ETHICS IN THE KENYAN BANKING INDUSTRY: A CASE STUDY OF NIC BANK LTD

By

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DECLARATION

THIS RESEARCH PROJECT IS MY ORIGINAL WORK, AND HAS NOT BEEN SUBMITTED FOR ANY OTHER DEGREE OF THIS OR ANY OTHER UNIVERSITY OR INSTITUTION OF LEARNING

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DEDICATION

I dedicate this project:

To my dear Wife - **Jeniffer Mumo**, Daughter - **Faith Kamene** and Son – **Frank Kioko.** I Love you all.

To my Mum – **Grace Kamene** (She made the difference at High School when I almost gave up), and Dad – **Gabriel Kiluva**

To my Late Grandmother – **Anne Waiu**

To you all, I dedicate this project.

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ABSTRACT

The study was carried out with the aim of establishing the state of ethics in the Kenyan Banking industry. It was also to determine staff and customers' perception of the ethicality of NIC Bank Limited, and to establish whether customers, middle & junior level staff, and senior management staff differ in their perception of the ethicality of NIC Bank Limited.

In order to achieve this, a uniform interview guide combined with a structured questionnaire was administered to the three classes of respondents. The respondents comprised 14 Junior/Middle level staff, 6 Senior Management staff, and 20 Customers. A mixture of random and non-random methods was employed to select respondents for the study.

Qualitative data was captured in interviewer note pads and tapes, and analyzed using content analysis. Quantitative data was captured using a 5-point likert Scale and analyzed using mean scores at all response levels namely Ethical Issues, Respondent Class and Aggregate / Study Statistics

From the findings of the study, the following conclusions can be made. First, the concept of Ethics is well appreciated in the Kenyan Banking Industry. Secondly, Customers, Junior/Middle level staff and Senior Management members of staff perceive NIC Bank Limited as an ethical Bank, characterized by unethical practices to a very little extent. Thirdly, significant differences exist in Customers', Junior/Middle level staff, and Senior Management staff perception of the ethicality of NIC Bank Limited.

The results also demonstrate that the Industry players have taken deliberate steps to deal with ethical issues in the industry. Banks have in place elaborate Human Resource policies and Codes of Ethics to guide and regulate the behavior

of its employees and directors. The Kenya Bankers Association has in place 'The Banking Code', which is a voluntary code of ethics to be adhered to by its members. The Central Bank of Kenya in its position as the industry regulator has in place measures to tame Banks should their unethical behaviors border on illegality.

From the same findings, we find that there is a whole range of ethical issues that cannot be safely ignored, not only in the Banking Industry, but also perhaps in other sectors of the economy. The Results should however be interpreted against the limitations of the study, particularly the confidential nature of the Banking industry.

CHAPTER ONE

INTRODUCTION

1.1 Background

"Because it goes to the very heart of human nature, the question of right and wrong is not a simple subject. But since it is so important to the well being of individuals, social communities, private business and the nation, it is worth some thought" (Muchene, C. 2006). The concept of ethics is as old as business itself, with some scholars tracing it to the Bible. The fourth chapter of the bible's first book puts on record a momentous question: "Am I my brother's keeper?" Today's viewpoint is that every man has a certain responsibility towards others. Narrowed down to business, the spirit finds expression through fair play, honorable dealings, and keeping one's word. It means choosing the good over the bad, the right over the wrong and the fair over the unfair.

Ethics is a universally sensitive topic that has in the recent past assumed great importance and attention in business globally. Ethics deal with human and business actions from the point of view of their being right or wrong, as a means to the achievement of man's ultimate happiness, usually in-terms of rights, obligations, benefits to society, fairness and specific virtues. Ethics is related to the notion of custom, as an acquired way of doing things, as well as to a person's natural inclination (Parvlik, 1987). It is a disposition, in which one is well or badly behaved, the principal obligation being to 'do no harm'.

Ethics as applied to organizations is simply the application of everyday moral or ethical norms to business. As put by Peil (1995), "The greatest evil is not done in dens of crime as we would like to put it. It is conceived and moved, seconded, carried and minuted, in clean, carpeted, warmed and well-lighted offices, by quiet men with white collars and cut fingernails, and smooth shaven chins".

Business ethics is an attempt to ascertain the responsibilities and ethical obligations of business professionals. Ethics in organizations is closely related to the organization values, and values are what organizations, as professionals, judge to be right. They are more than words, they are the moral, the ethical and the professional attributes of their work. Ethics is wider than Law. Being legal will not bring customers as trade depends upon goodwill in which legality is only an ingredient. For sales, the businessman depends upon the judgment of buyers while for business credit, he depends upon the reputation and the integrity he has with his banker. For his trade reputation, he depends upon the appraisal of those in the same line of business. 'Law' and 'Justice' do not cover all the 'ethics'. Ethics can therefore not be summed up in a body of rules and commandments that may be applied always and everywhere without regard to circumstances.

The Organization for Economic Co-operation and Development (OECD)(2002) observed that the practice of ethics involves a set of relationships between a company's management, its board, shareholders, employees and other stakeholders. The board of directors in co-operation with senior management is expected to align corporate activities and behaviors with the expectations that enterprises will behave in a safe and ethically acceptable manner. Investors entrust their resources to the management and board of directors believing that they are ethical, accountable and transparent.

Fama and Jensen (1983) identified the following interested parties in the performance of a bank. Shareholders are interested in the safety of their capital and the interest their funds generate as well as the growth of the business. Creditors would want to be sure that the business would be able to settle their claims. Employees are interested in the profitability and continuity of the business, as well as the opportunities for individual learning, growth and development. The Government is interested in generating revenues in form of taxes.

Customers want to be assured that they will continue getting quality products and services from the business. The Management would like to be identified with success through profitability and integrity. The management also believes that higher profits attained would earn them recognition and higher rewards.

1.1.1. Ethics in Practice.

There are three aspects of ethical behavior in organizational practice. These are: The development of the individual as an ethical person, The effect of the organization as an ethical or unethical environment and The actions or procedures developed by the organization to encourage ethical behavior and discourage unethical behavior.

Studies have shown that the bulk of an individual's ethical development occurs before entering an organization. The influence of family, church, community, and school will determine individual values. The organization, to a large extent, is dealing with an individual whose value base has already been established. This might imply that ethical organizations are those fortunate enough to bring in ethical individuals, while unethical organizations brought in unethical people (Levine, R. 2004).

While these internalized values of individuals are important, the organization has a major impact on the behavior of its members, and can have a positive or negative influence on their values. There are three qualities individuals must possess to make ethical decisions. The first is the ability to recognize ethical issues and to reason through the ethical consequences of decisions. The second is the ability to look at alternative points of view, deciding what is right in a particular set of circumstances. The third is the ability to deal with ambiguity and uncertainty, making decisions on the best information available (Levine, R.2004).

The ethical standards that one observes in the organization will have a significant effect on individual behavior. People will do what they are rewarded for doing. The organization therefore has its greatest impact in the standards it establishes for ethical and unethical conduct in its formal reward systems. Informal norms also have a strong influence on individuals' behavior, as do the actions of the leaders of the organizations. Strategic leaders must understand that their actions, more than words alone, will determine the operating values in the organization. "Yet we continue to uphold as heroes those who have been involved in unethical acts and our children are growing up in an environment where the dividing line between right and wrong has grayed to near oblivion" (Muchene, 2006).

The influence of the organizational context is underscored in a famous quote "Why be honest if honesty doesn't pay?" However, some people will still behave ethically in spite of the apparent lack of gain. Ethical behavior must be intrinsically rewarding, and most people behave so because it's the right thing to do. People are guided by their personal value systems. They will 'choose the harder right, instead of the easier wrong' specifically because of their intrinsic values of what is right (Hellman J. & Kaufmann D. 2001).

1.1.2. Ethics in Banking

The financial sector in general and the banking industry in particular are very important instruments of speedy economic growth and development. Other than financing, banks are critical organizations for stability and development of the economy. The success of banks both in the short and the long term depends on the trust and confidence between the stakeholders. Ethical values and behavior play a very important role in creating and maintaining this mutual trust and confidence (Levine, R. 2004).

Banking business is becoming more complex and the borderline between what is legitimate and illegitimate becoming more blurred (Carse, 1999). Banks should never forget the importance of ethical behavior while aiming to maximize their profits. Conventional wisdom tells us that unethical practices and profitability are inversely related and that good corporate governance usually translates to the company's long term existence and generation of profits.

Ethics in the banking sector can be described as the appropriate behavior to create mutual benefit for the stakeholders such as clients, employees, depositors and shareholders. In carrying out its business activities, the bank must aim at the goodness, rightfulness and the lawfulness of its activities. A respectable Bank is expected to have honesty, integrity, social responsibility, accountability and fairness. Banks have to make choices in gray areas of ethics and under high levels of pressure that may damage reputation and may cause financial loss (Carse, 1999). Ethics is seen as a subject, objective or a requirement to be followed for the good of shareholders, employees, customers, bankers, and indeed for the reputation and standing of the nation and its economy (World Bank, April 2003). Banking ethics is therefore honesty, impartiality, trustworthiness, compatibility to the banking regulations and transparency.

The Kenya Bankers Association has recognized the importance of ethical banking and published a booklet 'The Banking Code', which is a voluntary code that became effective in October 2001, and sets standards of ethical banking practice for banks choosing to subscribe to the code to follow when they are dealing with customers. Some of the key commitments in the code include: To act professionally, fairly and reasonably in all dealings with customers, to consider cases of financial difficulty positively and assist where possible and to make sure that all products and services meet relevant laws and regulations.

Carse (1999) identified seventeen categories of unethical behavior in banking: Defrauding government, bribery of public officials, interest fraud and float abuse, lies and deception, employee theft, insider trading, bribery of private citizens, discrimination, socially questionable activities, poor judgment in management decisions, corporate politics, unfair trade practices, industrial espionage, environmental harm, safety, conflict of interest, and invasion of privacy. However, most of these dimensions do not fully overlap with the issues under this study.

The Kenyan banking sector is trying to survive in an unstable environment. During the years 1992 and 2002, the sector went through a crisis with the collapse of nearly 20% of the registered commercial banks in the country. Major shareholders, members of executive boards and top managers of most of the banks were charged with exercising potentially harmful practices, causing bank losses, and failing to protect the rights and interests of depositors.

1.1.3. The Kenyan Banking Industry

Six years ago (1999), there were 67 financial institutions in Kenya out of which 53 were commercial banks, 8 non-bank Financial Institutions (NBFI's), 2 mortgage finance companies and 4 building societies. There has been a constant reduction in this number as a result of bank failures, mergers and a few acquisitions. Bekaert & Harvey (2002) note that banking crises in Kenya date back to mid 1980's. Among the causes of bank failures in Kenya were politically motivated loans, insider lending particularly to politicians, and inadequate information leading to inadequate supervision. Brownbridge (2002) points out that in 1993, around 11% of the total assets of Banks and NBFI's were held by the failed local Banks, among them Delphis Bank, Trade Bank, Meridian Biao Bank and Pan African Bank. According to Kane and Rice (1998), the major causes of these failures were related to poor Corporate Governance especially ethical violations adding, "Behind every Bank failure is a poor management decision".

The country still boasts of a well-diversified financial sector, comprising of 43 operating commercial banks, 23 banks under liquidation by the Deposit Protection Fund, 2 non-bank financial institutions, 2 mortgage finance companies, and 48 forex bureaus. In terms of ownership, there are 32 indigenous banks, 5 locally incorporated foreign banks, and 6 foreign bank branches. Other institutions of a financial nature include 4 building societies, 37 insurance companies, 57 hire purchase companies, and some 2,670 savings and credit co-operative societies. A list of operating commercial banks as at 08.08.2006 is included under appendix 5.

1.2 The Research Problem

The importance of ethical behavior in business cannot be over emphasized since business depends as much on reputation as on performance. Business ethics is easily being sacrificed for profits. James Wolfenson, former president of the World Bank (PSCGT, 2002) cited that the need for proper governance of companies would become as crucial as the proper governance of countries. The banking sector, being an intermediary between the depositor and the creditor must be more sensitive to the ethicality of its transactions. Banking business is becoming more complex and the borderline between what is legitimate and illegitimate is now more blurred. Banks have to content with numerous ethical 'gray areas' in their day-to-day decision-making.

In almost every aspect of business, managers face many ethical decisions. Should they buy from suppliers who use child labor or subject their workers to inhuman conditions? Should they do business with those who do not pay the right amounts of duties and taxes to the State? Should they pay 'facilitation fees' and hence participate in corruption? And what about financial contributions to political parties? The list of decisions and the options available is endless (Muchene, 2006). There was therefore need to shed light on the expectations of stakeholders, to guide banks in their decision-making.

Banking business depends on trust, necessitated by the complexity of the transactions and the vulnerability of customers due to imperfect information. An ordinary bank customer does not have the opportunity and adequate knowledge to understand most banking transactions. Due to this, more social responsibility towards the actors of community (Government, Customers, Shareholders, and Employees) is demanded from financial intermediaries such as banks.

In its newsletter, Guidelines on Corporate Governance (2003), the Kenyan Capital Markets Authority (CMA) stated that there is great concern as to what is going on in corporate boardrooms that has caused investors, creditors and employees to incur significant financial loses. It was necessary for research in this area in order to make recommendations on the way forward.

World Bank (2004) in its paper 'Policy Research Working Paper 3404' stated that on the one hand Banks effectively mobilize and allocate funds. This lowers the cost of capital to firms, boosts capital formation and stimulates productivity and growth. On the other hand, when Bank insiders exploit the Bank for their own purposes, this can increase the likelihood of Bank failures and thereby curtail corporate finance and economic development. Banks have an overwhelmingly dominant position in the county's financial system, and are an extremely important engine of economic growth (King & Levin, 1993).
Martin Brownbridge (March 1998), in his paper No.132 on 'The causes of Financial Distress in local banks in Africa and implications for prudential policy'

lamented that some of the local banks in Africa had been set up with less ethical motives in mind. The extent of insider lending has been considerable, suggesting that some of these local banks were set up to enable their owners to mobilize funds for their other business ventures.

When banks are declared insolvent, many institutions and individuals lose their money. This is according to Charkham (2003) who observes that banks are different from the generalities of companies in that their collapse affects a wider circle of people and moreover may undermine the financial system itself, with serious effects on the entire economy. Based on these views, ethics in banking actually affect the very well being of our lives. To minimize negligence and financial loss to corporations, investors, creditors and employees, this research was important in order to make recommendations on the way forward.

The costs of Bank failures are certain to be substantial. A statement in the Kenyan parliament in October 1995 revealed that the Central Bank of Kenya lost a total of Ksh.10.2 billion (equivalent of 3.8 percent of 1993 GDP) from frauds involving the 'political banks' (The Economic Intelligence Unit, 1995). The CBK had provided Ksh.17.8 billion (equivalent to 6.6 percent of GDP) in liquidity support to three of the failed banks in 1992. All these morality concerns and political banks border on Ethics. Are Boards of Directors and Bank employees so ignorant of what is ethical and what is not? Is it ethical to expose depositors' funds to political risks? This was enough reason to study the ethical phenomenon in the Kenyan Banking Industry.

Lastly, it is becoming increasingly clear that organizations can no longer operate as lone rangers, doing as they please, as various watchdogs are constantly on the lookout for violations of accepted norms.

The notorious collapse in 2001 of Enron, (one of America's largest companies), has focused international attention on company failures and the role that ethics need to play in preventing recurrence (Australia Journal of Management – 1991). Ethics and Corporate governance have become common in corporate circles in recent times, generating a whole new concept of corporate accountability to employees, governments, regulatory bodies, other organizations, customers, suppliers, and the environment.

Wambua (1999) carried out a study of Corporate Governance practices in the banking industry in Kenya and found out that there was overwhelming interest on the need for care of shareholders, strategic planning and resource allocation. The study also reported that majority of the Banks met the minimum ethical standards, and boards of directors and top management appeared to exhibit appropriate concern for ethical responsibility. Wambua's study was largely meant to document the broad corporate governance practices in the industry. Though carried out within the wider financial sector, Wambua's study did not fully address the specific ethical problems in the industry, leaving a research gap.

In 2004, Mburu M.N. studied corporate governance practices by a case of The Kenya Union of Savings and Credit Co-operatives Limited. She investigated the state of corporate governance in general within the co-operative movement. She did not go deep into the facets of corporate governance, key among them Ethics. The Banking industry is also a unique industry different from the co-operative movement, that calls for a tailor made study.

Mucuvi E.M. (2003) carried out a similar study through a survey of corporate governance practices in the Kenyan motor vehicle industry. Mwangi A.K.G. (2002) also carried out a similar study by surveying corporate governance practices among insurance companies in Kenya.

The common feature of all these studies was their generalization of corporate governance practices in various Kenyan industries. The ethics arm of corporate governance has never been given due attention, safe for what appears in textbooks, dailies and management journals. This study was therefore designed to fill the gap by seeking to determine the level of ethical knowledge and violations in the Kenyan banking industry. The study will shade light on the need for commercial banks to uphold high ethical standards 'for their own good' and for the good of all stakeholders.

1.3. Objectives of the Study.

1. To establish the state of ethics in the Kenyan Banking Industry.
2. To determine staff and customers' perception of the ethicality of NIC Bank Limited.
3. To determine whether customers, middle & junior level staff, and senior management staff differ in their perception of the ethicality of NIC Bank Limited.

1.4. Significance of the study.

It is anticipated that the study will provide valuable information to the following groups of people:

1. To the Employees, Management, Directors and Customers of NIC Bank Ltd, by highlighting the state of ethics within the Bank. Typical ethical problems have been analyzed and recommendations made for improvement.
2. To the Banking industry, there shall be a better appreciation of the need for ethical practices and form a blue print upon which banks can practice ethics. The study provides a starting point for stakeholders such as owners and directors of banks interested in enhancing ethical practices.

3. To the Government and in particular the ministry of Finance, the study could form a basis for future review of the Banking Act, and the institution of further regulatory issues in the industry. It will also assist in formulating future policies and regulations affecting ethics in Kenyan Banks.
4. To the Kenya Bankers Association, the study could be instrumental in the impending revision of The Banking Code.
5. To Academicians, the study seeks to improve the body of knowledge about ethics in the banking industry and forms a basis for further study.

1.5. NIC Bank Limited

National Industrial Credit Bank Limited was incorporated in Kenya on 29th September 1959 as a joint venture between Mercantile Credit Limited and Standard Bank. It was among the pioneer non-bank financial institutions formed to provide hire purchase and installment credit finance facilities in Kenya. Barclays Bank (K) Limited (BBK) acquired 51% of NIC Bank's total shares through the acquisition of Mercantile Credit Limited in the 1970's and thereafter Standard Bank's shareholding in the 1980's. Between 1993 and 1996, BBK divested its shares, selling 80% to the public in 1994, and the remaining 20% in 1996 to the First Chartered Securities Group (F.C.S). In order to effectively diversify into mainstream commercial banking, NIC Bank merged, in November 1997, with African Mercantile Bank Limited (AMBANK) through a share swap. As a result, total shareholders funds rose to Ksh 1.7 billion in 1997 achieving a 41% growth over the previous year. This makes NIC Bank one of the highest capitalized banks in Kenya and provides a solid base for future growth. The bank has a capital base of more than Ksh 2.3 billion, a very high capital adequacy ratio and an excellent liquidity position.

Today, NIC Bank's shares are quoted on the Nairobi Stock Exchange with approximately 20,000 shareholders. Corporate investors hold 65% of the equity.

NIC Bank applies high standards of corporate governance with the full support of its Directors and major shareholder, F.C.S. At the last Annual General Meeting of the Shareholders held on 27th May2005, the Shareholders passed a Special Resolution to change the banks' name from "National Industrial Credit Bank Limited" to "NIC Bank Limited". The Bank has six full-fledged branches, five in Nairobi at NIC House, City Center, The Junction - Ngong Rd and The Mall – Westlands, and one in Mombasa, with the Head Office located at NIC House, Masaba Road, Nairobi. It has in addition eighteen MOVE zones, which are exclusive personalized retail outlets put up to service the Bank's highflying MOVE product. NIC Bank is positioned as a well-established commercial bank in Kenya whose principal activities are the provision of banking, financial and related services. It had a workforce of 243 as of August 2006.

NIC Bank Ltd falls under the second tier in the banking industry classification, its peers being CFC Bank, Commercial Bank of Africa, Diamond Trust Bank, I&M Bank and Stanbic Bank Ltd. First tier banks include Kenya Commercial Bank, Barclays Bank, Standard Chartered Bank, National Bank and recently The Co-operative Bank of Kenya. The bulk of the Banks fall under the third and fourth tiers, comprising small and medium sized banks like Prime Bank, Bank of Baroda, Fina Bank, and Charterhouse Bank.

For the sake of this study, NIC Bank was considered representative of the industry by virtue of its position in the second tier, to represent the small and medium sized banks as a local bank on the one hand, and the multinationals as a public limited liability company on the other.

CHAPTER TWO

LITERATURE REVIEW.

2.1. Key Definitions

2.1.1. Bank

According to the Kenyan Banking Act (March, 2004), a 'Bank' is a company, which carries on, or purposes to carry on banking business in Kenya, and includes the Co-operative bank of Kenya, but does not include the Central Bank of Kenya.

2.1.2. Commercial Bank

The American Dictionary of the English language (2004) defines a 'Commercial Bank' as a bank whose principal function is to receive demand deposits and to make short term loans, while world net (2001) defines it as a financial institution that accepts demand deposits and makes loans and provides other services of a financial nature to the public.

In the context of commercial banking business, the following ethical practices have been defined:

2.1.2.1. Honesty – Implies openness and truthfulness of the Bank to its clients, employees, shareholders, competitors, and the other organizations that it interacts with (The Kenya Banking Act, 2005).

2.1.2.2. Impartiality – Entails exercise of fairness and uniformity in dealings with stakeholders (PSCGT, 1999). Does the bank differentiate services between its clients, employees, and other stakeholders?

2.1.2.3. Trustworthiness – Entails carrying out its activities timely, accountably, and accurately, and informing its clients accordingly (PSCGT, 1999).

2.1.2.4. Transparency – Entails giving clear and easily understandable information about the Bank's products, services, risks and benefits to its clients in an honest manner (The Banking Code, 2001).

2.1.2.5. Bribery – Occurs when a person unlawfully and intentionally offers a Bank employee any item of value in return for certain action or inaction by the employee (The Kenya Banking Act, 2005).

2.1.2.6. Confidentiality – Entails breach of trust or dishonor of the confidential nature of banking operations (The Banking Code, 2001).

2.1.2.7. Core labor rights and dignity at work – Entails use of forced labor, respect for the rights of employees to join legally recognized labor unions, and harassment at the workplace (The Banking Code, 2001).

2.1.2.8. Fair remuneration – Ensures that working hours and remuneration are reasonable and comparable to those offered by similar employers (PSCGT, 1999).

2.1.2.9. Opportunity for development – This is the recognition of the value that employees create and rewarding them with opportunities for personal and career development. It is the provision to employees of equal opportunities regardless of their gender, age, marital status, sexual orientation, disability, race, religion or nationality (PSCGT, 1999).

2.1.2.10 Corporate Social Responsibility – These entail the bank's contributions to the welfare of society (PSCGT, 2000).

2.2. Corporate Governance and Ethics – The Relationship

The Private Sector Corporate Governance Trust (1999) defines Governance as the manner in which power is exercised in the management of economic and social resources for sustainable human development. Corporate Governance therefore refers to the manner in which the power of a corporation is exercised in the stewardship of the corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder and stakeholder values in the context of its corporate mission. The pillars of good corporate governance include: Accountability, Democratic Values, The sense of right and wrong, Efficient and effective use of resources, Protection of Human rights and freedoms, Probity and Integrity, Responsibility and Transparency (PSCGT, 1999).

Ethics is one of the overriding facets of good corporate governance. Muchene (2006) understands business ethics as simply carrying out one's business in a morally correct and honorable manner. It is all about doing the right thing, in the right way, for the right reason, perhaps easier said than done. In fact, all the above pillars of good corporate governance are replicated in Ethics.

Ethics and Governance can be viewed as two sides of the same coin. It is not possible to talk of Governance without talking of ethics, and vice versa.

2.3. The History of Ethics

Salacuse and Braker (2002) state that the concept of Ethics in business seems to have gained prominence in the mid to late 1970's, originally in the United States of America. This was in the wake of the Watergate scandal and the discovery that major American corporations had engaged in secret political contributions and corrupt payments abroad. The World Bank (1999) observes that business ethics have evolved over time often in response to corporate failures. In the United Kingdom, emphasis on corporate governance and ethics can be traced back to the early 1990's occasioned by a number of corporate scandals, particularly companies linked to the late Robert Maxwell, which necessitated the setting up of the Cadbury Committee in 1992.

Africa and Kenya have their side of the story, and there are documented efforts in their endeavor to promote high ethical standards. Various private and public organizations, institutional investors and stock markets have in the past decade been instrumental in promoting ethics by supporting ethical reforms. A significant effort has been the issuance of ethical guidelines (also called principles, policies, recommendations or codes of best practice). For instance, the famous Kings Committee of 1992 chaired by Mervin King to promote business ethical standards in South Africa.

The Kenyan Capital Markets Authority, the regulator of the Nairobi Stock Exchange, has developed guidelines for good corporate governance and ethical practices by quoted companies. Additionally, the Central Bank of Kenya demands and enforces ethical practices from licensed banks and other financial institutions for the sake of financial stability and sustainability. There are other individual institutional investors that have contributed to the exercise of ethics through the preparation of ethical codes, reports and statements of good corporate governance.

2.4. Models of Ethics.

Various interpretations and outlook on the concept of ethics exist depending on the firm's objectives, mainly focusing on shareholders' and stakeholders' interests. Key models used worldwide have their origins in Europe and America.

Salacuse and Braker (2002) observe that in the UK and the USA, the principal focus is the relationship between the three primary participants in the firm namely the Shareholders, the Board of Directors and the Company Management. The image of ethics in the USA is different from Europe. For example, business ethics in the USA concentrates on the rights of shareholders. In France and Germany where share ownership is not as well dispersed among the public as in the USA, the central preoccupation of ethics is the rights of the community in relation to the corporation itself.

2.5. The Theoretical Framework

There are a number of theories to explain and analyze the concept of ethics. According to research findings (http.//media.wiley.com), some of these include the **Agency theory** borrowed from the fields of finance and economics, the **Transaction Cost theory** borrowed from economics and organization, and the **Stakeholders theory** borrowed from sociology. Although there are major differences among the various theories as each of them attempts to examine the concept but from different perspectives, they do share some significant commonalities. Other approaches to the study of ethics include the **Organizational theory** and the **Stewardship theory** (Tricker, 1998).

2.5.1. The Agency Theory.

The agency relationship involves a **principal** (the owner or shareholder) and an **agent** (a manager or director or employee) (Jensen and Meckling, 1976). The principal hires or retains the agent because of the agent's talents, knowledge and capabilities to increase the value of an asset. In order to increase the value of that asset, all or some of the principal's decision making rights over that asset must be transferred to the agent, for a finite period of time.

Agency theory assumes that the interests of owners and managers or board members (principals and agents respectively) are not ex-ante, aligned (Jensen and Meckling, 1976). Managers or directors, for instance, want to safeguard their own wealth, power and prestige while safeguarding their reputation, while shareholders want to maximize the value of their assets. These interests often collide, as managers and directors can take actions that increase their power, influence or prestige without necessarily increasing the value of the shareholder's equity. Ethics deal with the management of this collision.

There are two kinds of managerial failures that keep them from acting as perfect agents of the shareholders namely: Failures of managerial competence including genuine mistakes and mis-calculations that relate to unwitting mistakes in the discharge of managerial control, and Failures of managerial integrity including lies, fabrications, embezzlement and self dealing that relate to willful behaviors on the part of managers that negatively impact on the value of the firm's assets.

Agency theory is concerned with devising structural and behavioral measures that minimize inefficiencies in the contractual structure of the firm that arise from imperfect alignment of interests between principals and agents.

In the Agency theory, the essence of authority, accountability, and stewardship is shared in the explanation of the concept of ethics (Walter and Turnbill, 2002). Jensen and Meckling (1976) view ethics as a classical agency problem, arguing how corporate / Bank managers could, as agents of shareholders be induced to manage corporate / Bank assets in the best interests of their principals. The separation of ownership and control has given rise to agency problems whereby management operates the firm in their own interests, as opposed to shareholders interests (Jensen & Meckling, 1976: Fama and Jensen, 1983).

For instance, the top managers of the infamous Enron Corporation emerged from the collapsed firm with substantial financial gains, while the shareholders and stakeholders sustained huge losses (Salacuse & Braker, 2002). This shows the common problem that can result from the divorce of ownership from the control of banks (the Agency problem). Ethical considerations are thus vital to protect the interests of shareholders and other stakeholders. It is thus evident that the concept of ethics has roots in the Agency theory.

In finance, the basic assumption is that the primary objective for companies is shareholder wealth maximization, which is not necessarily the case in practice. It is likely that company managers tend to pursue their own personal objectives such as high salaries and bonuses. Adam Smith in his book, The wealth of Nations (1937) observes that "Directors of public companies, being managers of peoples' money cannot be expected to watch over it with the same anxious vigilance and zeal with which the owners of a private company frequently watch over their own. Negligence as a result must always prevail, more or less in the management of such a company".

In violation of the agency theory, managers could divert value from the bank into their own hands, they could use the bank to transfer funds to their own accounts, influence employment of their relatives in the bank, or have the bank buy supplies at high prices from entities that they control. More transparently, they could pay themselves high unjustifiable salaries.

Cheol (2002) argues that if the board of directors remains independent of management, it can serve as an effective mechanism of curbing the agency problem. The board should act as supervisors of corporate managers and carry out the tasks susceptible to the agency problem such as setting executive salaries and allowances, and even getting involved in the hiring and firing of employees.

From the above literature, it can be deduced that the agency theory holds managers as custodians of the corporation and its operational activities. The manager's responsibility is to ensure shareholders' wealth maximization. The agency theory makes it clear that there exists an intrinsic conflict of interest between management and the shareholders. Managers will not maximize the shareholders' wealth unless appropriate governance structures are put in place in form of Codes of ethics and policies. There is need to preach ethics and good corporate governance to induce corporate executives to manage assets in the interests of shareholders.

2.5.2. The Stakeholders' Theory

This theory holds that apart from furthering the interests of shareholders, the corporation also has the objective of advancing the interests of other groups. Indeed, Levine, R. (2004), maintains than companies are no longer the instruments of shareholders alone, but exist within the society. Companies therefore have responsibility to all participants who may include employees, suppliers, creditors, and the community at large.

Director's are not accountable to any of these groups, but must take full account of the interests of these groups for the sake of the success of their companies (Charkham, 2003). According to Hall and Khurana (http.//media.wiley.com), the stakeholder's theory has developed gradually since the 1970's. The foundation for the theory is that companies impact on society pervasively. Companies should therefore discharge accountability to many more sectors of the society than exclusively shareholders.

2.8. Moral Hazard and Adverse Selection.

Moral hazard is a concept with much relevance to a variety of principal-agent relationships characterized by asymmetric information. The moral hazard discussed in this paper concerns the adverse incentives of bank owners to act in ways which are contrary to the interests of the banks' creditors by undertaking risky investment strategies such as lending at high interest rates to high risk borrowers which if unsuccessful would jeopardize the solvency of the bank.

Bank owners have incentives to undertake such strategies because with limited liability, they bear only a portion of the downside risk but stand to gain, through higher profits, a large share of the upside risk. In contrast, the creditors gain little from the upside risk but bear most of the downside risk. Moral hazard on bank owners can be aggravated by a number of factors. A general rise in deposit rates would for example induce banks to adopt more risky investment strategies. Secondly, the expectation that the Government will bail out distressed banks may weaken incentives on bank owners to manage their asset portfolio more prudently. Moral hazard is also related to bank capital. The owners of poorly capitalized banks have little of their own to lose from risky investment strategies. By implication, financial distress in the bank itself worsens moral hazard, because as the value of the bank's capital falls, the incentives on its owners to pursue strategies that might preserve its solvency are reduced.

For similar reasons, intensified competition in banking markets can also encourage moral hazard, by reducing the present value of a bank's future profits (Basel Committee, 1999). Moral hazard can be checked by strict regulation and prompt action to close banks as soon as they become insolvent, but regulatory authorities are often pressured to exercise delay in enforcing regulations or closing insolvent banks (Brownbridge M., 1998). Public sector banks have faced an added set of problems, mainly involving political interference in the allocation of credit and the pursuit of non-commercial objectives (Harvey, 1993).

The severity of bad debt problems in Kenya and the World over is largely attributable to problems of moral hazard and adverse selection. Moral hazard contributes to the highly imprudent and in some cases fraudulent lending strategies of many of the failed banks. A large share of their bad debts is due to insider loans, often unsecured, in high risky ventures, decisions driven by other than prudent commercial considerations.

2.9. The Role of Ethics in Business

Ethics is important to any corporation as well as to the country at large. The ability of countries to attract foreign capital is affected by their system of corporate governance and ethics. Individuals and institutional investors will demand a higher premium for their capital from enterprises in countries with poor ethical history and without effective systems of corporate governance. On the other hand, investors will pay significant premiums for companies that are perceived to be ethical. This is in agreement with a survey carried out by Felton (1996) where he observed that good ethical practices really make a difference to stock prices. Consequently, local and foreign investors will pay a premium for organizations with good ethical track records.

Ethical management brings in additional profits to business. The firm that establishes a reputation for honesty and for fair dealing beyond the necessities of the law has a business asset of great value and profit. Only that business which has service as its objective can win the confidence of the public, and only that business which wins the goodwill of the public can realize for any length of time the financial return which makes its existence possible. If business is done on the principle 'let the buyer beware', it is not likely to last long. The seller or provider of services is required by the very nature of today's world commerce to make his goods and services of such quality as to ensure the confidence of the buyer (Wither ell, B. 2002).

The PSCGT report entitled 'Principles of Corporate Governance' dated April 1999 stated that the degree to which corporations observe the basic principles of good corporate governance is an increasingly important factor for investment decisions. Of particular relevance is the relation between ethical practices and the increasingly international character of investment. International capital flows enable companies to access financing from a much larger pool of investors. If companies are to reap the full benefit of the global capital market, and if they are to attract long-term capital, corporate governance practices must be credible and well understood across the border. Even if companies do not rely primarily on foreign sources of capital, adherence to ethical practices will help improve the confidence of domestic investors, may reduce the cost of capital, and ultimately induce more stable sources of financing.

The Capital Markets Authority Brochure (2002) further outlined the importance of ethics that include encouraging and allowing better resource allocation, encouraging savings and investments, making corruption more difficult, and reducing vulnerability to economic crises. Ethical practices promote efficient use of resources both within the company and in the larger economy. It should ensure that managers who do not put scarce resources to efficient use or are corrupt are promptly replaced.

2.10. Ethics and the role of the Board of Directors

Unless the Board of Directors (BOD) is efficient and cautious, managers may not demonstrate the necessary commitment in pursuing shareholders interests. The board of directors must constantly keep in mind the capacity of those to whom they have entrusted authority and the framework for checking its sound and sensible use (Charkham, 2002).

The Basel Committee on banking supervision document (1999) stated that the banks' BOD should appoint the CEO and at least participate in the appointment of senior management, take responsibility for their actions and serve the legitimate interests of the shareholders. Hence the roles and functions of the BOD can be summarized in the following ethical guidelines (KCMA, 2003): Exercising leadership, integrity and sound judgment in directing the corporation so as to achieve continuing prosperity and act in the best interest of the enterprise while respecting the principles of transparency and accountability.

2.11. Ethical Responses

According to Carse D. (1999), organization members have only three choices when confronted with unethical behavior. **Exit** is the most direct response. If you cannot live with unethical behavior, leave. Exit is not only a direct response but also a final one, with serious personal and organizational consequences. In leaving, employees give up the ability to influence the organization directly.

When considering exit, one would ask whether they could have had more impact by remaining in the organization and trying to change it from within.

Voice is a second option, which means expressing discomfort with and opposition to the observed unethical behavior. The problem with this choice arises when supervisors and senior management condone the unethical behavior, or are its source. One may also choose to go public, to engage in 'whistle blowing'. This may be risky as it can lead to reprisals with negative consequences depending on the commitment of the organization to high ethical standards and on the willingness to encourage whistle blowing in its own best interests. Many organizations have shown commitment to dealing with unethical individuals and maintaining high ethical standards by establishing procedures for anonymous reporting of ethical breaches and protecting whistle blowers.

Loyalty is the final response to unethical behavior. This is the alternative to exit where instead of leaving, the individual remains and tries to change the organization from within. Loyalty thus discourages or delays exit without causing public embarrassment or damage.

Carse (1999) maintains that both exit and voice must exist for continued organizational effectiveness. Additionally, an organization cannot maintain high ethical standards without mechanisms for eliminating unethical behavior. Loyalty is not always a virtue, and should be predicated on the organization's demonstration that it is worth of loyalty. If the organization condones unethical behavior, it relieves the individual of any responsibility to be loyal.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter explains the methodology used to conduct and report the research. In his definition of research methodology, Leedy (1993) states that it is the approach by which the meaning of data is extracted and it is a continuous process. The research methodology gives the direction to follow to get answers to issues that are of concern. According to Wiersman (1986), development of a strategy for conducting research is another step after identifying a research problem and the completion of some background literature review. In the same thought, this study discusses the following: The research design, the population to be studied, the sampling strategy, the data collection process, and the instruments to be used for collecting and analyzing data.

3.2. Research Design.

The Research Design according to Cooper and Schindler (2003) provides answers to questions such as these: What techniques will be used to collect data? What tools will be used? How will time and cost constraints be dealt with? Wiersman (1986) adds that another purpose of a research design in a study like this one is to help control and give meaning to the study variables.

This study integrated both qualitative and quantitative methods. The quantitative methodology dealt with numerical data relevant to the study while the qualitative methodology dealt with non-numerical data. The approach to the study was 'descriptive', which was considered the most appropriate method for studying the state of ethics as it developed a picture situation and explained certain conditions. Furthermore, the descriptive study attempted to show and document current conditions or attitudes, to describe what existed at the moment in the given context.

The research was conducted through a case study. A case study was preferred because it enabled the researcher to have an in-depth understanding of the structure and existing ethical patterns within the banking industry. The case study design was also most appropriate as it provided focused and detailed insights to the concept of ethics that might otherwise have been unclear.

The importance of a case study was emphasized by young (1960) and Kothari (1990) who were in agreement that a case study is a very powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study. It is a method of study that drills down rather than cast wide.

Banks are highly secretive institutions and suspicious of any in and out flow of information. Ethics is considered a sensitive topic as it has a direct bearing on the integrity and the very survival of a bank. In fact, members of staff are expressly cautioned by way of taking 'oaths of secrecy' not to divulge information about their institutions. The researcher stood a privileged position in being able to get both primary and secondary data from NIC Bank Ltd. A case study of NIC Bank Ltd as opposed to a survey was also considered appropriate due to the near homogeneity of banking practice across the industry.

3.3. Data Collection

Both primary and secondary data were collected

3.3.1. Primary Data

Mugenda & Mugenda (2003) described primary data as direct descriptions of any occurrence by an individual who actually observed or witnessed the occurrence. Primary data was collected from 6 (six) senior management staff on the one hand, and 14 (fourteen) middle level and junior level staff of the bank on the other, to give an ethical picture from the side of the Bank. Senior management staff articulated and presented the official position, the views of the board of directors. Middle and junior level staff revealed the situation on the ground, and were the true judges of policy implementation.

A neutral position was sought by interviewing 20 (twenty) bank customers. Interview guides (Appendices 1, 2 and 3) with open-ended questions combined with a structured questionnaire were used. This enabled oral administration of questions in a face-to-face encounter, therefore allowing collection of in-depth data. A tape recorder was used to record responses from four of the six senior management staff interviewed. These four were considered key respondents, but impatient by virtue of their positions. Some of their responses are quoted verbatim elsewhere in this report.

A sampling procedure was employed to select the 40 interviewees. According to Cooper and Schindler (2003), the basic idea of sampling is to select some of the elements in the population so that we may draw conclusions about the entire population. They cite further reasons for sampling as lower cost, higher speed of conducting research, and greater accuracy of results.

Employee respondents at both levels were selected purposively from across the various departments of the bank namely: Operations, Finance, Marketing, Information Technology, Risk Management, Administration, Credit, Human

Resources, Corporate and Personal Banking. Customer respondents were selected using multi-stage sampling. A number of customers were selected at random from the bank's customer master list. Respondents were then purposively selected from the random list depending on availability, and the possibility of co-operation.

Cooper and Schindler (2003) argued that purposive sampling (also referred to as judgmental sampling) occurs when a researcher selects respondents to conform to some criterion, dropping those that do not meet the criterion.

Interviews are a powerful and useful tool for social science research as observed by Kerlinger (1993). They help confirm and clarify some items, allowing interactions with interviewees in order to make observations. However, interviews have one main disadvantage: The researcher's presence and participation may intimidate the interviewee and bias the responses (Creswell, 1994). This shortcoming was compensated in this research by content analysis of various bank publications.

3.3.2. Secondary data

Mugenda and Mugenda (2003) defined secondary data as any publication by an author who was not a direct observer or participant in the events described. Secondary data has the key advantage of objectivity or the absence of bias, as it was not collected with particular study in mind. It however suffers the disadvantage of irrelevance, and may also not be readily available.

Secondary data was collected from various sources including the bank's website (www.nic-bank.com), procedure manuals, policy manuals, organization charts, board minutes, codes of conduct for staff, current and past strategic plans, audited accounts, The Kenya Bankers Association code of ethics, Central Bank of Kenya publications, various Internet websites, books and publications.

3.4. Data Analysis.

Most of the data collected was qualitative, which was analyzed using conceptual content analysis according to the three objectives of the study.

Quantitative data captured through the structured questionnaire was first coded for ease of classification. Data was then summarized and analyzed according to the identified study areas of ethics namely: Dishonesty, Bribery, Gifts and Entertainment, Conflict of Interest, Lack of Confidentiality, Insider Trading, Exorbitant Charges, Illegal Activities, Misuse of the Banking System, Unfair Competition, Poor Quality of Service, Poor Disclosure of Information, Misappropriation of Funds, Disrespect for Labor Rights and Dignity at Work, and Poor Corporate Social Responsibility.

Content analysis of annual reports and financial statements also helped confirm and clarify some items that may have been missed in the interviews or not well articulated. Content analysis was deemed to be an appropriate means of analyzing interactions in addition to its ease of reference and interpretation by the potential beneficiaries of this study. This method also guard against selective perception of the content. This method was successfully used in the past to analyze written, audio and video data from secondary sources by Mbogo (2003), Nyamache (2003) and Mutuku (2004).

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

4.1. Introduction

This chapter is divided into four sections. The first relates to the sample statistics, a presentation of responses. Sections two, three and four relate to objectives one, two and three respectively. A total of forty (40) interviews were conducted spread among six top management staff, fourteen middle and junior level staff, and twenty customers of NIC Bank Limited.

4.2. Section one: Sample Statistics

The interviews were conducted from 19th to 30th June 2006. Respondents were selected purposively to take care of the different Bank departments, gender, age, educational background and availability of respondents among others. The researcher had to make a few substitutions to the original list of respondents to cater for emergencies over the period of the study. For example, the Executive Director (a key senior management staff) abruptly proceeded for annual leave a day to his scheduled interview. It was also not possible to interview the Head of Human Resources who was out for training on mid-year staff performance evaluations over the entire period of the interviews.

4.2.1. Demographics

The sample demographics considered in the study included gender, age, length of service, length of customer-bank relationship, and marital status. The findings were as per tables 1 to 4 below:

4.2.1.1. Table 1: Distribution of Respondents by Gender

Gender	Frequency	Percentage (%)	Cumulative Percentage (%)
Male	24	60	60
Female	16	40	100
Total	40	100	

From the findings represented in Table 1 above, 60% of the respondents were male while the rest (40%) were female.

4.2.1.2. Table 2: Distribution of Respondents by Age

Age Bracket	Frequency	Percentage (%)	Cumulative Percentage (%)
21-30	8	20	20
31-40	21	52.5	72.5
41-50	8	20	92.5
51 and above	3	7.5	100
Total	40	100	

Most of the respondents (52.5%) were between 31-40 years as per table 2 above. Those below 30 years were 20%, mainly from the Bank's junior staff. Another 20% were between 41 and 50 years old. The rest (7.5%) were aged 51 years and above, mainly customers and senior management staff.

4.2.1.3. Table 3: Distribution of Respondents by Marital Status

Marital Status	Frequency	Percentage (%)	Cumulative Percentage (%)
Married	22	55	55
Single	18	45	100
Total	40	100	

Most of the respondents were married (55%), mainly customers and senior management staff. The rest 45% (singles) were mainly drawn from junior and middle level staff, and a sizeable number of customers.

4.2.1.4. Table 4: Distribution of Respondents by Length of Relationship (Customer / Employment) with NIC Bank Ltd

No. of Years	Frequency	Percentage (%)	Cumulative Percentage (%)
Less than 5	18	45	45
5 - 10	16	40	85
10 - 15	4	10	95
Over 15	2	5	100
Total	40	100	

Majority of the respondents (45%) had less than 5 years relationship with the Bank, mainly drawn from junior members of staff and a number of customers who form the bulk of NIC Bank's retail banking market (MOVE).

40% had 5-10 years with the Bank, mainly Asset Finance customers and some middle level and senior members of staff. The 10% with 10-15 years and the 5%

with over 15 years relationship with the Bank were mainly very loyal customers and some senior home-grown members of management staff.

As can be seen from tables 1-4 above, the study had a fair balance of key demographic factors. Respondents were also fairly distributed in respect of key demographics.

4.3. Section Two

4.3.1. The State of Ethics in the Kenyan Banking Industry

From the responses received, NIC Bank Ltd recognizes the importance of good corporate governance and ethics in particular and generally considers it a key factor in attaining fairness for all stakeholders and achieving organizational efficiency. The Bank also recognizes that a Code of ethics, like laws, cannot substitute for a sense of honesty, fairness and decency. Ultimately, the ethical conduct of the affairs of the Bank depends upon the understanding and judgment of its staff. The Bank expects that the actions of its staff reflect the ethical standards of the Bank.

In the words of a key senior member of staff, the Bank will seek to manage its business in accordance with good corporate governance principles, upholding the highest ethical standards. He adds "during the performance of our duties to deliver retail and corporate banking services to individuals and businesses in our community, it is necessary to interact with customers, suppliers and professional groups such as attorneys, accountants and insurance agents. These groups place their trust in us and accordingly we have the responsibility to keep this trust and be in strict compliance with all applicable laws and regulations. We accomplish this by consistently demonstrating honesty, integrity, and ethical behavior in all our interactions".

In the words of another senior member of staff, "Banking entails the safe keeping of client's personal financial information. There is no profession where honesty, integrity and high standards of conduct are more important. All representatives of the Bank must act in a responsible and ethical manner and must disclose all real or potential influences that may result in their loss of objectivity".

In a fresh review of its ethical status, the bank reveals a growing number and increasing range of ethical policies. The review has been prompted and is continuously reinforced by a growing interest amongst customers in taking an ethical approach when choosing banks. The result is a list of general guidelines of conduct that is continuously updated and available to all members of staff.

These guidelines, which are actively endorsed by the Board of Directors, provide guidance on the aspects of integrity and impartiality, but they cannot and do not cover every situation a staff member may encounter. If any member is uncertain about what to do in any situation, guidance should be sought from the Bank's Head of Human Resources. Quoting from the Bank's Human Resource Policy, staff members shall at all times maintain the good reputation of the Bank. They shall render with integrity, a reasonable and effective service of high quality to the Bank's stakeholders impartially without regard to status, sex, religion, race, political beliefs and aspirations. Secondly, they shall act honestly, respectfully, transparently and with accountability, treating all persons with equal consideration and objectivity, using any discretion vested in them sensibly, impartially and reasonably.

The policy further requires staff to refrain from divulging any information received in the course of their work and duties unless the performance of duty or the needs of justice require otherwise. Fourthly, members of staff are to resist and report any offers of bribes or other corruption emanating from any source. In their private life, they are supposed to behave in a manner that does not bring discredit to or impair the dignity, reputation and ethical standing of the bank. Sixthly, staff members are supposed to respect and apply these guidelines, and if they believe that a violation of these policy guidelines or the law has occurred or is about to occur, report the matter to their seniors.

NIC Bank Ltd subscribes to the Banking Code, a voluntary code issued and overseen by the Kenya Bankers Association. NIC Bank's ethical guidelines borrow heavily from this industry code, in a great way reinforcing the universality of ethics. Unlike the KBA Banking Code, NIC Bank's ethical code is a compulsory code to be adhered to by all staff without exception.

NIC Bank's ethical code addresses itself to among others, the following major ethical issues:

4.3.1.1. Gifts and Entertainment

Employees are not to solicit gifts from clients or vendors. They shall not use their employment status to seek personal gain from those doing business or seeking to do business with the Bank nor accept such gain if offered. Members of staff may not accept gifts where it may be construed that the gift is being offered to them in that capacity, whether it be money or any other item, however small in value. No employee or member of his or her immediate family should give or accept cash, gifts, special accommodations or other favors from anyone with whom the person is negotiating, soliciting or doing business with the Bank.

Decisions made by staff members in the course of their work must be objective and based solely upon the best interest of the Bank. They should never be influenced by any consideration of personal gain or gain to any associate. Gifts so offered should be courteously and tactfully refused or returned, and if it would be costly to return, they must be donated to charity. The tactful communication of the limitations of the Bank policy to the donors of gifts is strongly encouraged.

On the other hand, extreme caution must be exercised in attending social events hosted by consumer bodies, industry players and other organizations. It may appear by the attendance of staff members to various social events that the Bank endorses the event or the opinions and actions of those at the event. If invited to such events, employees should find out whether the name of the Bank or the employee's name as a representative of the Bank will be referred to in the speeches. If so, employees should find out whether the Bank or the member of staff as representative of the Bank will have an opportunity to speak in reply. Employees should also establish whether the Bank's name or the employee's name as representative of the Bank would be mentioned in any printed matter or press releases. If it will, the invitation must not be accepted. The policy provides that attendance to such functions must ultimately bear the sanction of the Managing Director.

Frequent invitations from customers or vendors for meals or entertainment should be declined or handled with firm insistence that the employee pays for alternate meals or entertainment.

Specifically, credit staff should not receive anything of value for having made a loan. Staff may not accept a fee for performing any act that the Bank should have performed. Procurement staff should not purchase anything from a vendor at a price below its worth, nor should sales staff sell anything to a client at a value in excess of its worth.

4.3.1.2. Bribery

Bribery occurs when a person unlawfully and intentionally offers an employee of the Bank any item of value, including money, in return for certain action or inaction by the employee. The employee should inform the briber that he believes whatever is being offered to be a bribe and decline to take.

The incident should be reported to the employee's immediate supervisor who should co-operate with the employee in apprehending the culprit. The employee must then record how the bribe came to be offered and the exact words of the person offering the bribe. The code prohibits acceptance of bribes of any kind.

4.3.1.3. Conflict of Interest

Staff members owe their primary business loyalty to the Bank and are therefore required to avoid situations that could result in, or give the appearance of a conflict of interest concerning the Bank, its shareholders or its customers. Any staff member who is in a position to take a decision in which he has an interest must declare that interest to his supervisor for a decision to be taken whether the file should be allocated to another staff member. Personal interests that could affect the proper exercise of judgment must be avoided.

An interest in a decision is deemed to exist if the customer is a friend, acquaintance, family member, relative or someone that the employee has had dealings with outside the Bank. If the customer is a legal entity, an interest will be deemed to exist if the employee or his or her immediate family has any social, family or business connections of any nature with the customer. Additionally, an employee may not act impartially if he or a member of his family is indebted to a customer, or holds directly or indirectly through a trust or otherwise, any financial interest in a customer. Employees are required to declare such interests well in advance.

Related to conflict of interest is the employment of relatives. The Bank policy outlines its prohibitive position on employing immediate family members of existing employees. Man and wife must not serve the Bank and should two NIC

Bank employees enter into marriage in the course of employment, one of them must cease to be an employee. Situations where an immediate family member of an employee is employed by a business that is in competition with the Bank may also give rise to a possible conflict of interest and should be avoided. Employees who find themselves in such situations must contact the Head of Human Resources to determine if the situation is deemed a conflict of interest.

An employee who is directly involved in purchasing and selling securities is prohibited from engaging in personal transactions with the same securities firm which the Bank uses for its transactions without the specific approval of the Managing Director. Staff members must obtain the consent of the Managing Director before accepting a position as a director on or member of the Board of an external company or organization. Staff members who discharge citizenship responsibilities through membership of public or quasi-public decision making bodies like school boards and local councils should be alert to possible conflicts of interest and declare any such conflicts in advance.

The Bank has no strict objections to staff members being active in their communities, participating in political activities, running for public office, sitting on municipal councils and other public bodies. Since these institutions are often also consumers of banking services and therefore actual or potential customers of the Bank, staff in such situations must be scrupulous in declaring any such conflict of interest and judge carefully whether circumstances warrant withdrawal from deliberations on the placements of banking business.

Where staff members do accept offices in social or other clubs, they should avoid any potential conflict of interest by declaring the nature of their interest (if any) in formally constituted meetings of the organizations, and if required, to follow the organization's rules in respect to non-voting in such situations.

While the NIC Bank policy is not designed to interfere with employees' personal lives, it does require them to recognize situations where a conflict of interest may arise and to immediately report such existence to an appropriate authority. The authority is expected to evaluate the situation and conclude the level of insulation necessary to avoid the appearance of a conflict of interest.

4.3.1.4. Personal Reputation and Finances

Loyalty, fidelity and good morals are assumed qualities of those who represent NIC Bank Ltd. It is imperative that every employee or director of the Bank displays conduct at all times so as to reflect a favorable image on the Bank. A reputation for good morals, ethics and integrity is within the reach of all directors and employees who must remain above reproach throughout their association with the Bank.

Employees are expected to conduct and manage their personal and financial affairs in a responsible manner. Employees must not incur debts that they refuse or are unable to pay. Any employee who has received summons for amounts unpaid or has a judgment against his or her name for debt must report the matter to the Head of Human Resources. Employees who incur excessive debt which they cannot manage within their financial means and which the Bank becomes aware of through reasons of non-payment could lead to disciplinary action being taken against them. The Bank will not bind itself in any way whatsoever in support of loans applied for by its employees from any financial or other institution.

4.3.1.5. Business Interests or Employment Outside the Office

No employee shall take up full-time, part-time of casual employment outside the Bank where that employment would impair the dignity or the reputation of the Bank. Employees are not allowed to engage in other income-generating activities or receive a fee for services rendered outside of normal office hours without the prior consent of the Managing Director. This consent may be withheld if in the opinion of the Managing Director, such activities may in any way adversely affect the services that the employee is expected to perform for the Bank.

4.3.1.6. Confidentiality

The confidential nature of bank accounts and company resources in general is a fundamental precept in financial services. The NIC Bank policy requires that Bank employees must honour the confidential nature of the work performed at the Bank at all times. This includes financial and personal information of customers, including fellow employees, as well as the Bank's financial information and information related to its internal affairs, competitive position, strategic planning and regulatory actions. Respect for the privacy of a customer's affairs is a fundamental principle of banking, and the responsibility of ensuring such privacy rests with every NIC Bank staff.

Client information should not be divulged over the telephone unless the identity of the caller and his or her right to receive the information are definitely established. Members of staff are required to take particular care in answering enquiries on credit information, and information given must be limited to that permitted by prudence and standard Bank practice. Certain information about the Bank's plans, projects, systems and activities is considered by the Bank to be proprietary and confidential, and staff members must not disclose such information without proper authorization.

On employment and every six months, all employees must take an oath of secrecy that they will not divulge confidential information obtained in the course of their employment, and will safeguard all information about customers and the Bank. Information may only be disclosed to third parties with the explicit permission of the account holder or as required by law. It is a policy of the Bank to honestly and openly provide information to those who have a legitimate interest in its operations.

The extent, timing and form of any public disclosure of information to media houses, and financial analysts are a matter for senior management. Accordingly, Bank documents such as circulars, manuals, records and internal communication materials, especially materials marked 'confidential' must never be shown to outsiders without proper authorization. Care should also be exercised in conversations about the Bank with outsiders or with fellow staff in public places. The obligation of staff members to safeguard the privacy of fellow members of staff and to protect the confidentiality of the Bank's own affairs continues with equal force after the staff member leaves the service of the Bank.

4.3.1.7. Insider Trading

The policy defines Insiders as employees, directors, executive officers, and principal shareholders. Insider information about the Bank's affairs or those of customers shall not be used by staff for their own gain or that of others. Insiders must take care that their conduct does not violate rules relating to self-dealing and personal gain. All sales, purchases and services must be contracted at 'arms length' in the best interests of the Bank. Insiders and representatives are not to intimidate or influence action through their privileged positions.

Directors and employees of NIC Bank Ltd are encouraged to participate and maintain ownership in the Bank's stock, a public limited company quoted in the Nairobi Stock Exchange. While there are occasions that dictate the purchase or sale of stocks, active buying and selling of the Bank's stocks in order to make short-term profits is not allowed. Directors and employees are cautioned that the Capital Markets Authority has stringent rules and regulations related to trading in securities while in the possession of material, non-public information. Employees are considered to have material, non-public information.

Insider information is information that has not been publicly released and which a reasonable person would consider important in determining whether to buy, sell or hold securities. Such information would include earnings, expansion plans, potential acquisitions, or other similar information that may reasonably be expected to be important to the investing public. Until such information is disseminated to the general public through a press release or other public announcement, employees are prohibited from either purchasing or selling the Bank's stocks. It would be unethical to allow them to freely trade in the Bank's stocks on the same platform with non-employees. Violations of this policy could in addition subject directors and employees to possible action by the Capital Markets Authority, the result of which may include fines and / or imprisonment.

4.3.1.8. Charges and Prices

Interest rates on deposits and loans, terms of loans, service charges and other similar matters will be determined solely on the basis of what is in the best interest of NIC Bank and its customers. Under no circumstances are agreements or understandings established with any other financial institutions concerning NIC Bank charges and prices. NIC Bank is individually responsible for its policies and operating procedures. Employees are cautioned to avoid comments or actions that could be misinterpreted as an agreement to co-operate with competitors in following a common course of action as to rates of interest paid, the terms on which loans are made, hours of operation, or the charges for services offered to customers. Customers will readily interpret such actions as unethical, aimed at price fixing, limiting their choices and exploitive.

4.3.1.9. Illegal Activities/ Undesirable Business

Directors and employees of NIC Bank are expected to abide by all local and state laws, regulations and guidelines. They should undertake at all times to comply with or observe all applicable laws and regulations. They should not take any actions which they know or should reasonably know violates any applicable law or regulation. Where operating rules are laid down, NIC Bank staff should follow them. The correct Bank forms, which have been prepared with legal requirements in mind, should also be used. Employees engaged in activities found to be in conflict with and against these laws, regulations or guidelines will be subject to disciplinary action.

Nearly all Illegal activities are also unethical and include, as set out in the Bank policy, but are not limited to embezzlement, unauthorized sale of information, frauds such as forgery, counterfeiting and cheque kiting, unauthorized use of funds, revenues and fees, money laundering, abuse of expense, asset and liability accounts, drunkenness and sexual harassment or discrimination.

Directors and employees may not discriminate in the acceptance of business brought to the Bank by reputable persons. However, accounts or loans requested from known controversial or unsavory persons or firms should be declined. Such relationships could lead to loss and embarrassment for the Bank and should be very carefully considered. The Bank is not willing to sacrifice its ethical status for business. Related to this canon is 'Compliance with Laws and Regulations'. The Bank will conduct its business in accordance with the laws and regulations of the land, and will not assist, encourage or support any wrongful transactions or activities. It will not seek any benefits that are illegal or against any regulations of the relevant authorities.

4.3.1.10 Criminal Use of the Banking System

Separate from illegal activities is the Bank's policy on criminal use of the banking system. Banks and other financial institutions may be unwittingly used as intermediaries for the transfer or deposit of funds derived from criminal activities. Criminals and their associates use the financial system to make payments and transfers of funds from one account to another in order to hide the source and beneficial ownership of money, and to provide storage for bank notes through safe deposit facilities. These activities are commonly referred to as money laundering. The Bank's integrity and the integrity of its staff may be prejudiced as a result of inadvertent association with such criminal activities. It is therefore the responsibility of all staff members to be vigilant against such criminal activities. Care should be taken to avoid providing support or assistance to customers seeking to deceive the law enforcement agencies through the provision of altered, incomplete or misleading information. Business transactions should also not be conducted with customers who fail to provide evidence of their identity. To this end, the Bank operates and enforces a stringent 'Know Your Customer' (KYC) service program.

The facilitation of fraud is increasingly becoming a critical area of concern. Wire funds transfers allow legitimate customers and money launderers alike to transfer money around the world at will. The 'no questions asked' policy of banks accepting deposits and transferring funds has come under pressure for greater transparency following the attacks on the World Trade Center on September 11th 2001. NIC Bank will not support money laundering and other terrorist activities.

4.3.1.11. Undesirable Community and Political Activity

As an institution, NIC Bank Ltd should not and will not engage in politics. Directors and employees are required to ensure that their participation in political activities in no way reflects unfavorably on the Bank. Community and political activities by employees is encouraged, provided that participation is accomplished in a legal manner, does not interfere with work performance for the Bank, is not deemed to be divisive in the community, and occurs in such a manner that clearly indicates that the employee does not speak for NIC Bank. The Bank policy prohibits making political contributions to parties or candidates. Loans to political parties or candidates are also generally prohibited. The use of Bank resources, supplies, equipment or labor for political purposes must be avoided. Fund-raising efforts for any purpose should also be avoided if there is any possibility of an adverse effect on the reputation of the Bank.

4.3.1.12. Unfair Competition

Competition is not good or bad in itself. There is ethical competition towards which businesses that have a high opinion of themselves and / or desire for growth are working. Those that are unscrupulous are finding it more difficult to maintain their place in business. Whatever basis of trade is worked out, there is no escape from rewarding some, the more energetic and effective producers of results, more highly than the less energetic and less effective.

The competition between NIC Bank Ltd and other financial institutions must always be positive, and business activities involving its competitors should be conducted cautiously. Competitive marketing and bidding activities must be conducted fairly and ethically. NIC Bank Ltd will not for example advertise and conduct interviews for non-existent jobs to encourage competitor's employees to reveal their employers' strategies. The Bank maintains that the best possible service and personal interest in its customers are much more effective in winning business than the criticism of a competitor. Such criticism is not in keeping with the character of NIC Bank and should have no place in the conversation of directors and employees when pursuing customers' or potential customers' business.

4.3.1.13. Quality of Service

The Bank will use knowledge, skills, proficiency, care and conscientiousness in providing quality services to customers in a professional manner. The Bank will comply with various standards that are generally acceptable for conducting the banking business. NIC Bank employees are required to exercise utmost care in the course of their employment. Majority of the employees are also shareholders in the Bank and should be continuously working to improve its operations whether or not problems fall under their job function or departmental responsibilities. The Bank encourages its directors and employees to identify and pursue solutions to problems or inefficiencies that affect customers and employees.

Employees and directors should cultivate the right attitudes in order to provide the differentiation of NIC Bank products and services from those of the competition. It is in the Bank's realization that the efficiency and courtesy with which each transaction is completed makes or breaks it. It is foremost in the minds of all staff members that the reputation and prestige of the Bank entirely depend on their conduct. To quote one senior employee, "Good business and good values go hand in hand at NIC Bank – always have done and always will do. We approach customer issues with a commitment to put actions before words and to respect and protect the long history of trust we have with our customers".

The Bank expects its directors and employees to conduct themselves with integrity, and to be honest in their dealings with the Bank, its customers and fellow employees. They are expected to be honest in their handling of money, merchandise and property with which they are entrusted. Majority of the Bank's employees and directors are of high ethical character that plays a great role in ensuring the quality of the Bank's services.

4.3.1.14. Disclosure in Preparation of Public Documents / Transparency

The reliability of accounting information and records is a basic element of NIC Bank's integrity. The Bank realizes the importance of disclosure of information that is material to shareholders' or investor's investment decisions, and will ensure the proper and timely disclosure of such information. The Bank prepares financial reports in accordance with generally accepted accounting principles. No false or artificial entries should be made in any books or records and no staff should be party to any arrangements that result in such entries. It also appoints an independent certified auditor to audit and give independent opinions on the financial reports in accordance with auditing standards. The Bank disseminates information through appropriate channels to as many stakeholders as possible.

Every employee is required to ensure that all public documents and documents filed with regulatory agencies which he or she is involved in preparing or reviewing, contain full, fair, accurate, timely, and understandable disclosure. In order to ensure this, such employees have been equipped with the relevant skills. The Head of Finance is responsible for establishing and maintaining disclosure controls, procedures and internal controls.

The Bank seeks to uphold the integrity of its records by putting into place a rigorous vetting system in its branch operations. No account shall be established or operated for a purpose other than that described by the documents supporting it. Staff members are required not only to avoid participation in fraudulent actions or misuse of the Bank's accounts, but also to report to the Head of Human Resources any such instances of which they become aware.

4.3.1.15. Misappropriation of Funds

Staff members shall not misappropriate for their own use and benefit any funds or property that is not rightfully theirs nor knowingly assist another person in such misappropriation. Honesty and trustworthiness are two of the key foundations of banking. The Bank depends upon the confidence of its customers that funds can be safely entrusted to it. As staff members may have access to large sums of money, absolute honesty and integrity is essential, both on and off the job.

4.3.1.16. Core Labor Rights and Dignity at Work

NIC Bank aims to act in a socially responsible manner at all times by respecting the economic, social, cultural, political and civil rights of those involved in its operations, and complying with all local human rights legislation. The Bank respects the rights of employees to join legally recognized labor unions, and does not tolerate any form of harassment in the work place. It strives to create a healthy and safe environment for its employees by remaining sensitive to dangers at work, and maintaining a non-contributory in and outpatient medical scheme among others.

The Bank promises to as far as possible, ensure that working hours and remuneration are comparable to those offered by similar organizations. It will continuously recognize the value that employees create and reward them with opportunities for personal and career development. It promises to provide employees with equal opportunities regardless of their gender, age, marital status, sexual orientation, disability, race and religion. As mentioned elsewhere in this report, majority of the employees interviewed felt the Bank had not done very well in this respect.

4.3.1.17. Corporate Social Responsibility / Treatment of Various Stakeholders

The Bank realizes the importance of providing proper treatment to various stakeholders with appropriate cooperation and mutual support. Towards this, the Bank commits itself to treat its customers, counter parties and competitors with good understanding and co-operation. Further, it commits itself to offer quality services to its customers with the principles of warm friendship and mutual support. Thirdly, it is a key commitment of the Bank to safeguard shareholder's benefits, and to encourage and support employees to develop their potential, knowledge and ability in performing their duties while supporting further development thereof. Lastly, the Bank commits itself to support community activities as opportunities arise and contribute to those merit-making activities that benefit the public as a whole, support education and promote prosperity in the country.

The Bank has been very active in Corporate Social Responsibility activities by sponsoring works of charity in poverty alleviation, education, health, and environmental preservation. Specifically, the Bank has in place a mentorship programme for High School students, sponsors the annual Dettol Heart Run, and is a partner of the Starehe Schools and Gertrude's Garden Children Hospital among many other institutions.

4.3.1.18. Administration of these policy guidelines

The Bank encourages staff to report in good faith suspected unlawful / unethical behavior. It is the duty of each employee to adhere to these guidelines and to report any suspected violations thereof by oneself or other employees. Any member of staff who is uncertain as to whether an action or omission constitutes unlawful or unethical behavior, or wishes to make a report should contact the Head of Human Resources. The Bank strictly forbids retaliation against employees who report violations of these policy guidelines.

The aim of the guidelines is to enable employees know in clear terms what acts, conducts, omissions and practices are considered unethical and the appropriate sanctions that would be applied for non-compliance. It is expected that the guidelines would bring about discipline and professionalism in the Bank and the industry as a whole.

4.3.2. Conclusion

As evidenced by responses received, the concept of ethics is relatively well understood by players in the Kenyan Banking Industry. Several respondents could define ethics as having to do with fairness, equity, compassion, honesty, and absence of greed among other true definitions. Stakeholders in the industry know their rights and roles. They know what is ethical and what is not. Elaborate codes of ethics and bank policy documents exist, at the disposal of industry stakeholders. Whether they practice what they read is the issue at hand.

Is there any respectable Bank that would claim not to attach high importance to core ethical values such as honesty, integrity, fairness, respectable citizenship and accountability? Is there any Bank that would claim it was right to accept bribes in return for loans, to lend to connected parties and to cheat customers? There is often a gap between what Banks claim and what they do. As the Kenyan banking crisis has demonstrated, ethical values are still not firmly entrenched and followed by many banks in the country. Bribery and corruption have been one of the root causes of the banking problems in Kenya.

Leaving aside such blatant examples of unethical behavior, majority well meaning Banks confront moral dilemmas in the course of business. It is not always the simple choice between what is right and wrong. It is more often between what is right and less right, between shades of gray. Such dilemmas are more complex than the simple right and wrong and pose difficult choices that have the potential to damage reputation and lead to financial losses.

This increases the need for organizations and Banks in particular to adhere to a set of values to steer them through the minefield of ethical choices with which they are faced as they make business decisions. It is also necessary to ensure that the behavior of the organization is in practice aligned with these values and that employees buy into them, so that the organization actually practices what it preaches.

Banks need to be careful about relationships with controversial politicians, whether of the right or left wing. Banks need to consider how their actions will affect their employees and customers, or be perceived by them. But employees and customers are not the only people Banks have to worry about. They also need to take account of regulators, and the fact that regulatory standards may shift overtime. The rules of the game may not be clearly defined, or they may be shifting in line with changing standards of what is right or wrong.

The main responsibility of the Central Bank of Kenya is to promote the general stability and effective working of the banking system. Its principal concern is to reduce the risk of bank failure that would result in depositors losing money and threaten the stability of the banking system as a whole. It therefore concentrates on checking that the banks have adequate capital and liquidity, effective management and internal controls. The Central Bank of Kenya as a regulator also undertakes functions with an ethical flavor like ensuring that authorized institutions operate in a responsible, honest and business like-manner, promoting and encouraging proper standards of conduct, sound and prudent practices, and suppressing illegal, dishonorable and improper practices.

In the course of evaluating the state of ethics in the Banking Industry, three issues came into mind, featuring prominently over the interviews. These three are worthy highlighting:

4.3.2.1. Causes of Unethical Behavior

In the course of the interviews, respondents were asked to mention possible causes of unethical behavior, with interesting responses. A main reason advanced as to why bankers behave unethically is the complexity of the issues they deal with, and the difficulty in determining the ethicality of alternatives.

Some respondents also identified several systemic causes, key among them the competition for scarce resources. It is easy to slip into unethical acts to gain a competitive advantage in the race for business.

Others felt 'groupthink' or 'mob psychology' is a cause for unethical banking when Banks gang up under the Kenya Bankers Association to deny unionizable employees due rights, salaries and wages.

Other respondents identified negative organizational responses to dissent as a strong cause of unethical behavior. There are few incentives to encourage 'whistleblowers' or those who try to expose unethical behavior in organizations. Organizational norms and values may encourage 'going along' and discourage questioning the unethical actions of others, effectively compromising ethical standards in the organization.

4.3.2.2. Codes of Ethics

A code of ethics (otherwise an ethical policy, code of conduct, statement of business practice or a set of business principles) can be a management tool for establishing and articulating corporate values, responsibilities, obligations, and ethical ambitions of an organization and the way it functions. It provides guidance to employees on how to handle situations that pose a dilemma between alternative right courses of action, or when faced with pressure to consider right and wrong.

No two codes will be the same. They must reflect the concerns of the employees of the particular organization and the context of the relationships and business environment in which they operate. Having a code of conduct is not enough, however. It can only be effective and practically useful with committed dissemination, implementation, monitoring and embedding at all levels so that behavior is influenced.

Codes are useful as reminders even to the most ethical of mortals, because history shows that ordinary men are seldom capable of unselfishness for any considerable time. There is assurance of progress in business when we look at the advancements made in codes of duty, ideals and responsibility. These codes do more than laws could ever do. They are formulated by businessmen themselves and are therefore workable. They deal with fair trade practices upon which all subscribers to the code are agreed. They protect contracts, prescribe honesty in advertising, and outlaw certain practices that are considered unfair or an imposition to the public.

A code of ethics is no doubt of immense value. It provides a broad range of guidance on the standards of integrity and business conduct expected of its subscribers. It also serves as a good training tool for new hires into a company and is a good document to distribute to customers and suppliers. But a code of ethics is by no means an end in itself. Only when the principles contained in the code of ethics are built into the values and processes of the organization are they likely to affect behavior (Muchene, 2006).

4.3.2.3. The Banking Code – Setting the Standards of Banking Practice

This is a voluntary code, a publication of the Kenya Bankers Association, which sets standards of good banking practice for Banks choosing to participate in the code, to follow when they are dealing with personal customers in Kenya. As a voluntary code, it allows competition and market forces to work to encourage higher standards for the benefit of customers. This code became effective from 01st October 2001 for all subsequent dealings with personal customers.

The code outlines the products and services offered by participating Banks to personal customers, and 10 key commitments by these Banks to their customers. These are commitments to act professionally, ethically, fairly and reasonably, with utmost honesty, integrity and accountability. It promises that participating Banks will provide adequate product information to their customers and act fairly and honestly in their marketing and advertising efforts, among others.

The Kenya Bankers Association has a 'Code Compliance Officer' charged with monitoring and compliance, to ensure participating Banks comply with the code, and address any instances where the code has been breached. All Banks that follow the code are required to make copies of it available to all their personal customers and have notices in all their branches explaining that copies of the code are available.

The code however acknowledges that the relationship between a customer and each Bank is contractual. Nothing in the code shall be read as creating any binding legal obligation as between a customer and his Bank nor vary any clause in any contract between a customer and his Bank. The code shall not be quoted in any proceedings between any member Bank and its customer or customers.

4.4. Section Three

4.4.1. Staff and Customers' Perception of the Ethicality of NIC Bank Limited

The purpose of this objective was to determine the perception levels of staff and customers of the Bank. Data was collected using a questionnaire where respondents were asked to express their perception levels on key ethical issues on a 5-point Lickert scale. A level of 1 (not at all) represented an ethical Bank while a level of 5 (very great extent) represented a very unethical Bank. The perception of Junior and Middle level staff is represented in Table 5. Table 6 represents the perception of senior management staff while Table 7 represents NIC Bank Customers' perceptions.

Fourteen Junior and Middle level, and six senior management staff were interviewed. In all, twenty members of staff were interviewed, which equals the number of customers interviewed. Mean scores were calculated on the same 5 - point scale for each aspect of ethics studied, by averaging the sum of frequency of response by Level on the Lickert Scale.

$$\text{Mean Score} = \frac{\text{Sum (Frequency * Level on Lickert Scale)}}{\text{Number of Respondents}}$$

The value of mean score placed on the same Lickert Scale would define the perception / attitude level. Mean scores were rounded off to the nearest unit for consistency and ease of interpretation.

The Mean values assume the same perception levels for the particular ethical issues as in the Lickert Scale.

Table 5: Junior and Middle-Level Staff Attitudes Towards the Ethicality on NIC Bank Ltd

Ethical Issues	Not At All (1)	Very Little Extent (2)	A Little Extent (3)	Great Extent (4)	Very Great Extent (5)	
	Frequency	Frequency	Frequency	Frequency	Frequency	Mean Score (On a L. Scale of 5)
Dishonesty	2	3	5	3	1	**3**
Bribery, Gifts & Entertainment	8	4	2	0	0	**2**
Conflict of Interest	4	5	4	1	0	**2**
Lack of Confidentiality	1	2	2	6	3	**3**
Insider Trading	5	3	4	2	0	**2**
Exorbitant Charges	2	8	2	1	1	**2**
Illegal Activities	5	4	4	1	0	**2**
Misuse of the Banking System	5	5	4	0	0	**2**
Unfair Competition	4	3	3	3	1	**3**
Poor Quality of Services	5	5	3	1	0	**2**
Poor Disclosure of Information	5	5	2	2	0	**2**
Misappropriation of Funds	4	5	4	1	0	**2**
Disrespect for Labor Rights and Dignity at Work	0	0	1	11	2	**4**
Poor C. Social Responsibility	5	4	4	1	0	**2**

Table 6: Senior Management Staff Attitudes Towards the Ethicality on NIC Bank Ltd

Ethical Issues	Not At All (1)	Very Little Extent (2)	A Little Extent (3)	Great Extent (4)	Very Great Extent (5)	
	Frequency	Frequency	Frequency	Frequency	Frequency	Mean Score (On a L. Scale of 5)
Dishonesty	4	2	0	0	0	1
Bribery, Gifts & Entertainment	5	1	0	0	0	1
Conflict of Interest	4	2	0	0	0	1
Lack of Confidentiality	1	2	3	0	0	2
Insider Trading	0	4	2	0	0	2
[illegible] Charges	2	3	1	0	0	2
Illegal Activities	5	1	0	0	0	1
Misuse of the Banking System	4	2	0	0	0	1
Unfair Competition	2	3	1	0	0	2
Poor Quality of Services	5	1	0	0	0	1
Poor Disclosure of Information	1	4	1	0	0	2
Misappropriation of Funds	6	0	0	0	0	1
Disrespect for Labor Rights and Dignity at Work	2	4	0	0	0	2
Poor C. Social Responsibility	5	1	0	0	0	1

Table 7: Customers' Attitudes Towards the Ethicality on NIC Bank Ltd

Ethical Issues	Not At All (1)	Very Little Extent (2)	A Little Extent (3)	Great Extent (4)	Very Great Extent (5)	
	Frequency	Frequency	Frequency	Frequency	Frequency	Mean Score (On a L. Scale of 5)
Dishonesty	1	1	11	4	3	3
Bribery, Gifts & Entertainment	2	4	10	4	0	3
Conflict of Interest	3	5	9	3	0	3
Lack of Confidentiality	1	2	9	7	1	3
Insider Trading	4	12	4	0	0	2
Exorbitant Charges	0	0	2	4	14	5
Illegal Activities	5	12	3	0	0	2
Misuse of the Banking System	6	13	1	0	0	2
Unfair Competition	2	2	15	1	0	3
Poor Quality of Services	0	3	3	14	0	4
Poor Disclosure of Information	1	3	13	3	0	3
Misappropriation of Funds	4	8	8	0	0	2
Disrespect for Labor Rights and Dignity at Work	1	6	12	1	0	3
Poor C. Social Responsibility	2	5	13	0	0	3

From the findings in Tables 5, 6, and 7, staff and customers consider NIC Bank to be an honest institution, with a mean score of 1 among senior management staff, and a mean score of 3 among Junior and middle level staff, and customers. According to the scale, an ethical score of 1 represented a very ethical Bank while an ethical score of 5 represented a very unethical Bank. Senior management staff believed no incidences of dishonesty existed in the Bank, while Junior / middle level staff and customers believed the Bank tolerated dishonesty to a little extent.

The Bank also scored highly on non-acceptance of bribes, gifts and entertainment. Senior management staff felt the Bank has absolutely no tolerance, and no incidences of bribery, acceptance of gifts and entertainment with a mean score of 1. Junior/middle level staff felt the Bank had very little tolerance to bribery, gifts and entertainment with a mean score of 2, while customers felt the Bank had a little bit more tolerance with a mean score of 3.

Junior/middle level staff thought NIC Bank condoned conflict of interest to a very little extent with a mean score of 2. Senior Management staff thought the Bank could not be associated with conflict of interest at all with a mean score of 1. Customers thought the Bank was slightly more unethical with a mean score of 3.

The Bank scored lower on confidentiality despite the dominance it gives to the same in its code of conduct and policy documents. Junior/middle level staff and customers felt the Bank breached confidentiality to a little extent with a mean score of 3. Senior Management staff however felt that such breach had only been to a very little extent, with a mean score of 2.

All the categories of respondents agreed that the Bank could be associated with insider trading to a very little extent with a mean score of 2.

Junior/middle level staff and senior management staff felt that NIC Bank's charges were fair with mean scores of 2. On the contrary, customers felt that the Bank's charges were exorbitant to a very great extent, at a mean score of 5.

Senior management staff felt that the Bank did not engage in any illegal activities at all. Junior/ middle level staff and customers could associate the Bank with illegal activities, but to a very little extent at a mean score of 2.

On misuse of the Banking system, customers and Junior/middle level staff believed that the Bank has some association with the vice, but to a very little extent. Senior management staff were again defensive and held that the Bank had no association with such misuse at all.

Junior / middle level staff and customers held that the Bank engaged in unfair competition, but to a little extent at a mean score of 3. Senior management staff believed that the Bank did not engage in unfair competition and if it did, it must be to a very little extent, at a mean score of 2.

The Bank has written and preached a lot on the quality of its services. Junior/middle level staff believed that the quality of the Bank's services was poor, but to a very little extent. Senior management staff believed that the Bank's services were not poor at all, at a mean score of 1. Customers on the contrary believed that the quality of NIC Bank's services was poor to a great extent, with a mean score of 4.

Junior/middle level and senior management staff felt that the Bank did well in ensuring full disclosure of information, with a mean score of 2. Customers however felt that the Bank had not done so well and associated it with poor disclosure to a little extent, at a mean score of 3.

Customers and Junior/middle level staff believed that there was misappropriation of funds in the Bank to a very little extent, at a mean score of 2. Senior Management staff however believed that there was no misappropriation of funds in the Bank at all.

Senior management staff felt that the Bank disrespected labor rights and dignity at work only to a very little extent, with a mean score of 2. Customers felt that the practice was more rampant, but to a little extent with mean score 3. Junior and middle level staff however believed that the Bank disrespected labor rights and dignity at work to a great extent, at a mean score of 4.

Customers believed that the Bank has poor corporate social responsibility to a little extent, at a mean score of 3. Junior and middle level staff felt the Bank did better and could only be associated with poor corporate social responsibility to a very little extent, scoring 2. Senior management staff on the other hand believed that the Bank had a wonderful corporate social responsibility track record and could not be associated with lack of it at all, at a mean score of 1.

4.4.2. Conclusion

From the analyses, the Bank received a fairly good ethical rating from the three classes of respondents. Favorable responses were also spread evenly across the various ethical issues. Except for disrespect for labor rights and dignity at work where Junior/middle level staff gave an adverse rating of 5, exorbitant charges and poor quality of services where customers passed a verdict of 5 and 4 respectively, the rest were favorable ratings of 1, 2 and 3.

The mean score of all responses obtained from Junior and middle level staff was 2.4285, a 'Very Little Extent' verdict on the Lickert scale.

The mean score of all responses received from Senior management staff was 1.4286, a 'Not At All' verdict. The mean score of all responses received from customers was 2.9285, a 'Little Extent' verdict on the Lickert scale. The mean score of all 40 responses was 2.2619, a 'Very Little Extent' verdict on the Lickert Scale.

Consequently, Junior/middle level staff, Senior management staff and Customers on the aggregate associated NIC Bank Ltd with unethical issues to a 'Very Little Extent'.

4.5. Section Four

4.5.1. To determine whether Customers, Junior/Middle level staff, and Senior management staff differ in their perception of the ethicality of NIC Bank Ltd.

As can be seen from Table 8 below, there exist significant differences in perception of the ethicality of NIC Bank Ltd among customers, Junior/Middle level staff, and Senior management staff. Senior management staff perceived the Bank to be very honest, unlike Customers and Junior/Middle level staff. A similar attitude pattern existed for Bribery, Gifts and Entertainment, Conflict of interest, Lack of Confidentiality, Illegal activities, Unfair Competition, Misuse of the Banking system, and Misappropriation of Funds.

On the hand, all the respondents equally felt Insider Trading characterized the Bank to a very little extent with a uniform mean of 2. This kind of uniformity was not recorded for any other ethical issue.

A unique perceptual pattern was recorded for Exorbitant charges where Junior/Middle level and Senior management staff joined hands equally in defense of the Bank, with mean scores of 2. On the contrary, Customers believed the Bank's charges were quite exorbitant with a mean score of 5, a classical case of the shoe-wearer who knows where the shoe pinches. A similar attitude pattern was recorded for Poor Quality of Services, Poor Disclosure of Information and Poor Corporate Social Responsibility.

Another unique pattern was recorded for Disrespect for Labor Rights and Dignity at Work, where Junior/Middle level staff felt the Bank scored very poorly with a mean score of 4. Customers and Senior Management staff on the contrary felt the Bank did better, with mean scores of 3 and 2 respectively.

Table 8: Cross-Tabulation of Perception Levels among Customers, Junior/Middle level staff, and Senior management staff.

	Customers (Mean Scores)	Junior/Middle Level staff (Mean Scores)	Senior Management Staff (Mean Scores)
Dishonesty	3	3	1
Bribery, Gifts & Entertainment	3	2	1
Conflict of Interest	3	2	1
Lack of Confidentiality	3	3	2
Insider Trading	2	2	2
Exorbitant Charges	5	2	2
Illegal Activities	2	2	1
Misuse of the Banking System	2	2	1
Unfair Competition	3	3	2
Poor Quality of Services	4	2	1
Poor Disclosure of Information	3	2	2
Misappropriation of Funds	2	2	1
Disrespect for Labor Rights and Dignity at Work	3	4	2
Poor C. Social Responsibility	3	2	1
MEAN	**2.9285**	**2.4285**	**1.4286**

Aggregate Mean = $\frac{2.9285+2.4285+1.4286}{3}$ = **2.2619 (Very Little Extent)**

On examination of the Class Mean Scores, Customers recorded a mean score of 2.9285, a 'Little Extent' ethical verdict on NIC Bank Ltd. Junior and Middle level staff recorded a mean of 2.4285, a 'Very Little Extent' ethical verdict on their employer. Members of Senior management were more defensive and recorded a mean of 1.4286, a 'Not At All' ethical verdict on NIC Bank limited.

4.5.2. Conclusion

Customers, Junior / Middle level staff, and Senior management staff differ significantly in their perception of the ethicality of NIC Bank Limited.

CHAPTER FIVE

CONCLUSION

5.1. Summary, Discussions and Conclusions

This final chapter gives an overview, and discusses the findings of the study. It also cites various limitations experienced in the study and gives suggestions for further research in the field of ethics. Finally, implications for management policy and practice are given at the end of the chapter.

The objectives of this study were to establish the state of ethics in the Kenyan Banking Industry, to determine staff and customers' perception of the ethicality of NIC Bank Ltd, and to determine whether Customers, Junior/Middle level staff, and Senior management staff differ in their perception of the ethicality of NIC Bank Limited.

In my search for literature on the subject, I found that most of the research on Banking ethics has been done in the Western World. The Turkish Banking sector has particularly been widely studied. Though similar ethical issues are prevalent in Kenya as in many other countries, I found very little research information specific to Kenya. Several Management, Marketing and Sociology books have however discussed ethics in depth, from which I borrowed heavily.

From the research findings presented in chapter four of this study, a number of conclusions can be made. These conclusions are discussed below in light of the three objectives of the study.

As seen from the findings and available literature, it can be concluded that the Banking industry stakeholders are aware of their ethical expectations. Kenyan Banks have gone out of their way to preach ethics by establishing institutional codes of ethics and policy guidelines. It can also be concluded that the efforts by Banks to uphold ethics is to a large extent guided by their own selfish interests namely, 'to grow business'. Adopting an unethical approach would be counter productive to the Bank's mission and vision. That is precisely why Bank charges have remained high in the knowledge of both the Banks and their customers. That is also why the issues of staff remuneration, respect for labor rights and dignity at work are so contentious in the industry.

The Kenya Bankers Association has a code of ethics that favorably influences its member Banks, while the Central Bank of Kenya is perceived to enhance the ethical values in the industry. The public plays its role in moderating unethical behavior by deciding where to take their business. The Government, through the judicial system, also plays a great role by coming in when unethical behavior impinges on the laws of the Land.

From the research findings also, it can be concluded that Junior/Middle level staff perceive NIC Bank Ltd to be ethical, characterized by unethical behavior to a very little extent. Senior management staff perceive the Bank to be extremely ethical, not at all characterized by unethical behavior. On the other hand, the Bank's Customers perceive the Bank to be a bit unethical, characterized by unethical behavior to a little extent. Overall, the three stakeholders perceive the Bank to be ethical, characterized by unethical behavior to a very little extent.

Finally, it can be concluded that significant differences characterize the perceptions of the three classes of stakeholders. Customers had an aggregate score of 2.9285 on the ethical scale, effectively saying the Bank is unethical to a little extent.

Junior/Middle level staff had an aggregate score of 2.4285, effectively saying NIC Bank Ltd is unethical to a very little extent.

Senior management staff had an aggregate score of 1.4286, effectively saying NIC Bank Ltd is not unethical at all.

5.2. Limitations of the Study

The study focused on an industry and institution where confidentiality is a major component of business. Banks traditionally hold that most information especially that concerning customers and competitive strategy is kept confidential. The researcher was limited by the selectivity of information that could be divulged by staff in light of their oath of secrecy.

The study focused on NIC Bank Ltd, which, though purposively selected, may not adequately represent the Kenyan Industry of 43 Banks.

The choice of respondents was a key limitation. The Executive Director for example, a key senior management staff, proceeded for annual leave a day to his scheduled interview and had to be substituted.

The fact that scanty literature specific to Banks was available on the subject of ethics was also a limitation.

5.3. Suggestions for Further Research

This study focused on NIC Bank Ltd, which may not adequately represent the Kenyan Banking Industry. A survey across the industry may in future be conducted instead (not withstanding the hurdles) and results compared.

Ethics in the Banking Industry are as dynamic as the industry itself. A similar study may be conducted in future to establish changed conditions.

The study focused on the Banking industry, where confidentiality is a major issue. This study can be extended to other industries where sensitivity to information in not as in the Banking industry, such as the Informal Sector, Government, Universities, Motor and Construction industries. This will give an indication of the state of ethics in the Kenyan economy, where industries are so closely interdependent.

5.4. Implications for Policy and Practice

The concept of ethics in business can never be ignored. The positive ethical perception of key stakeholders to the ethicality of the Kenyan Banking industry is a plus. Banks have the intention to remain ethical as evidenced by the numerous publications, codes of ethics and policy declarations. However, the rigorous fight for market share in the increasingly competitive industry often forces some Banks to compromise ethical standards.

The importance of ethics in banking business demands that Banks do what they preach. The managements of Banks must focus their efforts on developing and implementing ethics-based policy and practice initiatives that address the crucial issue of implementation. The Government, through its regulatory bodies namely the Central Bank of Kenya, the Capital Markets Authority, and the Law Courts must remain vigilant in enforcing ethics in the industry.

This decision to conduct a study on ethics among commercial Banks in Kenya was born out of curiosity and lack of clarity on whether this invaluable industry in the country's economy appreciated the role played by ethics in business. The researcher appreciates that in light of the numerous limitations of the study, particularly the fact that a case study was carried out instead of a survey, the findings may not be conclusive. It was however a crucial first step to understanding the situation, importance and appreciation of ethics, not only at NIC Bank Limited and the Kenyan Banking industry, but also in the Kenyan economy as a whole.

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APPENDIX 1

LETTER OF INTRODUCTION TO RESPONDENT

University of Nairobi
School of Business
P.O. Box 30197
Nairobi
10th May 2006

TO WHOM IT MAY CONCERN

The bearer of this letter, **Mr. George Wambua Kiluva,** Registration **No.D61/P/7024/04,** National Identity Card No. **10818366** is a Master of Business Administration Student of **The University of Nairobi, School of Business**. He is required to submit as part of his course work assessment, a research project report on some management problem. We would like the student to do his project on a real problem affecting firms in Kenya.

Mr. Kiluva intends to conduct an Investigation on Ethics in the Kenyan Banking Industry: A case study of NIC Bank Limited. We would therefore appreciate your assistance to him, by allowing him to collect data in your organization for the research. The results of the project will be used solely for Academic purposes and a copy of the same will be availed to the interviewed organization on request.

Thank you in advance
Yours faithfully

DR. MARTIN OGUTU
SUPERVISOR

APPENDIX 2

INTERVIEW GUIDE (FOR NIC BANK CUSTOMERS)

This interview guide is designed to collect views on ethical practices in your bank – NIC Bank Ltd. The information given will be used strictly for Academic purposes and will be treated with utmost confidence. Your honest views and opinions will assist the researcher to come up with useful information to improve the ethics situation not only in your bank, but also in the Kenyan Banking industry.

Respondent No.________________

Date : ________________

(Interviewer to observe / ask and fill in)

1. Gender: Male [ ] Female [ ]
2. Age: ....Years
3. Marital Status: Single [ ] Married [ ]
4. For how long have you been a customer of NIC Bank Ltd?
5. What is your understanding of Ethics in relation to banking business?
6. In your opinion, does your Bank (NIC Bank) ever act unethically?
7. What are some of your experiences (or friends' experiences) where you think the Bank acted unethically?
8. Do you think the Bank has anything to lose by acting unethically? What and How?
9. In your opinion, what are the causes of unethical behavior?

10. To what extent do you consider NIC Bank Ld to be characterized by each of the following? Please tick accordingly using a 5 point scale where:

1 = Not at all
2 = Very little extent
3 = A little extent
4 = Great extent
5 = Very great extent

	[1]	[2]	[3]	[4]	[5]
Dishonesty	[ ]	[ ]	[ ]	[ ]	[ ]
Bribery, Gifts and Entertainment	[ ]	[ ]	[ ]	[ ]	[ ]
Conflict of Interest	[ ]	[ ]	[ ]	[ ]	[ ]
Lack of Confidentiality	[ ]	[ ]	[ ]	[ ]	[ ]
Insider Trading	[ ]	[ ]	[ ]	[ ]	[ ]
Exorbitant Charges	[ ]	[ ]	[ ]	[ ]	[ ]
Illegal Activities	[ ]	[ ]	[ ]	[ ]	[ ]
Misuse of the Banking System	[ ]	[ ]	[ ]	[ ]	[ ]
Unfair Competition	[ ]	[ ]	[ ]	[ ]	[ ]
Poor Quality of Services	[ ]	[ ]	[ ]	[ ]	[ ]
Inadequate Disclosure of Information	[ ]	[ ]	[ ]	[ ]	[ ]
Misappropriation of Funds	[ ]	[ ]	[ ]	[ ]	[ ]
Disrespect for Labor Rights/Job Dignity	[ ]	[ ]	[ ]	[ ]	[ ]
Poor Corporate Social Responsibility	[ ]	[ ]	[ ]	[ ]	[ ]

Any other ethical issues (please elaborate) ______________________________

____

Thank you very much for your patience and time

APPENDIX 3

INTERVIEW GUIDE (FOR NIC BANK SENIOR MANAGEMENT STAFF)

This interview guide is designed to collect views on ethical practices in your bank – NIC Bank Ltd. The information given will be used strictly for Academic purposes and will be treated with utmost confidence. Your honest views and opinions will assist the researcher to come up with useful information to improve the ethics situation not only in your bank, but also in the Kenyan Banking industry.

Respondent No.________________

Date :   ________________

(Interviewer to observe / ask and fill in)

1. Gender: Male   [ ]   Female   [ ]
2. Age: ....Years
3. Marital Status: Single   [ ]   Married   [ ]
4. For how long have you worked with NIC Bank Ltd?
5. What is your understanding of Ethics in relation to banking business?
6. In your opinion, does your Bank (NIC Bank) ever act unethically?
7. What are some of your experiences (or friends' experiences) where you think the Bank acted unethically?
8. Do you think the Bank has anything to lose by acting unethically? What and How?
9. In your opinion, what are the causes of unethical behavior?

10. To what extent do you consider NIC Bank Ld to be characterized by each of the following? Please tick accordingly using a 5 point scale where:

1 = Not at all
2 = Very little extent
3 = A little extent
4 = Great extent
5 = Very great extent

	[1]	[2]	[3]	[4]	[5]
Dishonesty	[ ]	[ ]	[ ]	[ ]	[ ]
Bribery, Gifts and Entertainment	[ ]	[ ]	[ ]	[ ]	[ ]
Conflict of Interest	[ ]	[ ]	[ ]	[ ]	[ ]
Lack of Confidentiality	[ ]	[ ]	[ ]	[ ]	[ ]
Insider Trading	[ ]	[ ]	[ ]	[ ]	[ ]
Exorbitant Charges	[ ]	[ ]	[ ]	[ ]	[ ]
Illegal Activities	[ ]	[ ]	[ ]	[ ]	[ ]
Misuse of the Banking System	[ ]	[ ]	[ ]	[ ]	[ ]
Unfair Competition	[ ]	[ ]	[ ]	[ ]	[ ]
Poor Quality of Services	[ ]	[ ]	[ ]	[ ]	[ ]
Inadequate Disclosure of Information	[ ]	[ ]	[ ]	[ ]	[ ]
Misappropriation of Funds	[ ]	[ ]	[ ]	[ ]	[ ]
Disrespect for Labor Rights/Job Dignity	[ ]	[ ]	[ ]	[ ]	[ ]
Poor Corporate Social Responsibility	[ ]	[ ]	[ ]	[ ]	[ ]

Any other ethical issues (please elaborate) ________________________________

____

Thank you very much for your patience and time

APPENDIX 4

INTERVIEW GUIDE (FOR NIC BANK MIDDLE AND JUNIOR STAFF)

This interview guide is designed to collect views on ethical practices in your bank – NIC Bank Ltd. The information given will be used strictly for Academic purposes and will be treated with utmost confidence. Your honest views and opinions will assist the researcher to come up with useful information to improve the ethics situation not only in your bank, but also in the Kenyan Banking industry.

Respondent No.________________

Date : ________________

(Interviewer to observe / ask and fill in)

1. Gender: Male [ ] Female [ ]
2. Age: ....Years
3. Marital Status: Single [ ] Married [ ]
4. For how long have you worked with NIC Bank Ltd?
5. What is your understanding of Ethics in relation to banking business?
6. In your opinion, does your Bank (NIC Bank) ever act unethically?
7. What are some of your experiences (or friends' experiences) where you think the Bank acted unethically?
8. Do you think the Bank has anything to lose by acting unethically? What and How?
9. In your opinion, what are the causes of unethical behavior?

10. To what extent do you consider NIC Bank Ltd to be characterized by each of the following? Please tick accordingly using a 5 point scale where:

1 = Not at all
2 = Very little extent
3 = A little extent
4 = Great extent
5 = Very great extent

	[1]	[2]	[3]	[4]	[5]
Dishonesty	[ ]	[ ]	[ ]	[ ]	[ ]
Bribery, Gifts and Entertainment	[ ]	[ ]	[ ]	[ ]	[ ]
Conflict of Interest	[ ]	[ ]	[ ]	[ ]	[ ]
Lack of Confidentiality	[ ]	[ ]	[ ]	[ ]	[ ]
Insider Trading	[ ]	[ ]	[ ]	[ ]	[ ]
Exorbitant Charges	[ ]	[ ]	[ ]	[ ]	[ ]
Illegal Activities	[ ]	[ ]	[ ]	[ ]	[ ]
Misuse of the Banking System	[ ]	[ ]	[ ]	[ ]	[ ]
Unfair Competition	[ ]	[ ]	[ ]	[ ]	[ ]
Poor Quality of Services	[ ]	[ ]	[ ]	[ ]	[ ]
Inadequate Disclosure of Information	[ ]	[ ]	[ ]	[ ]	[ ]
Misappropriation of Funds	[ ]	[ ]	[ ]	[ ]	[ ]
Disrespect for Labor Rights/Dignity	[ ]	[ ]	[ ]	[ ]	[ ]
Poor Corporate Social Responsibility	[ ]	[ ]	[ ]	[ ]	[ ]

Any other ethical issues (please elaborate) ______________________________

____

Thank you very much for your patience and time

APPENDIX 5

COMMERCIAL BANKS OPERATING IN KENYA AS AT 08.08.2006

	BANK	PEER GROUP / TIER CODE
1.	Barclays Bank of Kenya	1
2.	Citibank N.A.- Kenya Branch	1
3.	Co-operative Bank of Kenya	1
4.	Kenya Commercial Bank	1
5.	National Bank of Kenya	1
6.	Standard Chartered Bank (K) Ltd	1
7.	CFC Bank Ltd	2
8.	Commercial Bank of Africa	2
9.	Bank of Africa (K) Ltd	2
10.	Diamond Trust Bank (K) Ltd	2
11.	Investments & Mortgages Bank	2
12.	**NIC Bank Ltd**	**2**
13.	Stanbic Bank Ltd	2
14.	ABC Bank Ltd	3
15.	EABS Bank Ltd	3
16.	Bank of Baroda	3
17.	Bank of India (K) Ltd	3
18.	Consolidated Bank of Kenya Ltd	3
19.	Development Bank of Kenya Ltd	3
20.	Equatorial Commercial Bank Ltd	3
21.	Equity Bank Ltd	3
22.	Habib Bank A.G. – Zurich	3
23.	Habib Bank Ltd	3
24.	Imperial Bank Ltd	3
25.	Industrial Development Bank	3
26.	Middle East Bank Ltd	3
27.	Southern Credit Bank Ltd	3
28.	Trans-National Bank Ltd	3
29.	Victoria Commercial Bank	3
30.	Chase Bank (K) Ltd	4
31.	Charterhouse Bank Ltd	4
32.	City Finance Bank Ltd	4
33.	Credit Bank Ltd	4
34.	Dubai Bank Ltd	4
35.	Fidelity Commercial Bank	4
36.	Fina Bank Ltd	4
37.	Guardian Bank Ltd	4
38.	Giro Commercial Bank Ltd	4

39.	Housing Finance Bank	4
40.	K-Rep Bank Ltd	4
41.	Paramount Universal Bank Ltd	4
42.	Prime Bank Ltd	4
43.	Oriental Commercial Bank Ltd	4

Tier 1	6
Tier 2	7
Tier 3	16
Tier 4	14
Total	**43**