA BANK	NAIROBI
23	GIRO COMMERCIAL BANK LTD	NAIROBI
24	GUARDIAN BANK	NAIROBI
25	GULF AFRICAN BANK	NAIROBI
26	HABIB BANK A.G.ZURICH	NAIROBI
27	HABIB BANK LTD	NAIROBI
28	IMPERIAL BANK LTD	NAIROBI

29	I&M BANK LTD	NAIROBI
30	JAMII BORA BANK	NAIROBI
31	KENYA COMMERCIAL BANK	NAIROBI
32	K-REP BANK	NAIROBI
33	MIDDLE EAST BANK KENYA LTD	NAIROBI
34	NATIONAL BANK OF KENYA	NAIROBI
35	NATIONAL INDUSTRIAL CREDIT BANK	NAIROBI
36	ORIENTAL COMMERCIAL BANK LTD	NAIROBI
37	PARAMOUNT UNIVERSAL BANK LTD	NAIROBI
38	PRIME BANK	NAIROBI
39	SOUTHERN CREDIT CORP.LTD	NAIROBI
40	STANDARD CHARTERED BANK (K)	NAIROBI
41	TRANS- NATIONAL BANK LTD	NAIROBI
42	UBA KENYA BANK LTD	NAIROBI
43	VICTORIA COMMERCIAL BANK	NAIROBI

Source: Central Bank of Kenya (2011). *List of commercial banks in Kenya* [Online]  
Retrieved from CBK Website: <http://www.centralbank.go.ke/financialsystem/banks/shareholding.aspx>

### Appendix III: Questionnaire on the factors driving commercial banks towards the practice of CSR.

Please take a few minutes to complete this Questionnaire. Your specific answers will be completely confidential and no organization names or respondents identities will be disclosed without full consent of the concerned

#### A) Background of respondent

Name of Respondent: \_\_\_\_\_

Rank/Position in organization: \_\_\_\_\_

Name of the bank: \_\_\_\_\_

#### B) Forces motivating the practice of CSR by commercial banks

1.) Have you heard of the Corporate Social responsibility (CSR) concept?

Yes

No

2.) Does your company have a formalized policy on corporate social responsibility (CSR) or a written code of ethics?

Yes

No

3.) If yes how was it initiated?

a) By Board of Directors

b) By Management

c) Government legislation

d) By employees

e) Other stakeholders (please specify)

4.) How do you integrate CSR objectives into the overall business strategy?

5.) Do you set explicit CSR targets alongside or integrated into your financial objectives?  
Please give examples.

6.) Do you have a specific department that handles CSR operations?

Yes

No

7.) Who has the overall responsibility for the CSR department? What is their seniority within the organization?

8.) What specific CSR projects has your organization initiated in the past one year that benefited the community at large? Please list

9.) How are funds allocated in your organization towards CSR activities?

a) As a percentage of income

b) As a fixed amount

10a.) What percentage of Net Income is used or is set aside for CSR activities in your organization?

10b.) Please indicate the amount allocated for CSR in your organization?

a) Less than Ksh 500,000

b) Kshs.500, 000- Ksh 1,000 000

c) Ksh 1,000 000- 5,000,000

d) Ksh 5,000,000- 10,000,000

e) Above Ksh10,000,000

11a.) Is there a review of the CSR activities and initiatives?

Yes

No

11b.) If yes how frequent is the review done?

a) semi - annually

b) Annually

c) bi- annually

d) On need basis

12.) Please say the extent to which you agree or accept the following statements

(Effects of CSR to the bank) on a scale of 5-1 where by 5 rep, strongly agree and 1 rep strongly disagree)

		Strongly Agree	Agree	Neither agree nor Disagree	Disagree	Strongly Disagree
A	It has improved the image of the bank					
B	CSR has caused great market share and more profits to the bank					
C	CSR has caused me to work long hours to ensure that it is enhanced					
D	The bank asks me for my input to help make decisions on CSR					
E	Besides profit making a company should also be actively engaging itself for the good of the society in					

	which it operates					
F	Am familiar with the concept of CSR and have heard of it.					

13.) Can you identify clear non – financial benefits to your organizations’ short and long term performance from your social, environmental and ethical policies? Please list

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14.) What have been the main financial and non – financial costs to your organizations from your social, environmental and ethical activities?

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15.) Why do you engage in CSR activities in your organization? (Please tick the appropriate answers)

- a) It is our competitive advantage
- b) It is part of our PR marketing
- c) It improves the company’s reputation
- d) Can help to attract and retain employees
- e) Our company considers it a moral obligation
- f) Mother company (foreign partner requirement)
- g) It is tax deductible
- h) ‘me too factor’/ others are doing it
- i) External pressure ( from government, consumer groups, environmental groups and supplier’s )
- j) Other (please specify)

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16.) Which CSR topics does your organization consider to be most important in

its operations? ? (Please tick the appropriate answers)

- a) Responsible Lending and banking practices
  - b) Environmental issues
  - c) Employee benefits/Education of employees
  - d) Transparency
  - e) Co-operation with NGO's
  - f) Co-operation with learning institutions
  - g) Equal opportunities
  - h) Government relations
  - i) Corporate givings, Donations, Financial or material support
  - j) Corporate Trust foundation
  - k) Any other (Please specify)
- 
- 

17.) What can your bank do to increase corporate social responsibility awareness and involvement among the employees?

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18). Overall, how satisfied are you with your bank on corporate social responsibility?

- Very Satisfied  Satisfied  indifferent   
Dissatisfied  Very Dissatisfied

19.) Which among the below factors derive your bank's interest in involvement in the voluntary measures of social responsibility? (Please tick the appropriate answers)

- a) Desire to influence public policy
- b) Encourage public reporting on economic, social and environmental performance
- c) Desire to minimize financial, social and legislative risks
- d) Trade and competitive concerns

- e) Help define business case for CSR
- f) any other (please specify)

20.) How do you think investment in CSR will lead to increased financial returns to your organization?

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21.) How are your CSR activities implemented in your bank? (Please tick the appropriate answers)

- a) Only monetary contributions are made
- b) Through an in-house department/committee
- c) Collaborating with a voluntary organization / NGO
- d) Involving a team of employees
- e) By External consultants

22.) Is there any attempt made to assess the impact of these activities on the target group?

- Yes
- No

23.) Does your organization report thoroughly on its CSR performance as well as its financial performance?

- Yes
- No

24a.) If yes how is it communicated? (Kindly forward the most recent copy and/or web link if available)

- a) As a hard copy report
- b) On the internet

24b.) Who are the target group for the CSR performance report?

- a) Employees
- b) The Board of Directors
- c) Management
- d) The government
- e) Other stakeholders
- f) The public

25.) Does the organization secure appropriate independent assurance of its CSR management and reporting? That is published reports are subjected to external and independent verification of their accuracy and completeness?

Yes

No

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26.) Overall, have you found the decision to act more “responsibly” generates improved long-term performance?

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27.) Within the next two or so years does your bank plan on expanding or deepening its CSR activities?

Yes

No

28.) If yes please give specific target areas.

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29.) Do you have any additional views you would like to share with us on your CSR experiences?

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Thank you for taking your valuable time to fill in this questionnaire.