# SOCIAL RESPONSIBILITY AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

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# DECLARATION

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

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

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# ABSTRACT

Society is increasingly viewing businessmen as trustees and as such, they must be responsible for balancing a variety of demands and rights of all stakeholders, rather than enhancing the wealth of a few claimants.

One thing is for sure-the pressure on business to play a role in social issues will continue to grow. Embracing the concept is not without its challenges, but modern business managers are too familiar with the downside of not embracing it.

The study sought to find out the relationship that exists between social responsibility and profitability of commercial banks in Kenya.

The researcher carried out a census survey of all the commercial banks and top managers at the various banks were required to complete a questionnaire consisting of five sections. Each section of the questionnaire was aimed at answering each of the four objectives of the study, while the last section aimed at gathering demographic statistics.

The results show that the impact of social expenditure on profitability and financial position of banks is key in determining the amount to spend on these activities. So much so that employees are at times called upon to make direct contributions towards social activities. Although there is awareness and concern for social responsibility, there is lack of courage by many banks to implement necessary action, due to what they perceive as financial constraints. Thus, the banks that spend more on social responsibility are actually those whose profitability is higher as compared to those who feel their profits are lower and thus make a lesser contribution or none at all for some banks, towards social issues in the community.

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# CHAPTER ONE

# INTRODUCTION

This chapter gives a background into the research problem, showing the importance of the study, the research objectives and the knowledge gap it attempts to fill.

## 1.1 Background

One of the most frequently asked questions by individuals and organizations alike is just what does corporate social responsibility mean any way? Is it something, which like the original sin, corporations can never escape? Generally, corporate social responsibility is about how companies manage the business processes to produce an overall positive impact on society. Outside stakeholders are taking an increasing interest in the activities of firms. Most look at what a company has actually done, good or bad, in terms of its products and services, in terms of its impact on the environment and on local communities, or on how it treats and develops its workforce.

The essence thus of the concept of social responsibility is that business, as part of the total system of society, affect and are affected by other sub-systems; hence they should be aware of the needs of the society and the implications of their activities. Businessmen are trustees and as such they must be responsible for balancing a variety of demands and rights of all stakeholders rather than enhancing the wealth of a few claimants.

According to an article in the Daily Nation of Tuesday 6th May 2003, Standard Chartered bank has allocated Kenya the biggest share in its $ 1million (about kshs 75 million) community development initiative across Africa. "Kenya will receive Kshs 21 million out of the total sum," the banks chairman Mr. Awori said. He was speaking at Maseno School where he opened a Kshs 1.5m borehole constructed by the bank. Mr. Awori said Kenya got the lion's share because it had the bank's biggest market in Africa. He said Kenya's allocation was being used to fund access to clean water and self-reliance programmes. The water project he added, involved sinking of 5 boreholes in schools and charity homes, while the self-reliance project entailed the provision of 27 posho mills to schools, charity homes and paedtriatic homes. Communities benefiting from the projects contribute 5-10%, mainly through labour and materials. "As one of the leading banks in Africa, we have realized that along with this leadership position, comes real responsibilities and for us, supporting communities in which we operate is one such responsibility," Mr. Awori was quoted as saying.

There is little doubt in today's world that business must involve themselves in social issues broader than producing and selling goods and services, not only because it is the ethical thing to do, but also because it is in the interest of the business. (Rue, 1992).

According to Davis, a leading authority of social responsibility, it refers to "businessmen's decisions and actions, taken for reasons at least partially beyond the firm's direct economic or technical interests."[1] It is thus implied that businessmen are

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charged with the duty of correctly evaluating the impact of their decisions on society. Management is required to extend their vision beyond the traditional business interest of maximizing shareholders wealth.

Davis (1973), adds that managers are the referees of competing demands on corporate resources. Therefore, their ethical standard – criteria for rightness and goodness, filter these demands and determine which will be satisfied

According to Bowen (1953), business social responsibility is defined as "obligations to pursue those policies, to make decisions or to follow those lines of action which are desirable in terms of the objectives and values of society."

Thus a firm that accepts social obligations only in reaction to pressure groups, consumer boycotts, adverse publicity or legal requirements is not socially responsible. According to Rue (1992) and Davis (1973), social responsibility involves only voluntary actions.

The World Business Council for Sustainable Development in its publication "Making Good Business Sense" by lord Holme and Watts, used the following definition: "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and the society at large."

Traditionally in the United States, CSR has been defined much more in terms of a philanthropic model. Firms make profits, unhindered except by fulfilling their duty to pay taxes. Then they donate a certain share of the profits to charitable causes.

The European model is however more focused on operating the core business in a socially responsible way, complemented by investment in communities, for solid business case reasons:

1. Social responsibility becomes an integral part of the wealth creation process – which if properly managed should enhance the competitiveness of business and maximize the value of wealth creation to society.
2. When times get hard, there is the incentive to practice CSR more and better – if it is a philanthropic exercise which is peripheral to the main business, it will always be the first thing to go when push comes to shove.

But as with any process based on the collective activities of communities of human beings (as firms are), there is no "one size fits all". In different countries, there will be different priorities and values that will shape how business act.

One thing that is for sure – the pressure on business to play a role in social issues will continue to grow. In the last decade, firms, which have grown in power and influence, have been those, which can operate effectively within a global sphere of operations. Those institutions predominantly tied to nation states, have been finding themselves increasingly frustrated at their lack of ability to shape and manage events.

Indeed in Kenya therefore as in other parts of the world, bank executives have realized that corporate social responsibility is not simply about doing the right thing, but it can be a core part of improving their competitive edge. Right across the globe, firms are recognizing the clear business benefits of adopting a socially responsible approach. (Market Intelligence, July 2001 Issue).

In the East African Standard dated Saturday, May 10, 2003, Standard Chartered bank put out a ¼ page color advertisement appealing to all people of goodwill to listen to the voice of those affected by the flooding disaster currently ravaging the country. They said that in response to the plight of all those affected, it has launched a Floods Disaster Relief Fund to assist those affected and contributed an initial KShs 2 million.

Many consumers and investors, as well as a growing number of business leaders, have added their voices to those urging corporations to remember their obligations to their employees, their communities, and the environment, even as they pursue profits for shareholders. But executives who wish to make their organizations better corporate citizens face significant obstacles. If they undertake costly initiatives that their rivals don't embrace, they risk eroding their competitive position. If they invite government oversight, they may find themselves hampered by regulations that impose onerous costs without generating meaningful societal benefits in return. And if they insist on adopting the wage scales and working conditions that prevail in the world's wealthiest industrial democracies, they may succeed only in driving jobs to countries where less stringent standards are the norm (Nelson, 2002). Thus embracing the concept of social responsibility is not without its challenges, but modern business managers are too familiar with the downside of not embracing it.

Friedman (1963), has stated that "there is one and only one social responsibility of business, to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud. Few trends could so thoroughly undermine the very foundation of our free society, as acceptance by corporate officials, of social responsibility other than to make as much money for stakeholders as possible." This implies that managers will only be concerned with profit maximization and not the effects of their activities on society.

This indicates the existence of two schools of thoughts in as far as the concept is concerned. One is that firms should be socially responsible while the other believes that the business of firms is to make profit and not to serve other societal interests.
Research and experience however has shown that there are many benefits to be reaped by firms that embrace the concept of social responsibility (Parket and Eilbirt, 1975).

## 1.2 Statement of the problem

It is from the foregoing that it has become increasingly important to study the relationship that exists between social responsibility and profitability. For instance, a study was done in the U.S.A. to investigate the relationship between social responsibility and quantitative measures of profitability (Kraft, 1991). The results of this study were mixed. In Kenya however, no such study has been done.

Mulwa (2002) carried out a study on perceived social responsibility and preference for a bank. Kiarie (1997) carried out a study on the attitude and awareness of executives of medium scale manufacturing firms in Nairobi, towards social responsibility. Kweyu (1993) looked at attitudes towards social responsibility by bank managers in Nairobi, while Bashaija (1977) looked at business in general and the concept of social responsibility in Uganda.

Thus a knowledge gap exists in Kenya as to the nature of the relationship between social responsibility and profitability of commercial banks, which this study aims to fill.

## 1.3 Research Objectives

1. To find out which activities commercial banks engage in as part of their social responsibility.
2. To find out the importance of social responsibility to commercial banks in terms of the budget allocation for social responsibility as compared to the total budget.
3. To find out whether a bank's level of involvement in social responsibility activities is related to its profitability.
4. To find out whether the banks whose managers have a more positive attitude towards social responsibility have a higher budget allocation towards the same.

## 1.4 Importance of the study

The study is expected to be of importance to various interest groups.

### 1.4.1 To the business community

The study will be important in highlighting the increasing importance of firms being socially responsible in today's extremely competitive business environment.

### 1.4.2 To commercial banks

The study will be of particular importance to the banking industry, as it will serve as an eye-opener to the existing relationship between economic performance and social performance. It can also enable them broaden their scope of social responsibility activities.

### 1.4.3 To policymakers

Stakeholders such as the government will be able to know the extent to which banks are involved in socially responsible activities and possibly explore other avenues in which to involve them more as well as recognize already existing efforts.

### 1.4.4 To researchers

The study will serve as a basis for further research on other key economic indicators other than profits that may affect banks social responsibility efforts. E.g. asset base. Bank managers' attitudes can be used to explain or predict behavior in as far as social responsibility is concerned.

### 1.4.5 To academicians

It will add to the already existing knowledge base on the concept of social responsibility.

## 1.5 Overview of the study

This research report is divided into five chapters. Chapter one which is the introduction consists of background information on the social responsibility concept. The chapter also highlights the research problem, objectives of the study, as well as its importance.

The literature review is contained in chapter two. This is already existing literature on the subject matter under review. Chapter three covers the research methodology, which includes the population of the study, the sample size, data collection and data analysis techniques. Chapter four gives results of the study and an analysis of the data collected.

A summary of the findings, conclusions, limitations of the study and suggestions for further research are contained in chapter five.

# CHAPTER TWO

# LITERATURE REVIEW

This chapter gives a picture of the conceptual basis of the study.

## 2.1 Social Responsibility Concept

The concept of social responsibility is concerned with the obligation that business has in helping to promote the welfare of the society. It has become of mutual interest to both the society and businesses as well.

The president of the World Bank argued for greater corporate social responsibility, at a conference for corporate leaders in Chicago held in November 2002. Wolfensohn told dozens of CEO's attending the forum that their companies' futures depended on the stability of developing nations, which are expected to account for almost all the world's population growth in the next 50 years.
"Social responsibility is not a question of charity, it's a question of enlightened self-interest," he told them. "It's an issue of how we are going to keep our planet stable, so that your businesses can survive" (Business Respect Newsletter, Issue No 43 – 17th Nov 2002).

O'toole (1985) states that the activities through which corporate organisations meet their social responsibilities range from producing safe, reliable, quality products to supporting the arts; providing safe and healthful working conditions to assisting minority enterprises. Each of these activities benefits some group, often to the disadvantages of some other group. Managers must make choices among various interests both inside and outside the corporation.

He adds that the beneficiaries of corporate action are either internal or external. Internal beneficiaries include customers, owners, and employees. External beneficiaries include groups representing minorities, women, the handicapped and the aged.

He continues to add that whereas the dominant objective of commercial firms is invariably expressed in terms of financial performance, firms never pursue a single objective to the exclusion of all other considerations. In the last 40 years or so, there has been an increasing acceptance by management of the diversity of stakeholder interests and expectations to be accommodated. This has given rise to the concept of social responsibility. There are a wide variety of issues that can be considered to fall under the broad heading of social responsibility, and how organizations respond to these issues varies considerably.

According to the European Societal Strategy Project Paper (1981), there are organizations, which largely conform to Friedman's (1963) maxim, that "the business of business is business" and that the only social responsibility of business is to increase profit. The holders of this belief argue that not only is it not the duty of business to be concerned about social issues, but that in doing so they would detract from the primary way in which they should be contributing to society, that is by operating businesses which are economically efficient. Social responsibility they argue is the domain of government, which should prescribe, through legislation, the constraints which society chooses to impose on business, in their pursuit of economic efficiency. Expecting firms to exercise these duties can in extreme cases, undermine the authority of government and give business firms even more power. Somewhat paradoxically, however, it is often devotees of this school of thought that most resent government "interference" in business affairs.

Social responsiveness includes obligatory and reactive behavior but also requires that corporate actions be proactive and takes action to prevent social problems. This meaning places considerable emphasis on the corporation's obligations above and beyond what is legal and expected.

By now, the story of Malden Mills and its owner, Feuerstein, is so familiar that the company name has become a sort of shorthand for corporate benevolence. The tale briefly told: In 1955, a fire destroyed Malden Mills textile plant in Lawrence, an economically depressed town in northeastern Massachusetts. With an insurance settlement of close to $300 million in hand, Feuerstein could have, for example, moved operations to a country with a lower wage base, or he could have retired. Instead, he rebuilt in Lawrence and continued to pay his employees while the new plant was under construction. "Why don't more companies act that way?" is a common reaction when people first hear the story. It is much too simplistic to reply that Feuerstein is a better person than most. Whatever Feuerstein's level of virtue, he had fewer shareholders to answer to than the average CEO. Feuerstein was perhaps too willing and Malden mills filed for bankruptcy protection in November 2001 (Parket and Eilbert, 1975).

According to Gorlin (1989), corporations don't operate in a universe composed solely of shareholders. They exist within larger political and social entities and are subject to pressure from other members of those networks, be they citizens, employees, and political authorities among others. When the interests of shareholders and the larger community collide, management typically and (quite rationally), sides with shareholders. The almost inevitable next step is for management to come under fire for favouring the narrow interests of shareholders, over the broader interests of the community, or put in another way, for failing to meet the demands for social responsibility.

The interests of shareholders and those of the larger community are not always opposed. Firms often willingly engage in socially responsible behaviour precisely because it enhances shareholders value. They believe such activities create goodwill among customers in excess of their price tag. A growing number of firms such as the Body shop, a global skin and hair-care retailer, make corporate virtue part of their value proposition: Buy one of our products, the Body Shop tells its customers and you improve the lives of women in developing countries.

Thompson (1998), argues that a business firm like any other social institution, can endure only if it continues to contribute to the needs of society. The actions of business firms, like all other facets of the establishment are being challenged. "Why should businesses wield so much power of the use of materials, labour, capital and other resources?" is a typical probe. With such questions in mind, it is then important that both existing and aspiring organizations help meet social costs.

Clearly then, shareholder value and social responsibility are not necessarily incompatible. Whether their activities are dictated by choice, or by compliance, firms can serve shareholders' interests while also serving those of the larger community.

Some intrinsically motivated actions turn out to benefit shareholders as well as society. Ford believed he ought to pay his workers enough to afford to buy the cars they produced. That policy appeared to place him at a disadvantage, since the wages and job security at his plants were well in excess of the norms in the auto industry at the time. But his decision ultimately benefited Ford Motor Company by making it an attractive employer and by stimulating demand for its products. At the same time, Ford's move benefited society by raising the bar for pay and labour practices across the auto industry in the USA (Nelson, 2002).

Some intrinsic activities benefit society at the shareholders' expense. Others, however, unless widely adopted, are both detrimental to shareholders and ineffectual in establishing socially beneficial norms. For instance, the leaders of a chemical producer may believe that investing heavily in greenhouse-gas reduction is the right thing to do. But if the producer's rivals refuse to follow suit, the company may undermine its own cost-competitiveness without significantly lowering overall greenhouse-gas emissions (Parket and Eilbert, 1975).

According to Glassman, chairman of Wainwright Bank in the USA, they have currently committed about 40% of their commercial loan portfolio to socially responsible community development projects such as food banks, homeless shelters, among others. He says that there are a lot of benefits from this in that they are strengthening the fabric of the communities they live, where the well being of the lowest common denominator in society affects the well being of everyone. It is also good business for their bank, a win-win proposition.

It also provides depositors with the knowledge that their money is being invested in a socially responsible way. The average consumer often doesn't think about how a bank uses their money and what Wainwright bank is doing is to educate them as to how capital can be used to provide a good return to the shareholders and provide value to the community as well (The Guardian, May, 2003).

According to Porter (1980), the best companies take their social responsibility seriously, because, they know that a socially responsible business is a more competitive, faster moving and stronger business. Social responsibility is crucial to winning that trust and thereby keeping good people and winning more business.

Businesses are economic institutions established by business entrepreneurs, but sustained by society. They are expected to satisfy the society by offering goods and services. The traditional business objective has been economic and in response to accusations of non-involvement in social responsibility, entrepreneurs have been pointing at the way they have indulged in social affairs by promoting economic growth.

## 2.2 Evolution of the concept of Social Responsibility

Concern for social responsibility was rare during the early 1900's. Change began to occur in the late 1930's and early 40's. Shorter workweeks and safer working conditions were some of the first changes; many of these early social responsibility changes were precipitated by labour unions. In effect, labour unions pressured organizations to consider factors other than just profitability (Gantt, 1980).

Gorlin (1990), notes that in the 1950's and 60's, more managers expressed concern about the social responsibilities of organizations. However, few socially responsible programs were implemented until the late 1960's.

Gorlin adds that the attitudes of managers towards social responsibility, seems to have gone through 3 historical phases:

Phase 1 – which dominated until the 1930's emphasized the belief that a business manager had but one objective – to maximize profits.

Phase 2 – from the 1930's to the early 60's, stressed that managers were responsible not only for maximizing profits but also for maintaining an equitable balance among the competing claims of customers, employees, suppliers, creditors and the community.

Phase 3 – still dominant today, contends that managers and organizations should involve themselves in the solutions of society's major problems.

**Classical Economic Theory**

Classical economists hold the view that the main purpose of business is to make profit for the owners and other objectives are secondary to this. Thus, while business strives to ensure that shareholders get maximum returns, government is expected to meet other societal demands, which are not met by private enterprise.

Smith (1776) considered any social benefits accruing to production as unintended byproducts of men's search for private gains. He was a staunch supporter of the Laissez-faire doctrine, which assumes the following:

1. The businessman has no formal social obligations to the public.
2. He serves society best when he tends to his own affairs without giving much thought to social problems.
3. There is an "invisible hand" regulating business dealings in the market.

The above assumptions are the basis for the free market system, which is advocated by classical economists. Businessmen thus have to choose causes of action, which will maximize their profit without considering the societal needs. Classical economists saw competition in the market, as a necessary control device that regulated the behavior of the participants. Currently, due to the inefficiencies or abuse of power, competitive market dynamism does not guarantee protection of every participant, hence the desire for specific regulation. It is necessary for business to try and achieve a dynamic equilibrium with the environmental demands, so as to achieve stability, necessary for survival and growth.

Under common law, corporate managers as trustees had to manage resources for the benefit of the owners and had no authority to dissipate the trust property. Some legal precedents reaffirmed the view that business exists to provide profits and equitable redistribution thereof to the shareholder. In the case of Hutton versus West cork Railway Co (1888), it was stated "charity has no business to sit at the board of directors table".

However, in the case of A.P. Smith manufacturing company versus Barlow (May 1953), it was stated that the corporation was justified in disbursing stockholders wealth for educational purposes. This action was regarded as being in the interest of the public. As trustees, business managers have obligations to several claimants and besides ownership interests, there are other vested interests to consider. Management has a unilateral duty to balance and maximize the interests of all beneficiaries.

Sheldon (1966), stressed that management has a social responsibility and stated, "It is important, therefore, early in our consideration of management in industry, to insist that however scientific management may become, and however much the full development of its powers may depend upon use of scientific method; its primary responsibility is social and community."

Since society legitimizes business powers, which owners have lost to management, it may be right to conclude that management is answerable to society. Business executives have the powers and society demands that those powers be used appropriately for the benefit of all. To justify the powers vested in its hands, management has to accept the concept of social responsibility and to recognize society as a significant variable for purposes of economic success.

## 2.3 Arguments against Social Responsibility

According to Scott (1994), some of the arguments against social responsibility include:

1. Businesses are owned by their shareholders

Any money they spend on so-called social responsibility is effectively theft to those shareholders who can, after all, decide for themselves if they want to give to charity. This is the voice of the laisser-faire 1980's, still being given powerful voice by other advocates. They argue that a stakeholder approach to management deprives shareholders of their property rights. However, they agree that ordinary decency, honesty and fairness should be expected of any corporation. Thus, if shareholders were to be accorded full property rights, one would expect to see the balancing feature of responsibility for the actions taken by the enterprises they often fleetingly own. Since most shareholders remain completely unaware of any such responsibility, it can only fall to the management – the "controlling mind" of the firm, to take on that responsibility.

2. The leading companies who report on their social responsibility are basket cases

It has been argued that the most effective business leaders don't waste their time on these issues. In a "Most Respected Companies" survey carried out by the Financial

Times in the year 2002, Welch of General Electric and Gates of Microsoft turned out as the top business leaders. Neither has achieved their world-class status through playing nice. Welch is still remembered for the brutal downsizing he led his business through and for environmental pollution incidents and prosecutions. Microsoft has had one of the highest profile cases of bullying market dominance in recent times, while Gates has been able to achieve the financial status where he can choose to give lots of money away by being ruthless in business. It is true that we do not live in a world where virtue is always seen to be rewarded, but nevertheless, the picture is not as simple as the above argument brings out.

3. Our company is too busy surviving hard times to do this

Many managers argue that they cannot afford to take their eyes off their core business. It is all very well for big firms with lots of resources to engage in social responsibility, but it is a very different picture for the firms trying to survive. The odd bit of employee volunteering does not make much difference to the society when they feel cynical and negative about how such a firm operates. However, managing social responsibility is like any other aspect of managing your business. If the process of managing social responsibility leads a firm away from its core business, the problem is that the firm is doing it badly. Well-managed social responsibility supports the business objectives of the firm, builds relationships with key stakeholders whose opinion will be most valuable when times are hard and should reduce costs and maximize its effectiveness.

4. It's the responsibility of the politicians to deal with social responsibility issues.

Business has traditionally been beyond morality and public policy. Firms do what they are allowed to do while governments are expected to provide the legal framework that says what society will put up with. There is no point for instance in allowing smoking to remain legal and even making large tax receipts from it, then acting as though tobacco companies are doing the wrong thing.

If corporate social responsibility is simply about obeying the law and paying taxes, then perhaps this argument can hold. However, since it is about managing the demands and expectations of customers, shareholders, local communities, governments and others, and about managing risk and reputation while investing in community resources on which they later depend, then such an argument cannot hold.

## 2.4 Obstacles to Implementation of Social Responsibility

The concept of social responsibility implies the reduction of profits through philanthropies. This may hinder its implementation, for the fear that it may reduce corporate profits. Implementation depends largely on the profit levels for many organisations.

In small organizations, the initiators, depending on their qualities, may be able to push through various programs. However, in large organizations, it becomes difficult to justify the social component of business strategies initiated by top management.

According to Kweyu (1993), the reward-penalty system is another impediment. In large or heavily decentralized firms, where managers are appraised and rewarded on quantitative results, implementation of social programs may be hampered. Managers may continue to be more sensitive to the quantitative measures, where rewards are distributed according to economic accomplishments.

He further observes that businessmen view social responsibility in terms of economic issues and this is a further impediment. They argue that business is established to satisfy the society by offering goods and services. In response to the accusations of non-involvement in social responsibility, businessmen have been pointing at the way they have indulged in social affairs by promoting economic growth.

## 2.5 Actions Necessary to Implement Social Responsibility

According to Rue (1992), the biggest obstacle to organizations assuming more social responsibility is pressure by financial analysts and stockbrokers. They push for steady increases in earnings per share on quarterly basis. Concern about immediate profits makes it difficult to invest in areas that cannot be accurately measured and still have returns that are long run in nature. Furthermore, pressure from short-term earnings affect corporate social behavior; most companies are geared to short-term profit goals.

Rue adds that, budgets, objectives and performance evaluations are often based on short run considerations. Managers who state a willingness to lose some short-term profits to achieve short-term objectives – which sacrifice profit and seek to justify these actions on the basis of corporate social goals, may find stockholders unsympathetic.

According to Gantt (1989), for organizations to be able to implement social responsibility the following actions are necessary:

Firstly, organizations should carefully examine their cherished values – short run profits and others to ensure that these concepts are in tune with the values held by society. This should be a constant process, because the values held by society are ever changing.

Secondly, organizations should also re-evaluate their long range planning and decision making processes to ensure that they fully understand the potential social consequences. Plant location decisions are no longer merely economic matters. Environmental impact and job opportunities for the disadvantaged are examples of other factors.

Thirdly, organization should seek to aid both governmental agencies and voluntary agencies in their social efforts. This should include technical and managerial help as well as monetary support. Technological knowledge, organizational skills and managerial competence can all be applied to solving social problems.

Finally, organizations should look at ways to help solve social problems through their own businesses. Many social problems stem from the economic deprivation of fairly large segments or our society. Attacking this could be the greatest social effort of organizations.

According to Porter (1980), the best companies take their social responsibility seriously; this is because they know that a socially responsible business is more competitive, faster moving and stronger business. Social responsibility is crucial to winning that trust and thereby keeping good people and winning more business.

In Kenya, 'The Kenya Bankers Association' has also realized the importance of good banking practice and has published a booklet 'The Banking Code' which is a voluntary code (that became effective in October, 2001) and sets standards of good banking practice, for Banks choosing to participate in the code, to follow when they are dealing with customers. Some of the key commitments in the code include:

1. To act professionally, fairly and reasonably in all dealings with customers
2. To consider cases of financial difficulty fairly and positively and assist where possible
3. To make sure that all products and services meet relevant laws and regulations

According to Scott (1994), businesses are increasingly experiencing pressure from the society to be socially responsible, this is due to the fact that:

1. Society has become more enlightened – more educated society is more aware of its problems, rights, and the role business can play in social welfare.
2. Society's problems have become more alarming – The society is impatient and feels that something must be done. Therefore, more than ever before businesses cannot be expected to just sit and wait. They must also play a role in helping to combat these problems.

# CHAPTER THREE

# RESEARCH METHODOLOGY

This chapter deals with the research methodology used to conduct the study. It covers the population of interest, data collection methods and data analysis techniques.

## 3.1 Population of Interest

The population of interest for the purpose of this study was all the commercial banks in Kenya. At the end of December 2002, the number of banking institutions stood at 54. The banking system in Kenya comprises commercial banks, non-bank financial institutions, building societies and mortgage finance companies.

***Table 1: Banking Institutions in Kenya (2002)***

| **Type of Institution** | **No. As at December 2002** |
|---|---|
| Commercial banks | 45 |
| Building Societies | 4 |
| Mortgage Finance Co's | 2 |
| NBFI's | 3 |
| **Total** | **54** |

Since the total number of commercial banks was not too high, a census survey was conducted.

## 3.2 Data Collection

The study used primary data, which was collected from all the 45 commercial banks in Kenya (refer to table1). The respondents of the study will be top-level managers of the banks. Secondary data will also be used to collect data pertaining to profit levels as well as budgetary allocations for the social responsibility activities.

A semi- structured questionnaire consisting of both open-ended and closed-ended questions was used. The questionnaire will be administered using the "drop-pick-later" method.

The questionnaire will consist of five sections, A, B, C, D, and E.

Section A dealt with the Social responsibility constituent activities, Section B with budgetary allocation for these activities as compared to the total budget, Section C with the profitability levels of banks, Section D with bank managers' attitudes towards social responsibility, while Section E covered the demographic characteristics of the banks and their managers.

The attitudes of the respondents was captured on a five-point Likert type scale and

The following scheme was used to interpret the responses:

| | | | | | |
|---|---|---|---|---|---|
| Strongly Agree | 5 | Agree | 4 | | |
| Strongly Disagree | 3 | Disagree | 2 | Don't Know | 1 |

### 3.3 Data Analysis Techniques

Data from this study was summarized and presented using tables. Frequency distributions were used to show the social responsibility activities in the first objective. The relationship between variables as per objectives two, three and four were analysed using correlation analyses.

# CHAPTER FOUR

## DATA ANALYSIS AND FINDINGS

This chapter describes the techniques used to analyse the data collected and the findings thereof. Data collected from the completed questionnaires is summarized and presented in the form of tables, percentages and mean scores. Out of the 45 banks surveyed, only 30 questionnaires were filled and returned in good time for data analysis. This gives the overall response rate of 66.6%. The research findings are thus presented as follows.

### 4.1 Activities in fulfillment of Social Responsibility

In terms of activities undertaken by respondents in pursuit of social responsibility, they include, donations to charity homes (90%), sponsorship of sports events (80%), providing medical care, sick leave, mortgages e.t.c for employees (80%) ***(See Table 1)***

***Table 2: Activities in Fulfillment of Social Responsibility***

| SOCIAL RESPONSIBILITY ACTIVITIES | | NO | YES |
|---|---|---|---|
| | No | 6 | 24 |
| Sponsorship Of Sports Events | % | 20 | 80 |
| | No | 3 | 27 |
| Donations to Charity Homes | % | 10 | 90 |
| | No | 18 | 12 |
| Environmental Conservation Initiatives | % | 60 | 40 |
| | No | 27 | 3 |
| Community Policing Initiatives | % | 90 | 10 |
| | No | 9 | 21 |
| Sponsorship Of Charity Walks | % | 30 | 70 |
| | No | 30 | |
| Building Recreation Facilities For Communities | % | 100 | |
| | No | 15 | 15 |
| Assisting Victims Of Disasters/natural calamities | % | 50 | 50 |
| | No | 30 | |
| Curtailing Advertising Which Promotes Products Which Harm Health | % | 100 | |
| | No | 27 | 3 |

| | | | |
|---|---|---|---|
| Employment Initiatives In Favour Of Minority Group | % | 90 | 10 |
| | No | 30 | |
| Reducing Pollution Below The Minimum Legal Standards | % | 100 | |
| | No | 6 | 24 |
| Providing Medical Care, Sick Leave,Mortgages etc, for Employees | % | 20 | 80 |
| | No | 15 | 15 |
| Enhanced Working Environment, social and sporting clubs above minimum safety standards | % | 50 | 50 |
| | No | 18 | 12 |
| Designing jobs to ensure increased satisfaction Of Employees rather than economic efficiency | % | 60 | 40 |

The least popular activities in addressing social responsibilities include reducing pollution and curtailing advertising that promotes products that harm health, building recreation activities at 100% and community policing services at 90%. All respondents are in agreement that these activities are not part of their social responsibility.

However, respondents are divided and somehow undecided on the importance of environmental conservation initiatives, assisting victims of disasters/natural calamities, enhanced working environment e.t.c and designing jobs to ensure increased satisfaction of employees, as activities contributing towards their achievement of social objectives. Some consider some of these items, as social responsibility and others do not think they are. This fails to concur with O'toole's (1985) observation that activities through which firms accomplish their social responsibilities, range from safe, reliable, quality products to guarantee safe and healthful working conditions. Contibutions to charity homes was the most popular activity, with 90% of all the banks saying they participated in this activity.

## 4.2 Budgetary Allocation for Social Activities

The majority of the banks concur that the budgetary allocation for social responsibility is not enough, but banks do their best given the prevailing economic situation. From the literature review, it emerges that social responsibility includes obligatory and reactive behaviour. This hopefully enables firms to have a fit with the society in which they operate thus avoiding social problems. The banks assert that the fund allocation for social responsibility enables them support the communities within which they operate countrywide. However the allocation is insufficient and in some banks, staff volunteering and fundraising schemes complement this. The major concern when addressing social responsibility is its impact on profitability.

## 4.3 Importance of Social Responsibility

Sixty percent (60%) of respondents consider social responsibility as very important while forty percent (40%) consider it moderately important. Banks that do not engage in social responsibility cite financial constraints as an impediment. Many of the banks cite budgetary allocation for social responsibility as evidence of importance of social responsibility in their individual banks. The percentage of total expenditure on social responsibility for the banks, ranges from one percent (1%) to fifty (50%) percent. However, ninety percent (90%) of the banks have their allocations below five percent (5%) of total expenditure.

## 4.4 Attitudes of Managers towards Social Responsibility

Respondents were asked to give opinions on issues ranging from managers responsibility to ensuring that the diversity of stakeholder interests and expectations are catered for, to whether socially responsible firms are more accepted than the less responsible.

The results for this section are summarised in Table 3. On average, respondents are in agreement (Mean score of 4 and Standard Deviation of 1.03) that business firms' objective is to cater for all stakeholders.

They all disagree (Mean score of 2 and standard deviation of 0.42) that the only social responsibility of business is to increase its profit. They consider other factors other than profitability as contributing to their success. This is in line with the President of the World Bank assertion that – "Social responsibility is not a question of charity it is a question of enlightened self – "interest" – "it is an issue of how we are going to keep our planet stable so that your business can survive". It also confirms the hypothesis that firms never pursue a single objective to the exclusion of other considerations.

***Table 3: Descriptive Statistics***

| VARIABLE NAME | N | MIN | MAX | MEAN | STD DEVIATION |
|---|---|---|---|---|---|
| Managers to ensure diversity of S/holders Interests | 30 | 2 | 5 | 3.50 | 1.03 |
| Business only social responsibility is to increase profits | 30 | 2 | 3 | 2.50 | 0.42 |
| Social Responsibility is the domain of government | 27 | 2 | 3 | 2.50 | 0.51 |
| Social responsibility is in the long term interest of firms | 30 | 4 | 5 | 4.50 | 1.09 |
| Businesses can forego profitability for social good | 30 | 2 | 4 | 3.00 | 1.21 |
| The larger the firm, the greater the social responsibility | 30 | 3 | 5 | 4.00 | 1.17 |
| Social responsibility creates short run costs firms cant afford | 30 | 2 | 4 | 3.00 | 0.98 |
| Governments should enact laws on social obligations | 30 | 1 | 5 | 3.00 | 1.40 |
| Top management has prime responsibility for social activities | 30 | 3 | 5 | 4.00 | 1.42 |
| Firms engaging in social responsibility are good corporate members as far as society is concerned | 30 | 4 | 5 | 4.50 | 1.49 |

The banks seem to resent government interference but feel that social responsibility is not the domain of business. They emphasize that it is to their long-term interest that they pursue social responsibility. At instances business should be willing to forgo profitability for social good and that large firms assume higher social responsibility.
When asked whether social responsibility creates short run costs that business cannot afford: from their answers respondents seem to suggest that expenditure on social responsibility and related issues are justified.

The banks prefer self-regulation to government regulation. They are not comfortable with an arrangement where government enacts legislation on social obligation. The mean score of 3.00 for this item suggests that they strongly disagree with the notion that government should enact legislation on social obligation. However, the highest standard deviation for this item of 1.40 suggests wide divergence on views of the respondents. One respondent did not know whether the government is to be involved or not.
The respondents agree that social responsibility programs will only succeed if top management is involved. The most important lesson is that the respondents are aware that firms engaged in social responsibility related activities are more accepted in society than those that ignore social responsibility. Thus, despite most of the respondents having a positive attitude towards social responsibility, few translate it into action, again citing financial constraints and other obligations they must meet before engaging in social activities. It therefore follows that a more positive attitude on the part of managers does not necessarily translate into higher budgetary allocations for social activities.

### 4.5 Business objectives of the firm

Respondents lack agreement on what their key business objective is. This is unexpected given that the majority of respondents are graduates. Twenty percent (20%) think it is to maximize shareholder values. This is in line with the classical economic theory that proposes that the main purpose of business is to make profit for the owners and other objectives are secondary. Remember Adam Smiths (1776) argument that any social benefits accruing to production is unintended by-products of men's search for private gains.

Forty percent (40%) say it is provision of financial services. This group missed the point given that provision of financial services is meant to support the key objective of meeting the interest of stakeholders and not just shareholders. Therefore, almost sixty percent (60%) of the respondents belong to Milton Friedmans maxim that the only social responsibility of business is to increase profit. They want social responsibility to be the domain of government.

However, when asked whether in the pursuance of the profit objective other objectives are being ignored. Ninety percent (90%) of respondents said no. This suggests awareness and concern for social responsibilities, but lack of courage to implement action necessary in observing social responsibility; may be due to financial constraints.

## 4.6 Who is Responsible for Social Responsibility Activities

In some banks, it is the business development manager, head of marketing or community affairs manager. In others, it is the general manager in charge of finance. What is clear is that the decisions on social responsibility lie with the top management in most banks, as a matter of fact, as high as the managing director. The basis of funds allocation towards social responsibility varies from bank to bank. One common word is on-a-needs-basis. At instances, the expenditure on this item is arrived at after consultation and discussion with top management. The impact of this expenditure on profitability and financial position of the bank is critical in deciding on the amount to spend on this item.

## 4.7 Demographic Statistics

This deals with the demographic data of the various banks

***Table 4: Demographic data***

| DESCRIPTIVE STATISTICS | | | | | |
|---|---|---|---|---|---|
| | | Minimum | Maximum | Mean | Std. Deviation |
| E1 | Years The Bank Is In Bussiness | 7 | 100 | 38.1 | 34.6 |
| E2 | Number Of Branches In Kenya | 1 | 60 | 14.2 | 19.0 |
| E3 | Total Staff Outlay | 37 | 1800 | 413.4 | 600.9 |
| E4 | Ownership | 1 | 3 | 1.4 | 0.7 |
| E5 | Managerial Experience In Years | 1 | 18 | 6.6 | 5.5 |
| E6 | Highest Level Of Education | 3 | 4 | 3.8 | 0.4 |

**N=30**

The number of years in business range from seven years to one hundred (100) years with average years being 38years. The number of branches in Kenya range from one (1) to sixty (60) with a mean of fourteen (14) branches.

Seventy percent (70%) of the banks are locally owned, twenty percent (20%) are jointly owned and ten percent (10%) are foreign owned.

The number of employees ranges from thirty-seven (37), to one thousand eight hundred (1,800). However the standard deviation of 600 point out large difference in number of employees in banks. Most of the respondents have college education and above

# CHAPTER FIVE

# CONCLUSIONS

This chapter will consist of a summary, discussions and conclusions. It will also cover limitations of the study, recommendations for further research, as well as recommendations for policy and practice.

## 5.1 Summary, Discussions and Conclusions

From the above results and the entire research as a whole, the concept of business social responsibility is of great importance to most commercial banks in Kenya even though the level of participation of the banks varies.

The banks agree that being members of the society from which they draw their business, they need to reach out and give back to the communities in which they operate so as to be good corporate citizens.

However, many of the banks cite financial constraints as being a hindrance to them being more socially responsible corporate citizens and the fact that decisions regarding social activities largely rest with top management. This has seen the rise of initiatives by employees who sometimes make their own contributions in order to give back to the needy in society, especially in times of disasters such as famine or even the HIV/AIDS pandemic.

It can thus be concluded that most banks in Kenya aspire to be more socially responsible corporate citizens than they are currently, but greater effort on their part needs to be seen, especially by formulating strategies that specifically guide their firms as they pursue the social objective. It should not be left to individuals to determine a banks involvement in social activities because objectivity may at times be lost, given the different attitudes and preferences of individual managers. There is still a lot more which they can do to give back to the communities in which they operate and reap the long run benefits of so doing.

## 5.2 Limitations of the Study

The study was constrained by inadequate time as well as resources to carry a more in-depth research. Being a census survey, the study was greatly limited by the fact that out of the 45 banks, 10 refused to participate in the study citing policy reasons, while another 5 did not return the questionnaires, even after several futile attempts to get them to do so. Thus the results herein were drawn from the 30 banks, which fully co-operated and filled the questionnaires. However since secondary data was also used especially in regard to profit levels, the conclusions drawn in this regard can be considered quite accurate as the data covered all the 45 banks, thus complementing the primary data.

## 5.3 Recommendations For Further Research

The study was quite a basic one, seeking to find out whether banks in Kenya engage in any form of social responsibility activities, its importance and whether it has any relationship to their profitability.

It is recommended that another similar study be undertaken to determine the relationship between social performance and other economic performance measures other than profitability e.g. customer base, growth rate, capital base among others.

A similar study needs to be carried out to find out whether participating in social activities has any impact on a banks bottom line, especially in the long run, whether it be positive or negative. Such a study can draw a relationship that can be used to guide banks in determining the extent to which they can participate in social activities, for maximum gain to them and the society at large.

Another attempt can also be made to see whether more banks can participate in a similar study and whether the results drawn would be markedly different.

## 5.4 Implications for Policy and Practice

Banks have by and large realized that being more socially responsible stands to benefit them more in the long run. A healthier and more contented society is a better ground for banks to draw their business from, unlike a society where members are more engrossed in trying to meet their various needs.

Since societies have also become more informed, their expectations of corporate citizens continues to grow and business firms have no option but to involve themselves more in societal issues or risk losing goodwill that comes with so doing.

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## Appendix I

### Note to the Respondents

University of Nairobi

Faculty of Commerce

Lower Kabete Campus

LETTER OF INTRODUCTION: EVELYN N ANYONA

The above named person is a Masters student in the faculty of Commerce, University of Nairobi. She is carrying out a study on "THE RELATIONSHIP BETWEEN SOCIAL RESPONSIBILITY AND PROFITABILTY OF COMMERCIAL BANKS", as part of the requirements of the MBA degree.

You are therefore kindly requested to assist her by completing the questionnaire, which forms an integral part of the research project. She will be responsible for the administration of the questionnaire. Any additional information you might feel is helpful for this study is most welcome.

The information and data required is for academic purposes only and will be treated with strict confidence. A copy of the research project will be made available to you upon request.

Your assistance will be highly appreciated.

Yours Faithfully,

Dr Martin Ogutu (Supervisor)

# Appendix II

## QUESTIONNAIRE
## SECTION A

1. Is business social responsibility an objective of your firm?

   Yes (    )          No (    )

2. If yes, please tick against each activity that your firm pursues in fulfillment of this objective.

| | | |
|---|---|---|
| A | sponsorship of sports events | (    ) |
| B | Donations to charity homes, hospitals or schools | (    ) |
| C | Environmental conservation initiatives | (    ) |
| D | Community policing initiatives | (    ) |
| E | Sponsorship of charity walks | (    ) |
| F | Building recreation facilities for communities | (    ) |
| G | Assisting victims of disasters/natural calamities | (    ) |
| H | Curtailing advertising which promotes products which Harm health (e.g. tobacco, sweets etc) | (    ) |
| I | Employment initiatives in favour of minority groups | (    ) |
| J | Reducing pollution below the minimum legal standards | (    ) |
| K | Providing medical care, sick leave, mortgages etc, for Employees | (    ) |
| L | Enhanced working environment, social and sporting clubs Above minimum safety standards | (    ) |
| M | Designing jobs to ensure increased satisfaction of employees Rather than economic efficiency | (    ) |

N Others (please specify)

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3. If your firm does not engage in social responsibility activities, please tick against the reasons that would explain why it does not.

A Financial constraints ( )

B Lack of knowledge by top managers on the benefits ( )

C Inadequate knowledge on how to implement it ( )

D Others (please specify)

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## SECTION B

In this section, please write your response in the space provided.

1. Does your firm allocate funds for social responsibility activities in your budget?

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2. Who is responsible for this for this task?

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3. On what basis does your firm determine how much funds are allocated to these activities?

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-------------------------------------------------------------------------------------

4. Would you consider the budgetary allocation as adequate? Please explain.

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5. Using this budgetary allocation as an indicator, how important is social responsibility to your firm.

A very important ( )

B moderately important ( )

C slightly important ( )

D not important ( )

6. What percentage of your total budget is your social responsibility budget?

------------------------% Of total budget.

## SECTION C

1. What is the key business objective of your firm?

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2. Has the pursuance of the profit objective in your firm, been given priority at the expense of your other objectives?

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## SECTION D

For each of the following statements, please circle the answer that is closest to what you believe is true, using the following scale:

| | | |
|---|---|---|
| Strongly Agree | = | 5 |
| Agree | = | 4 |
| Strongly Disagree | = | 3 |
| Disagree | = | 2 |
| Don't know | = | 1 |

1. Managers of business firms should ensure the diversity of stakeholder interests and expectations are accommodated. 5 4 3 2 1
2. The business of business is business and the only social responsibility of business is to increase its profit. 5 4 3 2 1
3. Social responsibility is the domain of the government and not of business firms. 5 4 3 2 1
4. Careful attention to aspects of social responsibility could be in the long-term interests of a firm. 5 4 3 2 1
5. Business firms should be prepared to bear reductions in profitability, for the social good 5 4 3 2 1
6. Social responsibility of a firm is commensurate with the size of social power it exercises. The larger the firm, the greater its responsibility. 5 4 3 2 1

7. The fulfillment of social duties creates short-run costs, which business firms cannot afford. 5 4 3 2 1

8. Governments should enact legislation to ensure all business firms meet societal social obligations. 5 4 3 2 1

9. Top management has the prime responsibility for organizing social responsibility activities and evaluating a firm's effectiveness in meeting them.

5 4 3 2 1

10. Firms that engage in social responsibility activities are good corporate members of the societies in which they are based, as opposed to those who do not.

5 4 3 2 1

7. The fulfillment of social duties creates short-run costs, which business firms cannot afford. 5 4 3 2 1

8. Governments should enact legislation to ensure all business firms meet societal social obligations. 5 4 3 2 1

9. Top management has the prime responsibility for organizing social responsibility activities and evaluating a firm's effectiveness in meeting them.

5 4 3 2 1

10. Firms that engage in social responsibility activities are good corporate members of the societies in which they are based, as opposed to those who do not.

5 4 3 2 1

## SECTION E

1. How long has your bank been in business in Kenya?

   ------------------------------------------------------------------------------

2. How many branches does your bank operate in Kenya?

   ------------------------------------------------------------------------------

3. What is your total staff outlay in your whole network?

   ------------------------------------------------------------------------------

4. Is your institution locally owned, foreign owned or is it a joint venture?

   ------------------------------------------------------------------------------

5. How long have you worked in this institution at a management level?

   ------------------------------------------------------------------------------

6. What is your academic background?

   University

   College

   A-level

   O-level