

**CORPORATE SOCIAL RESPONSIBILITY (CSR)
PRACTICES BY MICRO FINANCE INSTITUTIONS 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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Dedication

This paper is dedicated to my dear family. Thank you for your emotional support and encouragement throughout this course. May this be a reminder that when we stand by each other nothing is unattainable.

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Acknowledgement

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Abstract

This study sought to determine the corporate social responsibility practices adopted by microfinance institutions in Kenya and the factors that influence the choice of these practices. The study will aid management in the choice of CSR activities they can be involved in so as to attain competitive advantage.

The study reviewed literature on the different views of CSR and how it can be entrenched in the strategies of the organization so as to become a competitive advantage and the benefit thereof. The literature review also explored the factors influencing the CSR practices in various organizations and the challenges faced in implementing the same.

The study was conducted using a census survey method, which was appropriate as it enabled the researcher to obtain information from a broad category of firms for comparison purposes. This design also works well where the firms are few in number. The target population was Microfinance Institutions in Kenya (MFI) registered with the Association of Microfinance Institutions of Kenya (AMFI). The main instrument of data collection was a semi structured questionnaire administered to MFI management such as Chief executive officers, Branch managers, Operations managers and Credit officers. The data collected was analyzed using the SPSS Package.

The study found out that most microfinance institutions were involved in employee and product related activities as compared to their involvement in community and environmental activities. Financial performance, the level of competition faced and state regulations were determined as the factors influencing corporate social responsibility practices adopted by mfis, in that order. The study recommends the need for microfinance institutions' increased involvement in CSR, since it was established that the firms will have a competitive advantage in the industry. CSR involvement will also ensure continued growth due to the improved image and increased customers leading to increased profitability. This will enable firms to survive in this very competitive industry.

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List of abbreviations

ISO- International Organization for Standardization

CSR- Corporate Social Responsibility

AMFI- Association of Microfinance Institutions of Kenya

MFIs- Microfinance Institutions

SACCOs- Savings And Credit Co-operative Societies

EV- Employee Involvement

CEO- Chief Executive Officer

SPSS- Statistical Package for Social sciences

WG SR- Working Group on Social Responsibility

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The moral case for why businesses should be actively involved in promoting the betterment of society, and acting so as to benefit all the company's stakeholders rather than their shareholders only, boils down to the fact that it's the right thing to do. (Thompson, Strickland, & Gamble, 2007). They further state that there is an implied school of thought that businesses operate on the basis of an implied contract with the members of society. According to this contract, society provides a business with the right to conduct its business affairs and agrees not to unreasonably restrain its pursuit of a fair profit for the goods or services it sells. In return, for this "license to operate", a business is obligated to act as a responsible citizen by doing its share to promoting the welfare of the society. The business is therefore expected to operate honorably while serving the shareholders by providing good working conditions to employees, being a good environmental steward, and displaying good corporate citizenship. This view is supported by Wheelen & Hunger (2008) whose argument is that business managers have responsibilities beyond economic and legal ones, which is fulfilling its social responsibilities.

1.1.1 Corporate Social Responsibility

Organizations are open systems that are affected by, and in turn affect their external environments. By external environment we mean all relevant forces outside the firm's boundaries (Bateman & Zeithaml, 1993). They further argue that these are forces which

managers must pay attention to in order to help their organizations compete effectively and survive. Auka (2006) refers to these forces as macro economic factors consisting of social, legal, economic, political and technological factors. Organization must therefore stay abreast of and deal constantly with such factors. It is in dealing with social and cultural macro economic factors that the concept of corporate social responsibility comes into play. This concept is of great significance in the global economy. According to Gichana (2004), the emphasize on the need for more socially responsible firms has moved from being the preserve of the developed economies to being the concern of both the emerging economies and the developing nations, courtesy of globalization. The International Organization for Standardization (ISO) has decided to launch the development of an International Standard providing guidelines for social responsibility. ISO 26000.

Corporate Social Responsibility (CSR) can be explained as a combination of sustainable development and treating employees and the society within which companies operate in a responsible manner. The environmental impact of any economic activity should be weighed against the economic benefit and any measures that could mitigate the negative impact should be taken if they are at all economically feasible (Ford, 2007). Ford further argues that at the same time, workers should be entitled to fair and reasonable treatment at work, a fair wage for the job undertaken within the local market and minimum health and welfare benefits.

Bateman & Zeithaml (1993) define Corporate Social Responsibility as the extension of the corporate role beyond economic pursuits. Advocates of CSR argue that organizations have a wide range of responsibilities that extends beyond the production of goods and

services at a profit. As members of Society, organizations should actively and responsibly participate in the community and in the larger environment. Leonard, Davies & Binder (1977) support this stand in their argument that today the businessman does not enjoy automatic public admiration and support for performing what has traditionally been regarded as his primary function: overseeing the efficient production of the goods and services Society requires. They must reconcile and mediate among the claims of numerous constituencies, many of which have little to do with production, but with Society's expectation. They further argue that in the conduct of its affairs, business has a reasonability to obey both the spirit and the letter of the law; to have a just concern for the welfare of its employees, to be a good Citizen in the community which it affects; and to use its resources, talents and imagination to provide the goods and services which the community needs.

Baron (2006) defines Corporate Social Responsibility as policies and programs of private firms that go beyond legal requirements as a response to public pressures and societal expectations. He further argues that social responsibilities arise from the needs and legitimate concerns of individuals and Society, and business must assess those needs and concerns to determine the extent of its responsibilities.

According to Gordon, Mondy, Sharplin & Premeaux (1990) Social responsibility is the implied, enforced or felt obligation of managers, acting in their official capacities to serve or protect the interests of groups other than themselves. Corporate Social Responsibility is often described as listening and responding to the needs of a company's stakeholders. This includes the requirements of sustainable development (Oloo, 2006).

Social Responsibility practices include a wide range of activities. According to Donnelly, Gibson & Ivancevich (1992), socially responsive activities can be classified into eight categories. These include socially responsible actions in the product line, marketing practices and employee education and training. Others include environmental controls, actions in employee relations, employee safety and health, employment and advancement of minorities and corporate philanthropy.

Johnson & Scholes (2002) classify CSR activities according to internal and external aspects. The internal aspects of CSR practices include Employee welfare, working conditions, job design and intellectual property; while the external aspects are concerned with Environmental issues, markets and marketing, suppliers, employment, community activity and human rights. Gichana (2004) found out that most Kenyan firms are mainly involved in health and education activities.

Pearce & Robinson (1997) state that social responsibility issues are numerous, complex, and contingent on specific situations. Each firm regardless of size must decide how to meet its perceived social responsibility. They further argue that different approaches of CSR undertaken by organizations reflect differences in competitive position, industry, country, environmental and ecological pressure and a host of other factors. In other words, they will reflect both situational factors and differing priorities in the acknowledgment of claims. Gichana (2004) sites Sawyer (1979) who shares this view and argues that "...each business must decide on its approach in trying to meet its perceived social responsibility".

1.1.2 Factors Influencing Corporate Social Responsibility Practices

Okeyo (2004) established that average profitability, industry sector and management style were identified as factors that determine firms involvement in corporate social responsibility in Kenya. Margolis & Walsh (2001) also argue that financial performance is a factor that determines a firm's involvement in CSR. Firms that do not perform well financially may be struggling to survive thus not be able to incur social expenditure. Martin (2003) also argues that sometimes the most effective means of facilitating increased corporate responsibility is through corporate peer pressure. This is implemented by regulatory mechanisms set by the industry so that various factors such as fair practices, product quality and workplace safety are adhered to.

Other factors that influence firms' corporate social responsibility practices include state regulations and the level of competition faced in a firm. Campbell (2007) argues that firms faced with a stiff competition in their industry are likely to act in socially irresponsible ways in so far as this will help them turn a profit and survive. He further argues that the state regulations will cause a firm to act in a responsible manner if the state is able to monitor corporate behaviour and enforce these regulations when necessary.

1.1.3 Microfinance Institutions in Kenya

Traditionally, banks have usually not provided financial services to clients with little or no cash income. This is because of the substantial costs incurred to manage a client's account, regardless of how small the sums of money involved (Microfinance, 2009). This explains why banks shied off from lending to poor people due to their lack of collateral as well as the cost they would incur in following default cases. The founders of

Microfinance shared a vision to supply formal financial services to poor people shunned by banks because their savings were tiny, their loan demand was small, and they lacked loan collateral (Zeller & Meyer, 2002).

Microfinance refers to the provision of financial services to poor or low income clients. The term refers to the practice of sustainably delivering those services (Microfinance, 2009). Microfinance Institutions in Kenya were founded on the basis of the Grameen bank model in Bangladesh, championed by Professor Muhammad Yunus. According to the ("History of Microfinance," 2007) Professor Yunus designed an experimental credit programme to serve the poor. Though the project was very successful by virtue of the fact that he recovered thousands of loans disbursed, the banks refused to take the project at the end of the pilot phase because they feared that it was too expensive and risky. The Grameen bank headed by Professor Yunus was founded in 1983 with the support of donor funding.

The Association of Microfinance Institutions of Kenya (AMFI) is a members Institution that was registered in 1999 under the societies Act by the leading Microfinance Institutions in Kenya to build capacity of the Microfinance Industry in Kenya. AMFI is an umbrella organization representing microfinance institutions in Kenya. AMFI membership ranges from large to small institutions which have a diverse legal status ranging from microfinance banks, Wholesale MFI's, to Retail MFI's, development Institutions and Insurance companies which represent the entire landscape of the microfinance industry in Kenya. AMFI has a current membership of 43 institutions.

According to the Press Release from the Central Bank of Kenya (Ndu`ngu, 2008) the contribution that the Microfinance Industry has made over the years in enhancing access to financial services to low-income households and micro and small scale enterprises (SMEs) and in promoting wealth creation cannot be over emphasized. In support of this the Government of Kenya has regulated the operations of microfinance institutions in Kenya through the enactment of the Microfinance Act (2006) and Regulations (2008) that set out the legal, regulatory and supervisory framework for the Microfinance Industry. This Act became effective in 2nd May, 2008. The publication further states that the Kenya vision 2030 envisages the strengthening of quasi-banking institutions including microfinance institutions and savings and credit co-operative societies (Saccos) among others. This is part of the Government reform agenda in developing an all inclusive financial system.

The main product offered to clients of MFIs is the Loan product but there are other products such as insurance services and deposit services. The loans are given on the basis of group co-guaranteeing since the clients cannot afford collateral. MFIs also provide training to ensure that clients use the loans provided effectively in growing their businesses. Should the client default then the group savings clear the loan while the group recovers their saving by following up on the member to pay up the loan. It has been argued in cases where MFI clients have defaulted on their loans their last option was to sale their household goods and businesses to recover the loans thus making them worse than when they joined the MFI. There is therefore a need for MFIs to participate in Corporate Social Responsibility especially among the communities they serve since they

understand firsthand the needs in the community. This may eventually lead to a large membership from the people they are able to reach out to thus continuing to assist in the eradication of poverty as well as the MFIs' growth.

1.2 Statement of the Problem

In as much as it is important for a business to make profit in order to survive, a basic point to be remembered is that there is need to satisfy the needs of the society. If the needs of society are not satisfied, a firm will ultimately cease to exist because a firm operates by public consent to satisfy society's needs. The business is a member of the community in which it operates and must work to improve it so as to enhance its image as well as improve the firm's profitability in the long run (Gordon et al., 1990). Further corporate social responsibility is now not just the preserve of the local firm but is a global requirement as the International organization for standards works at establishing ISO 26000. This will provide a harmonized globally relevant guidance based on international consensus to encourage the implementation of best practice in social responsibility worldwide ("An important landmark in the road towards ISO 26000," 2006).

The microfinance institutions' industry has made a major contribution in the eradication of poverty by reaching out to the poor who are not able to access bank loans, and yet have potential to operate successful businesses. "Established MFIs have graduated a large number of entrepreneurs into mainstream commercial banking and lifted millions of people out of poverty. According to Ann Mutahi, the chairperson of the Association of

Micro Finance Institutions (AMFI), MFIs have a big role to play in nurturing entrepreneurship in the country” (Gichira, 2006).

The Microfinance Industry is growing due to the need and demand in the market. Currently there are 33 MFIs registered with AMFI. Both the existing and new MFIs face the challenge of competition and the need to have a competitive advantage since this will determine their growth and sustainability. In as much as they uplift the level of living of the poor Kenyans, there is need for them to be involved in Social Responsibility activities so that they can remain relevant in the corporate world, since this is a global concept that is providing competitive advantage to businesses. Clearly, building good relationships with employees, suppliers and wider society is the best guarantee of long-term success. Companies have the responsibility of integrating the issues of the workplace, human rights, the community and the marketplace into their core business strategies. This will mean embracing CSR.

A number of studies have been done on Corporate Social Responsibility but on different perspectives. Gichana (2004) analyzed CSR practices by Kenyan Companies. The study sought to identify the Social Responsibility practices of firms listed in the NSE as well as determine the factors explaining the kind of CSR practices adopted by a firm. The study revealed that though the firms were involved in CSR activities, they were mainly involved in health and education.

Auka (2006) focused on the factors influencing the practice of CSR of financial Institutions in Kenya. This study sought to determine what factors influence the involvement of banks in Corporate Social Responsibility activities as well as determining

whether there is any perceived benefit gained as a result. The researcher found out that the banks were involved in various CSR activities varying from bank to bank influenced by corporate image, moral obligations and solving societal problems.

Okeyo (2004) carried out a study on the Rationale and Determinants of Levels of Corporate Social Responsibility among firms in Kenya, and found out that average profitability, industry sector and management style as factors that determined levels of CSR involvement in Kenya. The top four rationales of CSR were found to be long-term strategy, high public visibility, response to society's needs and use of CSR as a competitive advantage.

The above studies showed that CSR awareness in firms and the activities that a firm is involved in, as well as what influences a firm's involvement in CSR are unique to various firms and industries. No study has been done on the CSR awareness and activities adopted in the Microfinance Industry. There was therefore need to study the level of awareness of CSR in the Microfinance Industry and understanding what factor influence the choice of these activities, as well as the challenges faced in carrying out these activities. The research questions in this study were as follows:

- i. What are the CSR practices adopted by the microfinance institutions in Kenya?
- ii. What factors influence the choice of CSR practices?

1.3 Research objectives

- i. To determine CSR practices adopted by the microfinance institutions in Kenya.

- ii. To determine factors influencing CSR practices adopted by the microfinance institutions in Kenya.

1.4 Importance of the Study

The study will provide information to the MFI Industry managers as well as other managers and act as a guide to both the existing and new companies on how to get involved in CSR so as to create a competitive advantage and remain relevant globally.

This study will also add to the body of knowledge and create a point of reference. It will also highlight other relevant areas related to this study that should be taken up by other researchers such as the perceived benefits of CSR by the Community.

CHAPTER TWO: LITERATURE REVIEW

2.1 Corporate Social Responsibility Concept

Thompson et al. (2007) describe the essence of socially responsible business behaviour as the need for a company to balance strategic actions to benefit shareholders against the duty to be a good corporate citizen. Their argument is that company managers are obligated to display a *social conscience* in operating the business and specifically, there is need to take into account how management decisions and company actions affect the well-being of employees, local communities, the environment, and society at large. According to Thompson et al. (2007), “Acting in a socially responsible manner thus encompasses more than just participating in community service projects and donating money to charities and other worthy social causes. Demonstrating social responsibility also entails undertaking actions that earn trust and respect from all stakeholders – operating in an honourable and ethical manner, striving to make the company a great place to work, demonstrating genuine respect for the environment and trying to make a difference in bettering society.”

Gordon et al. (1990) described the Social responsibility as the implied, enforced or felt obligation of managers, acting in their official capacities, to serve or protect the interests of other groups other than themselves. This supports the view that the concept of social responsibility requires the manager to go beyond serving the shareholders by just considering the aspect of profit. Rather the manager should also consider meeting the needs of other stakeholders and including society. According to Gordon et al (1990), “...

if the needs of society are not satisfied, a firm will ultimately cease to exist because a firm operates by public consent to satisfy society's needs.”

There are those who support the concept of CSR while others oppose it. Advocates of CSR agree with the view that the obligation of business goes beyond making profit since other stakeholders apart from the shareholders must be considered. The critics of CSR on the other hand argue that the social responsibility of business is to use its resources to increase the firm's profits. They further state that the managers are agents of shareholders thus they are obliged to only meet their needs.

2.1.1 Advocates of Corporate Social Responsibility

The advocates of CSR agree that organizations have responsibilities to Society other than making a profit. This is referred to as the Stakeholder theory. Bateman & Zeitham (1993) contend that organizations have a wide range of responsibilities that extend beyond the production of goods and services at a profit. They further argue that as members of society, organizations should actively and responsibly participate in the community and in the larger environment. This view is also supported by Gordon et al. (1990) who argue that business is a member of the community in which it operates. Just as citizens may work to improve the quality of their community, the firm should also respect and work with other members of its community. Rather than view CSR as conflicting with economic objectives, CSR earns the company a good image in the society which leads to the society choosing its products or services offered as a way of appreciation. Porter & Kramer (2002) support this by suggesting that “social and economic goals are not

inherently conflicting but integrally connected". They further argue that being known as socially responsible firm may provide a company with social capital referring to the goodwill of key stakeholders, which can be used for competitive advantage.

Profits are merely a means to an end, not an end in itself. Just as a person needs food to survive and grow, so does a business corporation need profits to survive and grow. Maximization of profits cannot be the primary obligation of business (Byron, 2003).

Carroll (1991) proposes that the managers of business organizations have four responsibilities, namely, economic, legal, ethical and discretionary. The economic responsibility is to produce goods and services of value to the society, and the legal responsibility is defined by governments in laws that management is expected to obey. Ethical responsibilities of an organization's management are to follow the generally held beliefs about behaviour in society such as the employer working with the employees and the community in planning for layoffs, even though no law may require this. The discretionary responsibilities are the purely voluntary obligations a corporation assumes such as philanthropic contributions. The difference between ethical and discretionary responsibilities is that few people expect an organization to fulfill discretionary responsibilities, whereas many expect an organization to fulfill ethical ones. When businesses practice CSR, the government is friendlier thus not imposing too many regulations on the businesses. Because the businesses are able to choose the CSR activities they can engage in rather than have the government impose on them, then they can ensure that they earn a profit. Carroll (1991) reiterates this position by stating that "...

a lack of social responsibility results in increased government regulations which reduce a firm's efficiency".

Organizations cannot therefore work in isolation but must give due consideration to the community that is bound to be affected by its decisions. Wheelen & Hunger (2008) state that strategic decisions often affect more than just the corporation. A decision to retrench by closing some plants and discontinuing product lines, for example, affects not only the firm's workforce but also the communities where the plants are located and the customers with no other source for the discontinued product. According to Baron (2006), the social responsibility roles may stem from societal needs not otherwise adequately addressed due to market imperfections, inability or unwillingness of governments to meet these needs. From this perspective, social responsibilities arise from the needs and legitimate concerns of individuals and society, and business must assess those needs and concerns to determine the extent of its responsibilities. The central question in CSR has been that as each organization strives to achieve its mission and vision, does it add value to the society which franchises its existence?

2.1.2 Critics of Corporate Social Responsibility

Critics of CSR argue that organizations should be responsible to the shareholders. This is an example of agency theory in which the directors of a company are seen as agents of the owners, and who are duty bound to act, so as to maximize the interests of those owners (Mullins, 2005). The critics believe that the CSR perspective exceeds the limits of what is appropriate and beneficial to the organization and society (Bateman & Zeithaml, 1993). They hold the view that managers are responsible primarily to the shareholders

who own the corporation. They further argue that the importance of other corporate stakeholders such as employees, customers and the local community residents depends on their contribution to shareholder wealth.

This perspective is championed by Milton Friedman. Wheelen & Hunger (2008) state that Friedman referred to the Social Responsibility of business as a “fundamentally subversive doctrine” and stated “there is 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”. He further states that a business person who acts “responsibly” by cutting the price of the firm’s product to prevent inflation, or by making expenditures to reduce pollution, or by hiring the hard-core unemployed, is spending shareholder’s money for a general social interest. Even if the person has shareholder permission or encouragement, he/she is still acting from motives other than economic and may in the long run harm the very society the firm is trying to help. Friedman’s argument is that by taking up the burden of social costs, the business becomes less efficient- either prices go up to pay for the increased costs or investment in new activities and research is postponed. These results negatively affect the long-term efficiency of a business. This may also in the long run harm the very society the firm is trying to help.

Friedman argues that if Organizations do not directly pursue economic success in highly competitive national and International markets, their chance of failure increases significantly (as cited in Wheelen & Hunger, 2008). Critics argue that CSR activities are best carried out by the government and non-profit charities. Their view is that the primary goal of business is to maximize profits, not to be a social worker.

2.2 External Environment

The external environment includes all the forces acting on the organization from the outside. Customer, competitors, suppliers, and human resources are some of the obvious forces in an organization's external environment. Other forces that are not so obvious include technological, economic, political, legal, regulatory, cultural, social and international forces (Donnelly et al., 1992). Thompson et al. (2007) refer to the external environment as the macroenvironment. They state that all companies operate in a macro environment shaped by influences emanating from the economy at large; population demographics; societal values and lifestyle; governmental legislation and regulation; technological factors; and the industry and competitive arena in which the company operates. Managers in coordinating the activities of the entire organization should recognize that the organization is an element of a larger system that makes demands on the organization so as to get some valued outcome from it. This larger system is the external environment. The external environment comprises many forces that impact the organization's structure, processes and performance. According to Bateman & Zeithaml (1993), many of these external factors are uncontrollable and managers cannot ignore them and use them as excuses for poor performance. For an organization to succeed, its managers must recognize these external forces, comprehend their interrelationships and understand their real and potential impacts on the organization (Bateman & Zeithaml, 1993).

Social trends concerning how people think and behave have major implications for management of the labour force, corporate social actions and strategic decisions about products and markets. With the rising popularity of children in the Western world in the

1980's, companies wanting to create or maintain a competitive advantage – or those who wanted to merely stay competitive – were those supporting policies regarding maternal/paternal leave, flexible working hours and child care (Bateman & Zeithaml, 1993). The strategic opportunities of cigarette producers to grow their business are greatly reduced by antismoking ordinances and the growing cultural stigma attached to smoking. Companies in the food-processing restaurants, sports, and fitness industry have to be alert to the changes in lifestyles, eating habits, leisure-time preferences, and attitudes towards nutrition and exercise in formulating their strategies (Thompson et al., 2007). In responding to the changing attitudes towards nutrition, Hill & Jones (2004) give an example of Pepsi Co. which was able to gain market share from its rival Coca-cola by being the first to introduce diet colas and fruit-based soft drinks. Managers must therefore stay abreast of and deal constantly with external developments, in order to formulate competitive strategies within the environment in which they operate.

An example of external developments is the fact that there is a standard being developed internationally that organizations will soon have to measure up to in the practice of CSR. This will enhance international recognition for the firms that will adhere to the standard. According ISO (2006), a meeting was held in Lisbon, Portugal for the participants of the International Organization for Standardization (ISO) Working Group on Social Responsibility (WG SR) in May, 2006. 320 people from 55 countries and 26 international organizations attended the plenary meeting. The main agenda for this meeting was to work on the content of the ISO 26000 standard and to define the operating framework of the WG SR, in order to strengthen participation and accountability. The WG SR is also developing communication tools for promoting Social Responsibility awareness

throughout the world and the significance of the ISO standard. There is also development of how diverse interests may effectively contribute to the shaping of the ISO 26000 standard and to other Social responsibility activities. Communication skills include a dedicated website to allow interested parties to participate.

2.3 Strategy and Competitive advantage

“A strategy is an integrated and coordinated set of commitments and actions designed to exploit core competencies and gain a competitive advantage. An effectively formulated strategy marshals, integrates and allocates a firm’s resources, capabilities and competencies so it can cope successfully with its external environment.” (Hitt, Ireland and Hoskisson, 1997). This kind of a strategy should also rationalize a firm’s strategic intent and strategic mission and what it should do to achieve them. In formulating this strategy information of such factors as markets, customers, technology, worldwide finance and the changing world economy, must be collected and analyzed. This will enable the organizations to formulate and Implement strategies properly.

There are different social responsibility activities that a company can choose to get involved in. The particular combination of socially responsible endeavours the company chooses to engage in defines its social responsibility strategy. According to Thompson et al. (2007), unless a company’s social responsibility initiatives become part of the way it operates its business every day, the initiatives are unlikely to catch fire and be fully effective. They sight an executive at Royal Dutch/Shell who said the following about CSR “is not a cosmetic; it must be rooted in our values. It must make a difference to the way we do business.” To this end, some companies are integrating social responsibility

objectives into their missions and overall performance targets. Thompson et al. (2007), further demonstrated how some 2500 companies around the world are not only articulating their social responsibility strategies and commitments but they are also issuing annual social responsibility reports that set forth their commitments and the progress they are making for the world to see and evaluate.

An example of social responsibility linked to the company's strategy and operating practices is Starbucks. This they do via their tag line "Giving back to our communities is the way we do business." Top management ensure the company is living up to this theme in its activities of community building, efforts to protect coffee growers and their families (in particular making sure they receive a fair price), a variety of recycling and environmental conservation practices, and the financial support it provides to charities and the disadvantaged through the Starbucks Foundation.

A firm is assured of a competitive advantage only after others' efforts to duplicate its strategy ceased or failed. Even if a firm achieves a competitive advantage, it normally can sustain it only for a certain period of time (Hitt et al., 1997). They provide three general factors to be considered for the sustainability of competitive advantage. These are the rate of core competence obsolescence due to environmental changes, the availability of substitutes for the core competence and the ability to imitate the core competence. The challenge of strategists is therefore to manage current core competencies effectively while simultaneously developing new ones to use when the competitive advantage derived from the application of the current ones has been eroded. They further argue that the speed with which competitors are able to acquire skills needed to duplicate the benefits of a firm's value-creating strategy determines how long a competitive advantage

will last. A firm needs to understand how to exploit its competitive advantage so as to earn above-average returns. To achieve strategic competitiveness and earn above-average returns, a company analyzes its external environment, identifies opportunities in that environment, determines which of its internal resources and capabilities are core competencies, and selects an appropriate strategy to implement. CSR must therefore be considered in strategy formulation since it is a key factor in the external environment that has taken a global perspective, thus organizations cannot ignore it.

Being known as a socially responsible firm may provide a company with social capital, the goodwill of key stakeholders, which can be used for competitive advantage (Wheelen & Hunger, 2008). They further provide the results of a survey of 140 U.S. firms, which revealed that being more socially responsible resulted not only in competitive advantages but also in cost savings. An example is companies that take the lead in being environmentally friendly, by taking measures such as the use of recycled materials. Such companies preempt attacks from environmental groups and enhance their corporate image.

2.4 Corporate Social Responsibility Practices and its perceived benefits

CSR practices can be classified broadly as having an internal or external approach. Internal aspects of CSR practices include those practices that affect employees and shareholders such as employee welfare, working conditions, job design, and intellectual property. The external aspects of CSR include environmental issues, products, markets and marketing, suppliers, employment, community activity and human rights (Johnson & Scholes, 2002).

A business has a social responsibility to create a product line that is safe, reliable and of a high quality. In its marketing practices, a business can practice social responsibility by being truthful and complete in advertising its products. Where employees education is concerned, the organizations can take up the responsibility of effectively preparing their employees to perform jobs well as well as retraining rather than laying off employees when new technology is implemented. Environmental control may be done by use of production technologies that reduce the amount of pollution emitted by manufacturing processes. To enhance employee relations, benefits and satisfaction with work organizations can provide benefits that accommodate important but unfulfilled employee needs such as a day care facility for parent employees (Donnelly et al., 1992). This ensures that the parent employees because of their peace of mind are better workers eventually translating to more profit for the business.

In the area of employment and advancement, companies can consider promoting the welfare of the marginalized groups in the society by hiring and professionally developing them. On looking into the employee welfare, the firms can provide a clean, safe and comfortable working environment. This ensures that the employee health is taken care of thus reducing the medical expenditure, which translates to higher profits for the organization. There is a wide range of CSR activities that an organization can choose to be involved in based on their policies or preferences.

Different companies adopt different CSR activities, and each company's version of being socially responsible is unique. At General Mills the social responsibility focus is on service to the community and bettering the employment opportunities for minorities and women. Ernst & Young, one of the four largest global accounting firms focuses on

respecting differences, fostering individuality, and promoting inclusiveness so that its 105,000 employees in 140 countries can feel valued, engaged, and empowered in developing creative ways to serve the firm's clients (Thompson et al., 2007).

Barclays bank of Kenya has taken its corporate social investment very seriously and made it an integral part of its business strategy. The bank invest 1 percent of its annual pre-tax profits towards social concerns especially the Girl child's education through sports. Other CSR initiatives taken by Barclays include providing education to needy students, providing computers to schools, waiving bank charges for all public primary schools, to ensure that these schools enjoy free expert banking services and contributing towards health initiatives such as purchase of mosquito nets to eradicate Malaria. The bank is also involved in enhancing youth participation in leadership initiatives. This is a program which educates and inspires young people to value free enterprise, business and economics to improve the quality of their lives. The bank encourages staff participation in community work through practical community schemes. The Employee Involvement Scheme (EV) entitles every member of staff¹ to two days every calendar year during which they can take time off to volunteering their skills to the community (Oloo, 2006).

There are benefits reaped from practicing CSR. The image of a business is a source of competitive advantage. Both Governments and consumers tend to favour organizations that are perceived to be socially responsible. This view is supported by Bateman & Zeithaml (1993). Their view is socially responsible actions have long-term advantages for organizations. Organizations can improve their images and avoid unnecessary and costly regulations if they are perceived as socially responsible. Such firms are more likely to attract capital infusion from investors who view reputable companies as desirable long

term investors. Firms may well be penalized by employees, consumers and shareholders for actions that are not considered socially responsible (Thompson et al., 2007). They sight an example of a major oil company that suffered damage to its reputation on environmental and social grounds. The CEO repeatedly said that the most negative impact the company suffered – and the one that made him fear for the future of the company – was that bright young graduates were no longer attracted to work for the company. Consumer, environmental and human rights activist groups are quick to criticize businesses whose behaviour they consider to be out of line, and they are skilled in getting their message into the media and onto the internet. Such groups can generate widespread adverse publicity, promote boycotts, and influence like-minded or sympathetic consumers to avoid an offender's products.

Another benefit of CSR is that the problems affecting the society offer a business opportunity and profits can be made by entrepreneurs who take up the challenge to solve these problems. Thus it pays to be good. According to Wheelen & Hunger (2008), empirical research now indicates that socially responsible actions may have a positive effect on a firm's financial performance. They state that though a number of past studies found no significant relationship, an increasing number are finding a positive relationship. A recent indepth analysis by Margolis & Walsh (2001) found that "there is a positive association and very little evidence of a negative association between a company's social performance and its financial performance (as cited by Campbell, 2007). Thompson et al. (2007) also state that nearly 100 studies have examined the relationship between corporate citizenship and corporate financial performance over the past 30 years. The majority of these studies point to a positive relationship. They further

state that of the 80 studies that examined whether the company's social performance is a good predictor of its financial performance, 42 concluded yes, 4 concluded no, and the remainder reported mixed or inconclusive findings. It therefore follows that socially responsible behaviour promotes good business and that it is in the best interest of the shareholders for a businesses to have social responsibility strategies that are practiced.

Socially responsible firms can also attract outstanding employees who prefer working for a responsible firm. Thompson et al. (2007) argue that companies with deservedly good reputations in terms of contributing money and time to the betterment of the society are better able to attract and retain employees as compared to those with tarnished reputations. Some employees just feel good working for companies committed to improving the society welfare. This can contribute to lower turnover and better worker productivity. As such, other direct and indirect economic benefits include lower costs for staff recruitment and training. Some of these employees are also likely to be the recipients of the firm's social responsibility projects such as the education and environmental projects.

It is in the best interest of shareholders for companies to practice CSR. Well-conceived CSR strategies benefit shareholder in various ways. One of the ways is that the practice of CSR helps avoid or preempt legal and regulatory actions that could prove costly and otherwise burdensome. Also shareholders could benefit from the fact that increasing numbers of mutual funds and pension benefit managers prefer to purchase stocks from companies that meet social responsibility criteria. Thompson et al. (2007), cite a survey in the U.S.A. where one out of every eight dollars under professional management in the involved socially responsible investing. The growth in socially responsible investing and

identifying socially responsible companies has therefore led to a substantial increase in the number of companies publishing formal reports on their social and environmental activities. Stock prices of companies that rate high in social and environmental performance criteria have been found to perform 35 to 45 percent better than the average of the 2,500 companies comprising the Dow Jones Global Index. Further, a two year study of leading companies found that improving environmental compliance and developing environmentally friendly products can enhance earnings per share, profitability, and the likelihood of winning contracts (Thompson et al., 2007).

Another benefit of practicing CSR is that such firms are more likely to be welcomed into a foreign country. CSR has now become a global concept especially with the International Organization for Standardization working on the development of an International standard which will provide guidelines for social responsibility. Practicing CSR will make it more viable for a firm to enter the International market.

2.5 Factors Influencing Corporate Social Responsibility Practices

Financial performance is one of the factors that determine a firm's involvement in CSR. Firms whose financial performance is weak are less likely to engage in socially responsible corporate behaviour than firms whose financial performance is strong (Margolis & Walsh, 2001). This is because firms that are less profitable have fewer resources to spare for socially responsible activities than firms that are more profitable – an argument that is often referred to as scarce resource theory (Waddock & Graves, 1997), (as cited in Campbell, 2007). It follows therefore that if firms are operating in an economic climate where for instance, inflation is high, productivity growth is low,

consumer confidence is weak and it generally appears that it will be relatively difficult for firms to turn a healthy profit in the near term, they will be less likely to behave in socially responsible ways than would otherwise be the case (Campbell, 2007).

Another factor that influences CSR practices in a firm is the level of competition faced. In situations where competition is so extremely intense that profit margins narrow enough to put shareholder value and firm survival at risk, the incentive to look for ways of saving wherever possible will prevail in some firms. This will cause corporations to act in socially irresponsible ways in so far as this will help them turn a profit and survive (Campbell, 2007). Kolko, (1963); Mc Craw, (1984); Schneiberg, (1999). give examples in the past of how periods of very intense competition caused firms to do all sorts of socially irresponsible things in order to survive (as cited in Campbell, 2007). Some of these included compromising product safety and quality, sweating labour, and cheating customers. However under normal competition conditions, where at least a modest profit is assured and firm survival per se is not at stake, firms are likely to engage in CSR practices. As a result the firm earns itself a good name and thus it becomes imperative for it to protect its image for the sake of continued business success.

State Regulations also influence CSR practices adopted by firms. An example of a state regulation is the meat industry in the United States where meat packers operated during the early twentieth century with much less concern for food safety and quality than they did after the Department of Agriculture moved to regulate the industry. "Of course, it is not just the presence of regulations per se that matters but also the capacity of the state to monitor corporate behaviour and enforce these regulations when necessary" (Campbell, 2007). Businesses are also influenced to work more responsibly in cases where the

process by which these regulations and enforcement capacities were developed was based on consensus building among corporations, government and other relevant stakeholders.

Industries can also set their own regulatory mechanism to ensure various factors such as fair practices, product quality and workplace safety is adhered to. In fact, sometimes the most effective means of facilitating increased corporate social responsibility is through corporate peer pressure (Martin, 2003). This is enforced by industrial associations who ensure that their members act in socially responsible ways. Globally, organizations such as Transparency International have been created to help reduce corrupt business practices around the world (Porter & Kramer, 2003).

According to the capital available to various firms as well as their size, each firm must decide what CSR activities to be involved in and how much they are willing and able to spend on it. Pearce & Robinson (2002) state that “different approaches undertaken by organizations will reflect differences in competitive position, industry, country, environmental and ecological pressure and a host of other factors”. In other words, they will reflect both situational factors and differing priorities in the acknowledgment of claims. Sawyer (1979) shares this view. His argument is that, “... each business must decide on its approach in trying to meet its perceived social responsibility” (as cited in Pearce & Robinson, 2002).

2.6 Challenges Faced in Implementation

Financial constraints could present a challenge for firms desiring to be involved in CSR. If a firm is only breaking even or managing a minimal profit, it will put all its efforts in ensuring its survival. No true profit can be claimed until business costs are paid (Pearce

& Robinson, 1991). According to Pearce & Robinson (1997), while large and well capitalized companies may have easy access to environmental consultants, this is not an affordable strategy for smaller companies. The size of the firm and its financial capability therefore could present a challenge for the firm in getting involved in CSR.

The view of the management of the company determines whether a company implements CSR or not. If the management practice the Agency theory championed by Milton Friedman, they are likely not to get involved in CSR activities. Milton Friedman describes the agency theory as being the view that the social responsibility of business is to make as much money as possible for the shareholders, within the rules of the game, such as fair competition, no deception or fraud (as cited by Mullins, 2005). According to Wheelen & Hunger (2008), critics of the CSR theory argue that businesses should not give away shareholders' money in support of social causes or even ask employees to donate their time to the community. In their view, this sort of thing is done best by governments and not-for profit charities. The directors of the companies which adopt this view will act as agents of the shareholders and only implement activities that will maximize profits, rather than be a social worker.

CSR practices should be entrenched in the companies' strategies for implementation. However, unless a company's social responsibility initiatives become part of the way it operates its business every day, the initiatives are unlikely to catch fire and be fully effective. Thus some companies integrate social responsibility objectives into their missions and overall performance targets. ((Thompson et al., 2007). Companies that do not have CSR practices entrenched in their strategies are therefore not likely to implement them.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

A census survey method was used because the number of firms of interest was few (43 in number). This ensured a representation of the various firms in the microfinance industry since all had an equal opportunity of being interviewed.

This survey was also appropriate since it enabled the researcher to obtain information from a broad category of firms which was important for comparison purposes.

3.2 Population

The target population was all MFI's in Kenya that are registered with the Association of Microfinance Institutions of Kenya (AMFI). AMFI membership ranges from large to small MFI's, development institutions and Insurance companies which represent the entire landscape of the microfinance industry in Kenya. As at 2010, there were 43 registered members.

The whole population was used thus no sampling was done. This ensured that each MFI had an equal opportunity of being interviewed, and as such was highly representative of Kenyan MFI's studies.

3.3 Data collection

The main data collection instrument was semi structured questionnaires targeting the management in MFIs such as Chief Executive Officers, Managing Directors, Operations

Managers, Branch Managers and credit officers. This group was targeted since they are the ones mainly involved in making strategic decisions.

Questionnaires were administered through a face to face interview where applicable, otherwise dropped for collection or emailed to the individuals. In the case of face to face interviews, the questionnaire was dropped in advance to allow the respondents to familiarize themselves with the requirements before the interview.

3.4 Data Analysis

The data collected was coded and analyzed using SPSS package. This enabled the generation of frequencies and percentages from the responses collected. Data was then presented using tables, pie charts and bar graphs.

These served to portray both descriptive and pictorial impression of the results. The percentages and means generated also served to portray the weight of each response in fulfilling the objective of this study.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.1 Introduction

This chapter discusses the data analysis, findings, interpretation and presentation. Analysis was done through SPSS and presented using tables, bar graphs and pie charts. Findings were then interpreted using frequencies and percent. For Likert-Scale data, output was interpreted using means and standard deviation. Response rate was found to be 69.8 percent as illustrated by Table 4.1. The chapter is organized into three main parts where the first part presents the profile of respondents, the second and final parts are on specific objectives namely involvement in corporate social responsibility and factors that influence the choice of CSR activities, respectively.

Table 4.1: Response Rate

Response Rate		
	Frequency	Percent
Total Population	43	100.0
Return Rate	30	69.8

4.2 Profile of Respondents

Table 4.2 illustrates the position which the respondents held in the organization. According to the findings 13 percent of the respondents were administrative assistants, 13 percent accountants, 13 percent human resource managers and 27 percent credit officers. Others were business development managers (7 percent) and accounts clerks (7

percent). Findings from the positions held by the respondents indicates that majority of them were in a position of delivering relevant information on CSR, by virtue of their positions and considering the small size of some of the mfis.

Table 4.2: Positions held in the organization

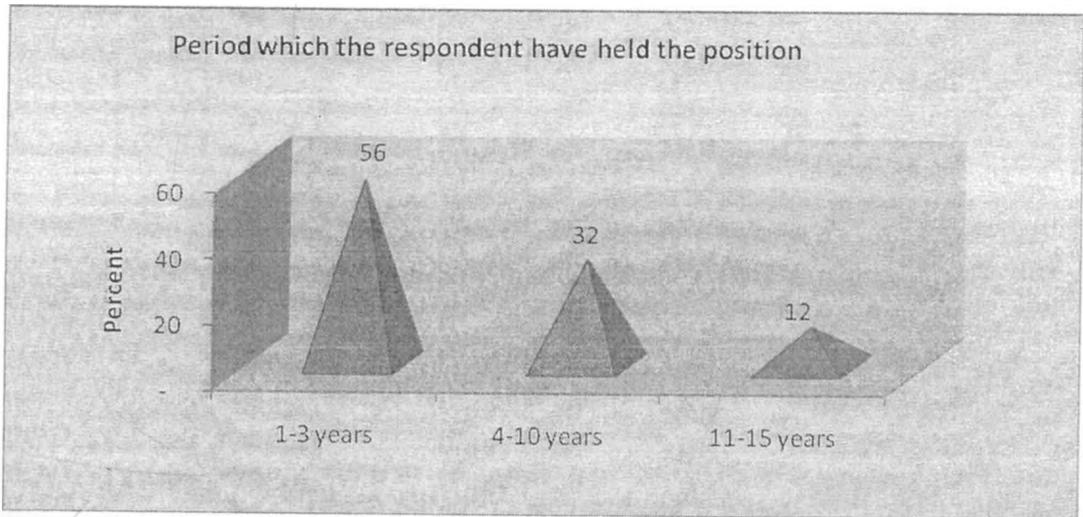
Positions held in the organization		
Position held	Frequency	Percent
Administrative Assistants	7	23.3
Accountant	4	13.3
Business Development manager	2	6.7
Human Resource Manager	4	13.3
Credit officer	8	26.7
Manager Intern	1	3.3
Research and Development Manager	1	3.3
Accounts Clerk	2	6.7
Head of Operations	1	3.3
Total	30	100.0

Table 4.2 illustrates the position which the respondents held in the organization. According to the findings 13 percent of respondents were administrative assistants, 13 percent accountants, 13 percent human resource managers and 27 percent credit officers. Others were business development managers (7 percent) and accounts clerks (7 percent). Findings from the positions held by the respondents indicates that majority of them were in a position of delivering relevant information on CSR, by virtue of their positions and considering the small size of some of the mfis.

4.2.2: Period which the respondents have held the position

Figure 4.1 illustrates the period of holding position

Figure 4.1: Period which the respondents have held the position



Concerning the period which the respondents had held their positions, the findings revealed that majority (56 percent) of them had held their respective positions for 1-3 years, 32 percent for 4-10 years and 12 percent for 11-15 years. The duration of the employees in the organization was important in finding out if they were in a position to assess the organization's CSR activities. From the findings most of the information would be on short term activities that would take less than 5 years to implement.

4.2.3 Duration since Establishment of the Company

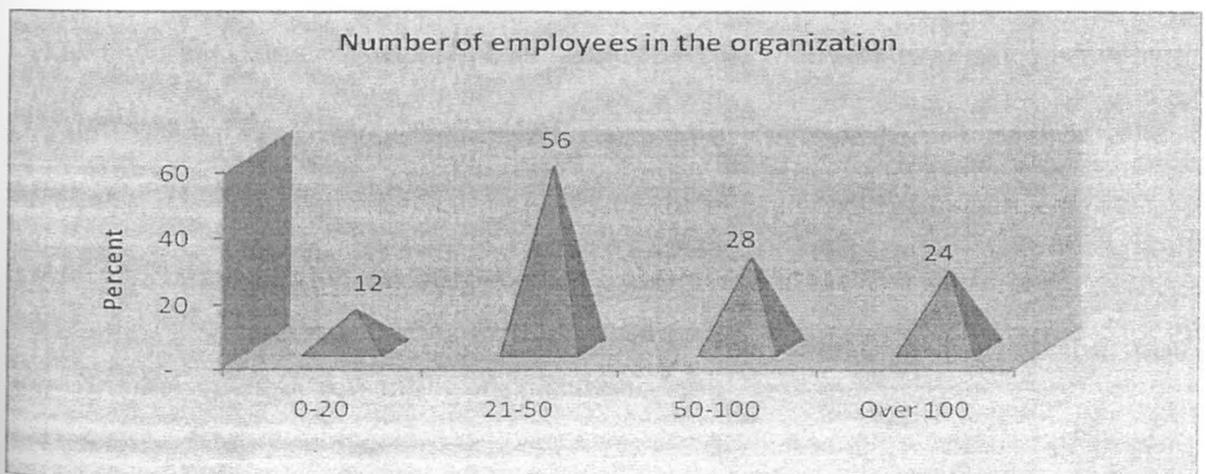
Table 4.3: Duration since Establishment

Duration since Establishment		
Duration	Frequency	Percent
20 years and below	21	70.0
21 to 40 years	2	6.7
41 to 60 years	1	3.3
Over 100 years	1	3.3
No response	5	16.7
Total	30	100.0

Regarding the year which the organizations were established, majority (70 percent) of them were established less than 21 years ago, while 7 percent were established between 21 to 40 years ago. Only 7 percent were over 40 years since their establishment. This indicates that the microfinance industry is a fast growing industry in Kenya driven by the growth in entrepreneurship, majority of who access their loans through MFIs.

4.2.4 Number of employees in the organization

Figure 4.2: Number of employees in the organization



Regarding the number of employees in the organizations, majority (56 percent) of the organizations had 21-50 employees, 28 percent had 50-100 employees and 24 percent had over 100 employees. Moreover, 12 percent had less than 20 employees. This shows that AMFI based mfi organizations were medium in size and embraced technology.

4.2.5 Annual turnover of the company

Table 4.4: illustrates the annual turnover of the organizations

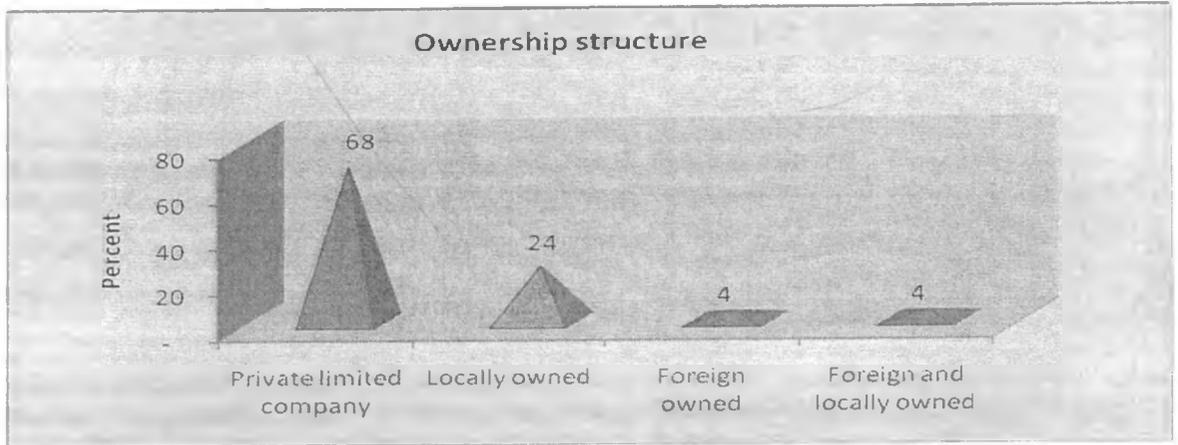
Annual turnover of the company		
Turnover	Frequency	Percent
5 M-10 M	17	64
11-20 M	3	8
21-30 M	4	12
31-100 M	4	12
Over 100 M	2	4
Total	30	100

Concerning the annual turnover of the organizations, majority (64 percent) of the them had a turnover of 5-10 million, 12 percent had a turnover of 21-30 million and 12 percent had a turnover of 31-100 million. Moreover, 8 percent had a turnover of 11-20 million and 4 percent had a turnover of over of 100 million. This shows that the AMFI based mfi organizations in Kenya were the main contributors to the economy of Kenya.

Annual turnover and the number of employees in a firm largely determine the size of the firm. This is imperative for this study in establishing the extent to which the size of a firm influences its adoption of CSR. According to Pearce & Robinson (1997), each firm regardless of size must decide how to meet its perceived social responsibility.

4.2.6 Ownership structure

Figure 4.3: Ownership structure



The researcher sought to find out the ownership structure of the organizations as illustrated by Figure 4.3. According to the findings majority (68 percent) of the respondents were private Ltd companies, 24 percent were locally owned and 4 percent were foreign owned. In addition, 4 percent of the organizations were foreign and locally owned.

Public companies are open to public scrutiny unlike private Ltd companies. This will be important in establishing whether without the pressure from the public, mfis have an obligation to meet the needs of the community since they provide their services directly to them.

4.3 Involvement in CSR

The researcher sought to investigate if the microfinance institutions were involved in carrying out CSR practices (Figure 4.4) and what specific activities they were involved in (Table 4.5). Other findings in this section included how often the practices were

carried out (Figure 4.6), if they were entrenched in strategy (Figure 4.5) and the stakeholders involvement (Table 4.6 and Figure 4.7).

Figure 4.4: Involvement in CSR

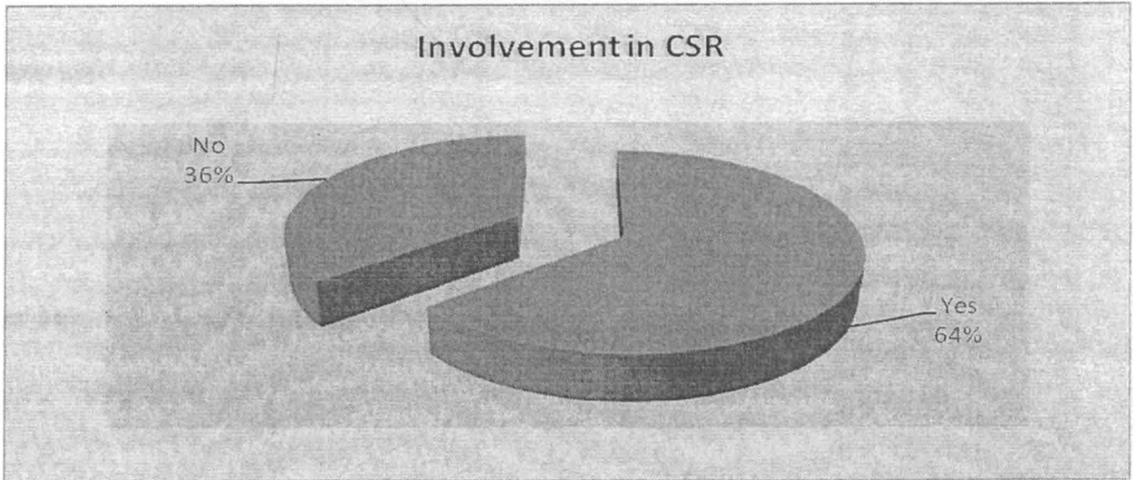


Figure 4.10 illustrates whether the respondents' organization have been involved in any CSR activities. According to the findings majority (64 percent) of the respondents' organizations had been involved in CSR activities while 36 percent had not been involved in CSR activities. This is an indication that majority of MFIs in Kenya are involved in CSR. There is a wide range of CSR activities that an organization can choose to be involved in based on their policies or preferences.

Table 4.5: CSR activities adopted by the organizations

CSR activities adopted by the organizations							
CSR Activities	Greater extent	Moderate extent	Neutral	Low extent	No extent	Mean	Std Dev
Good working conditions for employees	60	28	12	-	-	4.5	.70
Employees welfare	36	48	16	-	-	4.2	.69
Product safety	40	32	28	-	-	4.1	.82
Truthful advertising	48	28	20	4	-	4.2	.89
Environmental issues	16	40	20	2	1	3.4	.23
Community activity	44	16	24	-	16	3.7	.43

Table 4.5 illustrates the activities the organization had been involved where a five-point likert scale was used to analyze them. There were five levels of extent to which the organizations had been involved in the activities. The five levels were greater extent which was given 5 points, moderate extent which was given 4 points and neutral which was given 3 points. Moreover, there was low extent which was given 2 points and no extent given 1 point. A mean and standard deviation were worked out for the analysis.

To a greater extent, the organizations were involved in good working conditions for employees with a mean of 4.5 and standard deviation of 0.70. In addition they were involved to a moderate extent in employees’ welfare, product safety and truthful advertising with a mean of 4.2, 4.1, and 4.2, standard deviation of 0.69, 0.82 and 0.89 respectively. Also the organizations to a moderate extent were involved in community

activities with a mean of 3.7 and standard deviation of 1.43. Moreover, to a neutral extent they involved in environmental issues with a mean of 3.4 and standard deviation of 1.23.

Findings from this study indicate that, conducive working environment is the most prevalent CSR activity practiced by MFIs in Kenya. Employees' welfare and product safety also appear as major practices. According to Johnson & Scholes, (2002), internal aspects of CSR practices include those practices that affect employees and shareholders such as employee welfare, working conditions, job design, and intellectual property. Donnelly *et al.*, (1992) also emphasized that, every business has a social responsibility to create a product line that is safe, reliable and of a high quality. The findings imply that MFIs are more involved in the internal rather than the external activities.

Figure 4.5: CSR Activities Being Part of Strategy

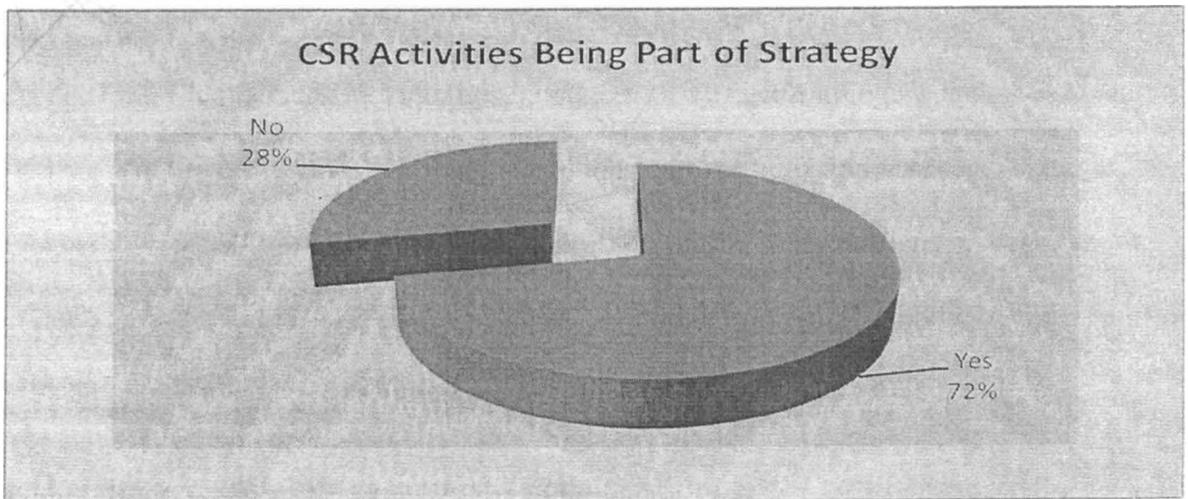
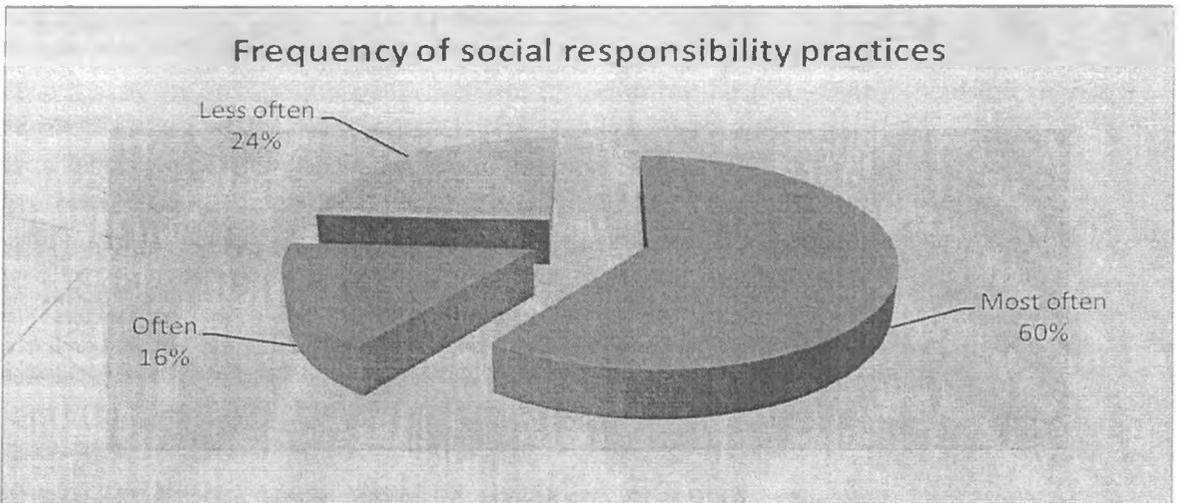


Figure 4.5 illustrates the relationship between CSR activities and strategy. Majority (72 percent) agreed that the CSR activities were part of the organizations' strategy while 28 percent said they were not.

Findings from the study therefore indicate that the organizations have not only chosen the activities to be involved in, but they are also committed to carrying them out on a long term basis since they are entrenched in their strategy. According to Thompson et al. (2007), unless a company's social responsibility initiatives become part of the way it operates its business every day, the initiatives are unlikely to catch fire and be fully effective.

Figure 4.6: Frequency of social responsibility practices



Concerning, how often the CSR activities are practiced in the respondents' organization, majority (60 percent) practiced the CSR activities most often, 24 percent less often and 16 percent practiced often. This confirms that since corporate responsibility activities are part of strategy, then the organization is committed to ensuring that they will be done most often.

Table 4.6: Stakeholders involvement in carrying out CSR activities

Stakeholders' involvement in carrying out CSR activities							
Stakeholders	Greater extent	Moderate extent	Neutral	Low extent	No extent	Mean	Std Dev
Employees	48	32	16	4	-	4.2	0.86
Other Stakeholders	12	44	40	4	-	3.6	0.74

Concerning the stakeholders' involvement in carrying out CSR activities, a five-point likert scale was used to analyze them. There were five levels of extent to which the organizations had been involved in the activities. The five levels were greater extent which was given 5 points, moderate extent which was given 4 points and neutral which was given 3 points. Moreover, there was low extent which was given 2 points and no extent given 1 point. A mean and standard deviation were worked out for the analysis.

To a large extent the employees and stakeholders were involved in carrying out CSR activities with a mean of 4.2 and 3.6, standard deviation of 0.86 and 0.74 respectively. Results from this study therefore indicate that, employees were more involved in corporate social responsibility activities in their respective firms than other stakeholders. These results however indicate that it pays to involve stakeholders in carrying out CSR activities. According to Bateman & Zeithaml 1993, organizations can improve their images and avoid unnecessary and costly regulations if they are perceived as socially responsible.

Figure 4.7: Employees' involvement in CSR activities as their own initiative

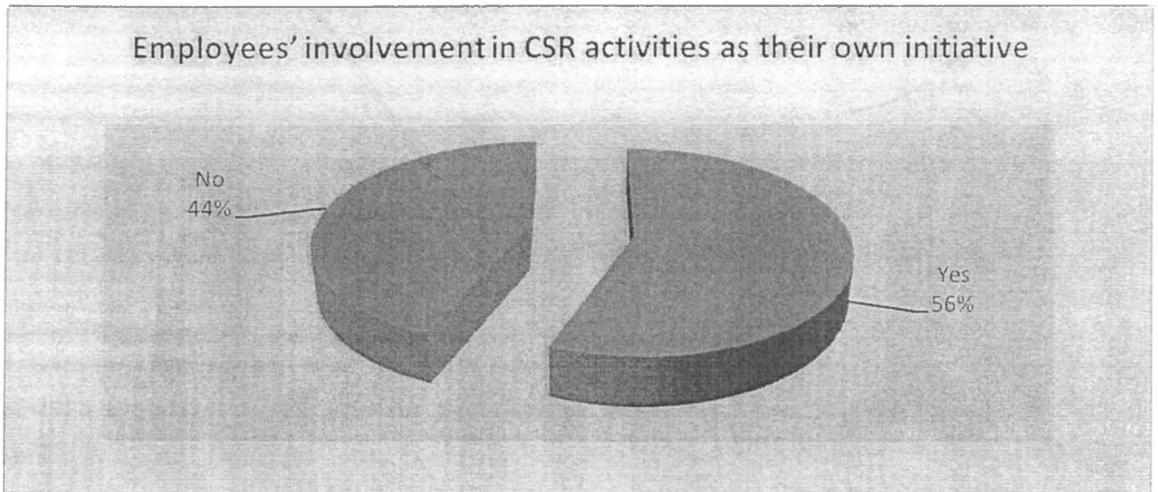


Figure 7 above illustrates whether employees are given time off to carry out CSR activities as their own initiative. According to the findings, majority (56 percent) of the organizations gave the employees time off to carry out CSR activities while 44 percent did not. This indicated the commitment of mfis in social responsibility by involving their employees to a great extent.

4.4 Factors influencing the choice of CSR activities

The researcher sought to determine the factors influencing the choice of social responsibility activities adopted by mfis (Table 4.7) as well as challenges faced in implementing these activities (Table 4.8). The researcher also sought to find out if the respondents considered the activities to be beneficial to their organizations (Figure 4.8 and Table 4.9) and if they provided a competitive advantage in the industry (Figure 4.9).

Table 4.7: Factors that influence CSR activities

Factors that influence CSR activities							
Factors	Greater extent	Moderate extent	Neutral	Low extent	No extent	Mean	Std Dev
Financial performance	44	20	36	-	-	4.1	0.89
Level of competition in the industry	16	40	32	4	8	3.5	1.06
Government regulations	8	20	56	-	16	3.0	1.08
Industry regulations	8	20	48	12	12	3.0	1.06

The research sought to know the extent to which various factors influenced CSR activities. A five-point likert scale was used to analyze them. There were five levels of extent to which the organizations had been involved in the activities. The five levels were greater extent which was given 5 points, moderate extent which was given 4 points and neutral which was given 3 points. Moreover, there was low extent which was given 2 points and no extent given 1 point. A mean and standard deviation were worked out for the analysis.

To a great extent, financial performance and level of competition in the industry with a mean of 4.1 and 3.5, standard deviation of 0.89 and 1.06 respectively influenced CSR activities. In addition, government regulations and industry regulations with a mean of 3.0 and 3.0, standard deviation of 1.08 and 1.06 respectively were neutral on influencing CSR activities. This is an indication that financial performance is the major factor in influencing a firm's involvement in CSR activities.

This confirms the argument from Margolis & Walsh (2001), financial performance is a factor that determines a firm's involvement in CSR. According to Campbell (2007) state

regulations and the level of competition faced in a firm are also major factors that influence firms' corporate social responsibility practices.

Table 4.8: Challenges of implementing CSR activities

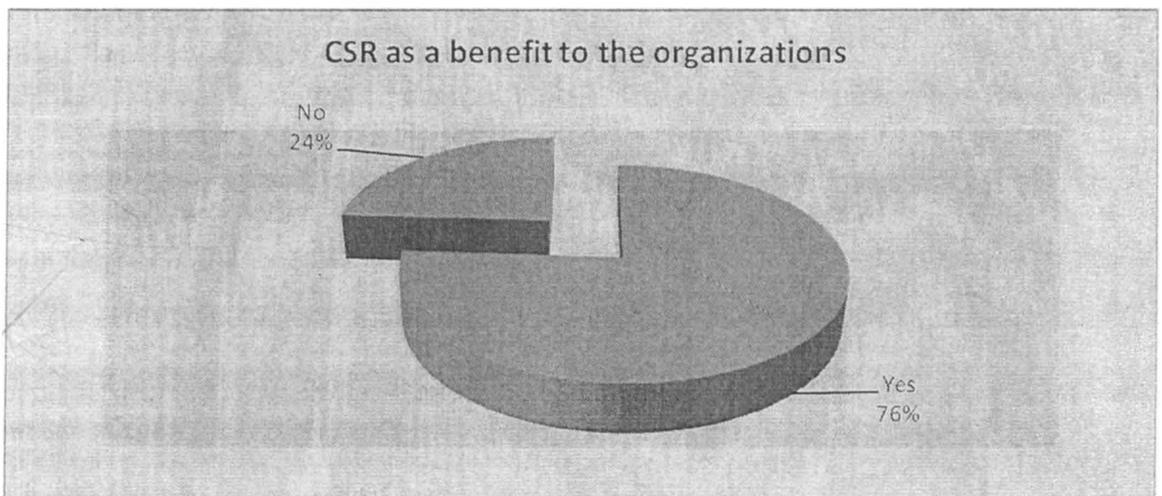
Challenges of implementing CSR activities							
Challenges	Greater extent	Moderate extent	Neutral	Low extent	No extent	Mean	Std Dev
Financial constraints	40	20	28	4	8	3.8	1.23
Attitude of management towards CSR	8	24	36	20	12	3.0	1.11
CSR not being entrenched in the organization's strategies	16	8	32	28	16	2.8	1.26

Table 4.8 below illustrates the challenges faced by the organizations while implementing CSR activities. Regarding the challenges of implementing CSR activities, a five-point likert scale was used to analyze them. There were five levels of extent to which the organizations had been involved in the activities. The five levels were greater extent which was given 5 points, moderate extent which was given 4 points and neutral which was given 3 points. Moreover, there was low extent which was given 2 points and no extent given 1 point. A mean and standard deviation were worked out for the analysis.

A financial constraint was a challenge in implementing of CSR activities to a large extent. This had a mean of 3.8 and standard deviation of 1.23. The attitude of management towards CSR and corporate social responsibility not being entrenched in the organizations' strategy to a moderate extent also paused a challenge to the implementation of CSR activities. These had a mean of 3.0 and 2.8, and a standard deviation of 1.11 and 1.26 respectively.

This is an indication that, financial constraint is the most prevalent challenge encountered by mfis in Kenya in implementing of CSR activities. As entrenched by Margolis & Walsh. (2001) firms whose financial performance is weak are less likely to engage in socially responsible corporate behaviour than firms whose financial performance is strong. This is because firms that are less profitable have fewer resources to spare for socially responsible activities than firms that are more profitable.

Figure 4.8: CSR as a benefit to the organizations



The researcher sought to find out if the CSR activities had been of benefit to the respondents' organization, majority (76 percent) confirmed that CSR activities had been of benefit while 24 percent said that they were not of benefit. This clearly indicates that firms practicing CSR reap benefits.

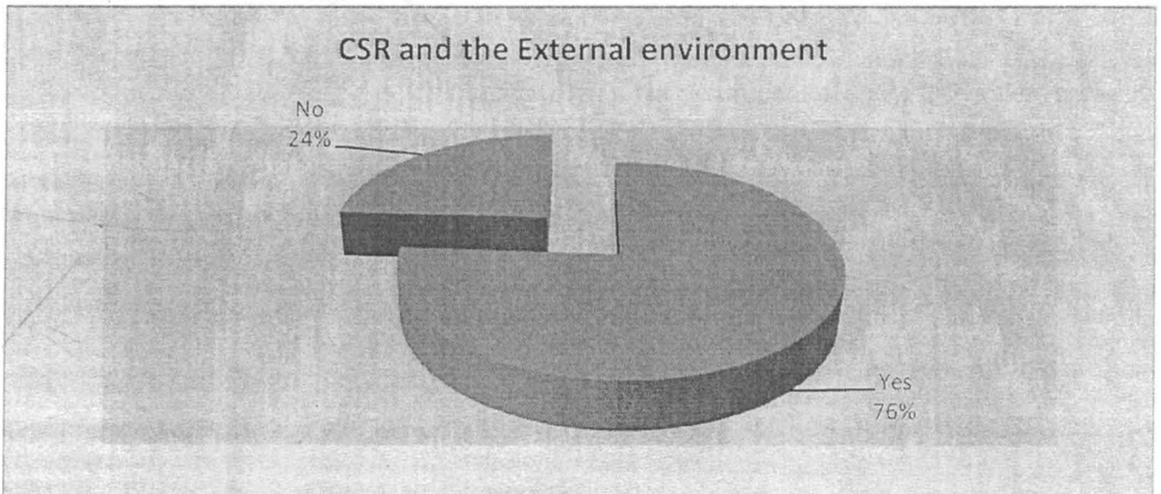
Table 4.9: Specific benefits from CSR activities

Specific benefits of CSR activities							
Benefits	Most significant	More significant	Significant	Less significant	Insignificant	Mean	Std Dev
Improved company image	60	20	12	8	-	4.3	0.97
Increased MFI customers	40	16	36	8	-	3.9	1.03
Attract outstanding employees	12	40	28	20	-	3.4	0.94
Increased profitability	16	12	52	20	-	3.2	0.95
Increase in shareholders	4	4	44	20	28	2.4	1.05
Reduced legal and regulatory action by government	4	-	40	36	20	2.3	0.93
Increased foreign presence	4	20	24	28	24	2.5	1.17

Table 4.9 illustrates the benefits of CSR activities to the organizations. From the findings, the most prevalent benefits included improved company image, increased MFI customers as well as attracting outstanding employees with mean of 4.3, 3.9 and 3.4 respectively. Increased profitability is also rated at a mean of 3.2 with a standard deviation of 0.95. However, it was revealed that, CSR is less significant in reducing legal and regulatory action by government and assists very little in increasing in company's shareholders as given by mean of 2.3 and 2.4 respectively. In addition, CSR has little impact on increasing the foreign presence of a firm. This is an indication that benefits derived by mfis in practicing corporate social responsibilities largely include improved company image, increased mfi customers as well as attracting outstanding employees. These factors generally lead to

improved profitability of a firm. As stated by Margolis & Walsh (2001), financial performance is a factor that determines a firm's involvement in CSR. However, creating corporate image remains the outstanding benefit derived by MFIs which practice CSR. These firms realize that, if the needs of society are not satisfied, a firm will ultimately cease to exist because a firm operates by public consent to satisfy society's needs (Gordon *et al* 1990).

Figure 4.9: CSR and the External environment



Regarding if the CSR activities gave the respondents' organization a competitive advantage in the industry, majority (76 percent) of the respondents confirmed that practice of CSR gave the organization competitive advantage in the industry while 24 percent said it did not. This indicates that, CSR provided the organizations' with a competitive advantage in the industry. According to a study carried out by Okeyo (2004), competitive advantage was found to be one of the top four rationales of practicing CSR for a firm. Other rationales included the long-term strategy, high public visibility as well as response to society's needs.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The main objective of the study was to establish the corporate social responsibility practices adopted by Microfinance institutions (MFIs) and to determine the factors influencing the choice of these practices. The study population entailed all the microfinance institutions in Kenya registered by AMFI.

The findings showed that, majority of the respondents were either credit officers (27 percent) or administrators (13 percent) accountants (13 percent) and human resource managers (13 percent). Majority (56 percent) of the respondents had held their respective positions for 1-3 years and their firms were established less than 21 years ago (70 percent). This shows that the respondents were with their organizations for over one year. They were therefore in a position to provide information on the CSR activities they had been involved in, within the short term period. The fact that 70 per cent of the organizations were established for less than 21 years confirms that this is a growing industry.

The study also established that, majority (56 percent) of the organizations had 21-50 employees, 28 percent had 50-100 employees and 24 percent had over 100 employees. Concerning the annual turnover majority (64 percent) of the organizations had a turnover of 5-10 million, 12 percent had a turnover of 21-30 million and 12 percent had a turnover of 31-100 million. This implies that the industry had employed a low cost strategy by keeping few employees so as to meet their other financial obligations such as the CSR

cost and yet be sustainable. Most microfinance institutions in Kenya are private limited companies.

On CSR practices adopted by the microfinance institutions in Kenya, the researcher discovered that, majority (64 percent) of the mfis in Kenya had been involved in CSR activities. 60 percent practiced the CSR activities most often. To a large extent the employees and shareholders were involved in carrying out CSR activities with a mean of 4.2 and 3.6 and standard deviation of 0.86 and 0.74 respectively. This shows that majority of the firms had embraced the corporate responsibility theory regardless of their size.

On the extent to which various factors influenced CSR activities, financial performance and level of competition in the industry with a mean of 4.1 and 3.5, standard deviation of 0.89 and 1.06 respectively influenced CSR activities to a great extent. On the other hand, financial constraints was top on the list of challenges faced in implementing CSR activities. This may be explained by the small and medium size of the mfis as well as the risk of their business, mainly clients defaulting on their loans, leading to further financial constraints.

The most prevalent benefits, however, included improved company image, increased MFI customers as well as attracting outstanding employees with mean of 4.3, 3.9 and 3.4 respectively, leading to increased profitability with a mean of 3.2 and a standard deviation of 0.95. Regarding the issue of gaining a competitive advantage in the industry, a majority (76 percent) of the respondents confirmed that the practice of CSR gave the organization a competitive advantage while 24 percent said it did not.

5.2 Discussion and Conclusions

Most microfinance institutions studied were found to be small and medium in size by virtue of the number of employees, over 56% of the organizations having a number of 50 employees and below. 60 per cent of all mfis had a turnover of between 5 and 10 Million. The researcher also concluded that most of these mfis (70 per cent) were 20 years and below and were mostly privately owned. This shows that the mfi industry is growing.

The researcher concluded that majority of mfis in Kenya practice CSR, with each firm choosing its own unique activities. The range of activities the firms were involved in included good working conditions for employees, employees' welfare, product safety, truthful advertising, community activity and environmental issues. Most mfis however were involved in employee and product related activities as compared to their involvement in community and environmental activities. Implementation of CSR activities in MFIs was largely done through employees than through other stakeholders. It is however important to involve stakeholders in carrying out social responsibility activities since it works to enhance the image of a firm.

Financial performance, the level of competition faced and state regulations were determined as the factors influencing corporate social responsibility practices adopted by mfis, in that order. Financial constraints, management attitude towards social responsibility and CSR not being entrenched in strategy were challenges mentioned in implementing CSR. 76 percent of the respondents agreed that corporate social responsibility activities had been of benefit to their organizations. This was reflected in

the improved company image, increased number of customers, attracting outstanding employees and improved profitability.

5.3 Recommendations

Microfinance institutions are in a competitive and growing industry. Both the new entrants and the ones already existing need to embrace corporate social responsibility in their strategies. Though they face the challenge of financial constraints, they need to continue practicing low cost strategy to enable them finance corporate social responsibility activities.

This will enable them to have a competitive advantage in the industry as well as ensure continued growth due to the improved image. Furthermore, growth will also be portrayed through increased customers leading to increased profitability thus ensuring sustainability. Microfinance institutions should consider increasing their CSR involvement in the community since this can also be used as a marketing tool among the communities that they serve.

5.4 Limitations of the study

The study suffered from the limitation of data collection. The respondents were reluctant to fill out the questionnaires even after being convinced that the information given was purely for academic purposes and would be treated with a lot of confidentiality. One respondent asked to be paid to fill out the questionnaire. The researcher also faced the limitation of an mfi that had been registered with AMFI but did not take off thus no information could be obtained.

It took a longer time than that envisaged to fill out the questionnaires. This was because the respondents took longer than they had stated and the fact that some had moved without updating their location address with AMFI thus posing a challenge in tracing them. This also contributed to increased cost because the researcher had to visit the respondent on more than two occasions to collect the questionnaires. According to the response rate in chapter 4, even after extending the time not all the questionnaires were filled. The questionnaire required financial data which some respondents left blank. This made it difficult to analyse this particular aspect of the respondents' profile.

5.5 Suggestion for Further Studies

For further research, a study should be done on the effectiveness of CSR as a strategy in the microfinance institutions. Also an indepth study on the challenges faced in the implementation of CSR activities in the microfinance institutions in Kenya should be considered so that the new entrants can gain a clear view of this. A similar study concerning the same topical issues addressed in this paper should be studied on another population such as savings and credit co-operative societies (SACCO's) for a comparison of the results.

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APPENDICES

APPENDIX I: Questionnaire

Section A: General information

1. Name of organization

.....

2. Year of Establishment

.....

3. The position you hold in the Organization

.....

4. How long have you held this position?

.....

5. Number of Employees in the Organization

.....

6. What is the annual turnover of the Company?

.....

7. Ownership structure (Tick)

Private ltd Company ()

Public ltd company ()

Locally owned ()

Foreign owned ()

Foreign and locally owned ()

Section B Involvement in CSR

8. (a) Has your organization been involved in any CSR activities? (Tick)

Yes ()

No ()

(b) If yes in 8(a) above Tick the type of Activities you have been involved in and to what extent you have adopted these strategies?

5 4 3 2 1

CSR Activities	Greater Extent	Moderate Extent	Neutral	Low Extent	No Extent
Good working conditions for employees					
Employee welfare (e.g. education, day care)					
Product Safety					
Truthful Advertising					
Environmental issues					
Community Activity (Specify which one)					
Any other (Please specify)					

9. Are the CSR activities mentioned above part of the organization's Strategy?

10. How often are they practiced in your MFI?

11. (a) **Stakeholders Involvement**

To what extent are the following Stakeholder involved in carrying out the CSR Activities?

1 2 3 4 5

Involvement	Greater Extent	Moderate Extent	Neutral	Low Extent	No Extent
Employees					
Stakeholders					

(b) Are Employees given time off to carry out CSR activities as their own Initiative? (Tick)

Yes ()

No ()

Section C Factors that influence CSR Activities Adopted

12. To what Extent do the following factors contribute to your choice of CSR Activities described in 9(b) above?

5 4 3 2 1

Factors	Greater Extent	Moderate Extent	Neutral	Low Extent	No Extent
Financial Performance					
Level of Competition in the industry					
Government Regulations					

Industry Regulations					
Any other (Please Specify)					

13. Challenges of Implementing CSR activities

To what extent do you face the following challenges when implementing your Social Responsibility activities?

5 4 3 2 1

Challenges	Greater Extent	Moderate Extent	Neutral	Low Extent	No Extent
Financial Constraints					
Attitude of Management towards CSR					
CSR not being entrenched in the organization's strategies					
Any other (Please Specify)					

14. (a) In your opinion have CSR activities been of benefit to your organization?

(Tick)

Yes ()

No ()

(b) If the answer to 11(a) above is yes, Rank the following benefits in order of significance.

5 4 3 2 1

Benefits	Most Significant	More Significant	Significant	Less Significant	Insignificant
Improved Company image					
Increased MFI Customers					
Attract Outstanding employees					
Increased Profitability					
Increase in Shareholders					
Reduced legal and Regulatory action by government					
Increased Foreign Presence					

15. In your opinion do you think the practice of CSR gives your organization a Competitive Advantage in the Industry? (Tick)

Yes ()

No ()

Thank you for your response and Co-operation

APPENDIX II: List of the Population of Interest

1. AAR Credit Services
2. Adok Timo
3. Agakhan Foundation
4. Barclays Bank of Kenya Ltd

5. Biashara Factors Limited
6. Bimas
7. Blue Limited
8. Canyon Rural Credit Ltd
9. Chartis Insurance
10. CIC Insurance
11. Co-operative Bank
12. Elite Microfinance
13. Equity Bank
14. Faulu Kenya DTM Ltd
15. Fusion Capital Ltd
16. Greenland Fedha Ltd
17. Jamii Bora
18. Jitegemea Credit Scheme
19. Jitegemee Trust
20. K-rep Bank Ltd
21. Juhudi Kilimo Company Ltd
22. K-rep Development Agency
23. KADET
24. Kenya Eclof
25. Kenya Entrepreneur Empowerment Foundation
26. Kenya Post Office Savings Bank
27. Kenya Women Finance Trust
28. MIC Microcredit Ltd
29. Micro Africa
30. Molyn Credit Ltd
31. OIKO Credit
32. Opportunity International
33. Pamoja Women Development Programme
34. Renewable Energy Technology Assistance Programme
35. Rupia Limited

36. Select Management Services Limited
37. SISDO
38. SMEP
39. Swiss Contact
40. Taifa Option Microfinance
41. U & I Microfinance Ltd
42. WEEC
43. Yehu Enterprises Support Services

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