

**CORPORATE SOCIAL RESPONSIBILITY AND BUSINESS STRATEGY AT  
NATIONAL INDUSTRIAL CREDIT BANK IN KENYA**

**BY**

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## DECLARATION

This project is my original work and has not been submitted for a degree award in any other university.

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

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## **DEDICATION**

This project is dedicated to my beloved wife Mugure for her support during the entire duration of pursuing this degree.

## **ABBREVIATIONS AND ACRONYMS**

**BBK:** Barclays Bank of Kenya

**CSR:** Corporate Social Responsibility

**EAWLS:** East African Wildlife Society

**Excom:** Executive Committee

**JA:** Junior Achievement

**KBA:** Kenya Bankers Association

**NIC:** National Industrial Credit

**NSE:** Nairobi Securities Exchange

**TBL:** Triple Bottom Line

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## **ABSTRACT**

The banking sector is one of the most profitable industries in Kenya with the profits rising even in times of global economic turbulence. This has largely been attributed to the increased use of technology in its operations, expansion of the branch networks and innovations of new products that meet the evolving needs of the modern client. The increase in profitability has led to increased expectations by the society towards contributions made by the banking industry towards making it a better place and hence the interest in banks' corporate social responsibility (CSR) programmes. CSR has in itself evolved from being just an activity to give back to the society to a key source of competitive advantage for organizations that engage in the practice. National Industrial Credit (NIC) Bank is among the forty three banks competing in the Kenyan market and is involved in CSR. The study set out to establish the CSR practices the bank engages in and also to find out if the activities are supportive of the bank's strategic objective. The research design was a case study and both primary and secondary data were used in the accomplishment of the stated objectives. The study found out that NIC Bank participates in various CSR activities in various sectors though they have not been linked to the business strategy in the past. The study recommends that CSR in the bank should be linked to the business strategy in order to reap more benefits from the practice.



# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

Corporate Social Responsibility (CSR) is the ability of organizations to relate their operations and policies to the wider society in ways that are mutually beneficial to them and their social constituents (Carroll, 1979). Bowman (1953) holds that social responsibility refers to the obligations to pursue those policies, to make decisions or to follow those lines of action that are desirable in terms of objectives and values of society. Cannon (1994) looks at CSR as being a result of the internal regulation of the business in compliance with the obligations placed on the firm by legislation, ownership and control. CSR has become a new battleground for corporations the world over (Porter & Kramer, 2006). On a wide range of issues, corporations are encouraged to behave socially responsibly. This is due to reawakening to the reality that society and other stakeholders are keenly monitoring their business activities (Welford and Frost, 2006). More businesses are recognizing the benefits of CSR, from cost savings on energy and materials to direct benefits like enhanced reputation among customers and clients and indirect benefits like employee satisfaction (Rangan, Chase and Karim, 2012).

Different scholars have advanced various theories as to why companies engage in CSR. Friedman (1970) suggested that even CSR is a profit targeting practice as like most other business activities. Freeman (1994) developed the Stakeholder Theory which holds that corporations not only serve the interests of the shareholders but also other stakeholders who interact with the organization while the Stewardship Theory holds that CSR is supported by managers due to the existence of some vested interests (Donaldson & Davis, 1994). Elkington's (2007) Triple Bottom Line Theory (TBL) presents a three pronged approach of measuring corporate performance, i.e. profit, people and planet. The scholars however agree that CSR plays a very important role in organizational development. Institutions that embrace this concept reap many benefits including customer loyalty, positive attitudes towards brands, client trust, positive publicity and better financial performance. Increased spending on CSR activities is expected to

increase customer satisfaction and build competitive advantage (Ochoti, Muathe, Ronoh and Maronga, 2013).

National Industrial Credit (NIC) Bank is among the banks competing in the Kenyan market. The bank has also engaged CSR in a bid to get the much needed competitive advantage over its competitors. The bank takes cognizance of the fact that its sustainability and success is dependent upon the environment and the communities in which it operates. It is therefore in its policy to ensure that its activities meet and exceed the social, economic and environmental concern of its stakeholders ([www.nic-bank.com](http://www.nic-bank.com)). NIC bank has focused on the areas of education and environment for its CSR activities since 2010.

### **1.1.1 Corporate Social Responsibility**

CSR is a form of corporate self regulation integrated into a business model. CSR policy functions as a built in, self regulating mechanism whereby business monitors and ensures its active compliance with the spirit of the law, ethical standards and international norms. The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere.

McWilliams and Siegel (2001) describe CSR as actions that appeal to further some social good, beyond the interest of the firm and that which is required by law. Martin (2002) views CSR as an action by a firm, which the firm chooses to take, that substantially affects an identifiable social stakeholder's welfare. A socially responsible corporation should take a step forward and adopt policies and business practices that go beyond the minimum legal requirements and contribute to the welfare of its key stakeholders. Hick (2000) views CSR as a comprehensive set of policies, practices and programmes that are integrated into business operations, supply chains, and decision making processes throughout the company and usually include issues related to business ethics, community investment, environmental concerns, governance, human rights, the marketplace as well as the workplace.

Tsousoura (2004) notes that being socially responsible has got a cost element to it. CSR should therefore generate benefits also in order to be a sustainable business practice. A corporation cannot continue a policy that constantly generates negative cash flows. Therefore, being socially responsible should have bottom line benefits in order to be sustainable.

### **1.1.2 Concept of Business Strategy**

Strategy can be looked at as a means of solving strategic problems which are mismatched between opportunities existing in the external environment (Aosa, 1998). Mintzberg (1987) defines strategy as a plan, a ploy, a pattern, a position and a perspective. As a plan, strategy specifies a consciously intended course of action of an organization. The strategy is defined well in advance of action and is developed purposefully. As a ploy, strategy is seen as a manouvre intended to outwit a competitor. As a pattern, strategy is seen as a consistency in behavior. As a position, strategy is a means of locating the organization in its environment. As a perspective, strategy consists of an ingrained way of perceiving the world. It gives the company an identity.

Andrews (1980) defines business strategy as the pattern of decisions in a company that determines and reveals its objectives, purposes or goals, produces the principal policies and plans for achieving those goals and defines the range of business the company is to pursue, the kind of economic or human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its stakeholders, employees, customers and communities.

Strategies exist at several levels in any organization. Corporate strategy is concerned with the overall purpose of the organization and scope of the business to meet stakeholder's expectations. Porter (1996) argues that business unit strategy is concerned more with how the business operates competitively in a given market. Operational strategy is concerned with how each part of the business is organized to deliver the corporate and business unit level strategic direction. Strategic planning helps to coordinate the processes of formulation and implementation which are both integral parts of strategy (Argenti, 1968).

Tsousoura (2004) writes that for successful implementation, it is crucial that the CSR principles are part of the corporation's values and strategic planning, and that both management and employees are committed to them. It is also important that the CSR strategy is aligned with the company's specific corporate objectives and core competencies.

A strategic plan is a document used to communicate with the organization the organizations goals, the actions needed to achieve those goals and all of the other critical elements developed during the planning exercise. The way that a strategic plan is developed depends on the nature of the organization's leadership, culture of the organization, complexity of the organization's environment, size of the organization, expertise of planners amongst other factors ([www.balancedscorecard.org](http://www.balancedscorecard.org)). The advantages of strategic planning are numerous argues David (1991). He adds that to realize these benefits, an organization must undertake highly formalized planning processes and set clear goals and objectives. These objectives can be further broken down into targets which are measurable and can be monitored. Resources will subsequently be allocated to specific objectives subsequent to which efficiency can be measured.

Whilst strategic planning requires a thorough understanding and awareness of your business and environment, lacking the ability to effectively implement these strategies and convert them into positive results means that these strategies have gone to waste. It is of no use to the business to have innovative and valuable strategies, if managers lack the skills and capabilities to implement them. It is also needless to say that the capabilities of the employees, as well as the resources and processes of the business, play a vital role in undertaking the tasks required to achieve the objectives of the strategies (Thomas & Strickland, 2007).

Many companies and business leaders are realizing that CSR is also a viable component of their overall business strategy along with traditional functions as marketing, branding, research and development, innovation, talent management and operations. They are therefore beginning to accord CSR strategy the same level of attention they give to these other vital corporate functions and also weave their CSR strategies in with their branding, marketing and operations. According to Sen and Bhattacharya (2001), CSR initiatives

can lead to positive perceptions of the consumers about the organization and the product or service produced and marketed by the organization. Positive consumer perceptions have been shown to lead to customer loyalty and customer satisfaction. According to Oloko (2012), customer loyalty and satisfaction are key predictors of the overall performance of banking institutions in Kenya. Companies with CSR policies have been shown to attract high quality employees (Greening and Turban, 2000) which can be a source of competitive advantage in an organization. Investors are attracted to make investments in public companies with CSR Policies (Sen, Battacharya and Korschum, 2006). Such investments can ensure long-term survival of the organization and also act as a source of competitive advantage.

### **1.1.3 Kenya's Banking Sector**

As at 30<sup>th</sup> June 2014, the banking sector in Kenya comprised of forty three commercial banks, one mortgage finance company, nine microfinance banks, eight representative offices of foreign banks, ninety seven foreign exchange bureaus, five money remittance providers and two credit reference bureaus ([www.centralbank.go.ke](http://www.centralbank.go.ke)). The banks have come together under the Kenya Bankers Association (KBA) which serves a forum for addressing issues affecting members.

Kenya's banking sector is divided into three tiers according to the market share held. A bank's market share is determined by the size of its total assets, loan accounts, deposit base, and total capital. Tier one banks have more than 5% of the market share, there are currently six tier one banks which control 52.4% of the market share. Tier two banks control more than 1% but below 5% of the market share, there are sixteen banks in this category in Kenya controlling 39.1% of the market share. Tier three banks control less than 1% of the market share and there are twenty one banks in this category with a combined market share of 8.5% ([www.centralbank.go.ke](http://www.centralbank.go.ke)).

Oloo (2009) describes the banking sector in Kenya as the bond that holds the country's economy together. The banking environment in Kenya has, for the past decade, undergone many regulatory and financial reforms. These reforms have brought about many structural changes in the sector and have also encouraged foreign banks to enter

and expand their operations in the country (Kamau, 2009). Kenyan banks have continued to post improving profitability reports in the past decade due to improved prudence in lending, increased use of technology leading to improved operational efficiency, branch expansion as well as innovations in the industry.

Several factors have stiffened the competition among the various players in the banking industry leading the banks to look for more innovative ways of satisfying their customers while at the same time making profit. Some of these factors include the concept of globalization which has taken competition beyond the national boundaries, advancement of technology, deregulation of financial services and privatization of banks that were initially public (Achua, 2008). The major stakeholders, especially the more informed ones are also demanding greater social and environmental performance by banks because they have come to understand and appreciate the fact that businesses can never succeed without public trust and confidence (Ochoti et al, 2013).

Retail banking institutions in Kenya play a pivotal role in the country's socio-economic development. They act as a catalyst in spurring the development of all other industries. According to G.O.K. (2008), having a well functioning and vibrant financial sector is a critical ingredient in accelerating economic growth by spurring private sector development and ensuring macroeconomic stability thereby leading to the creation of employment and poverty reduction. It will also encourage Foreign Direct Investment as well as turning Kenya into a regional financial hub as envisaged by the economic pillar of vision 2030 development plan.

#### **1.1.4 National Industrial Credit Bank in Kenya**

National Industrial Credit (NIC) Bank was incorporated in Kenya on 29<sup>th</sup> September 1959, when Standard Bank Limited and Mercantile Credit Company Limited jointly formed the company. The company was amongst the first non-bank financial institutions to provide hire purchase and installment credit finance facilities in Kenya (NIC Bank Annual Report, 2012). NIC Bank went public by listing in the Nairobi Securities Exchange in 1971. Barclays Bank (K) Limited (BBK) acquired 51% of NIC Bank's total shares through the acquisition of Mercantile Limited in the 1970's and thereafter

Standard Bank's shareholding in the 1980's. Between 1993 and 1996, BBK divested all of its shares in NIC Bank by selling them to the public through the NSE. In order to effectively diversify into mainstream commercial banking, NIC Bank merged with African Mercantile Bank (AMBank) in November 1997 through a share swap (NIC Bank Annual Report, 2009). It currently has approximately 22,000 shareholders and with a market capitalization of 26.6 Billion shillings ([www.nse.co.ke](http://www.nse.co.ke)). It has 24 branches in Kenya, 6 branches in Tanzania and 1 in Uganda.

NIC Bank's mission is to be the leading financial services provider in its target market. The bank is committed to the highest standards of service and also in exceeding its stakeholders' expectations. Its vision is to establish long term, profitable customer relationships through the provision of a complete range of banking and financial services. The bank's driving values are innovation (coming up with fresh new ways of doing things), professionalism (showing confidence and skill), and responsiveness (exceeding customers' expectations, integrity (being honest and having strong moral principles) and being passionate by showing boundless enthusiasm for whatever they do (NIC Bank Annual Report, 2013).

NIC Bank is the leading bank in the Tier 2 category with a market share of 4.37% which puts it on the verge of joining the league of tier one banks in the country. It has a total asset base of 101 billion shillings. In a research conducted among Africa's Fastest Growing Companies. NIC Bank Limited ranked 9th with consistent earnings averaged at 28 percent over the past five years. NIC Bank Limited emerged winner in Asset Finance Bank in Kenya 2013 during the 8th edition of the Think Business Banking Awards ([www.nic-bank.com](http://www.nic-bank.com)).

## **1.2 Research problem**

CSR is at the centre of corporate consciousness today (Sen, Bhattacharya and Shuilli, 2007). As the CSR debate shifts from 'whether' to 'how', companies are embracing socially responsible ventures with unprecedented gusto. For many organizations, CSR was once a purely philanthropic activity to arouse public goodwill with no consequence on profitability. However, the perception has changed with CSR programmes ranking

high on the corporate plans of most organizations (Kamau and Anami, 2010). Many organizations have realized the need to participate in social activities and several studies have been done on firms' practices in CSR. This is because researchers have found out that organizations that have incorporated higher levels of CSR in their programmes usually report higher profits (Harrison and Freeman, 1999; Barret, 1998).

Most banks perform CSR in one way or another with practices ranging from an ad hoc visit to a children's home to structured programmes like sponsoring tertiary education for needy but deserving students. The relationship between CSR activities and strategy for the tier one banks (and big corporations like Safaricom) is well documented but this is not the case for mid-sized corporations and lower tier banks. NIC Bank is the leading financial institution in the tier two category of Kenyan banks and thus presents a good opportunity to study on whether mid-sized corporations in the country engage any form of business strategy in the selection of their CSR activities.

Akinpelu, Ogunbi, Olaniran and Ogunseye (2013) and Lipunga (2013) studied the banking sectors in Nigeria and Malawi respectively and both studies found out that the banking sectors in the countries are most profitable and perceived to be earning abnormal returns. Kamau and Were (2013) observed the same phenomenon in the Kenyan banking sector whereby the banks' profits grew by close to 400% in a span of 13 years (from 18.8 billion to 89.2 billion in 2011) despite the economy performing poorly in some years and facing the adverse effects of the global financial crisis in 2008. This has made banks to be more visible and their activities to be analyzed more closely. Branco and Rodrigues (2006) argue that financial institutions consume vast amounts of resources, such as paper and energy, and create wastes; hence their policies regarding how they contribute to the conservation of energy and natural resources and recycling activities are important aspects of their social responsibility activities

Ominde (2006) studied the link between CSR and corporate strategy among listed companies in the Nairobi Stock Exchange and found out that all the listed companies engage in the practice. She did not find any deliberate attempt to align the CSR activities to the corporate strategy though at the end of the day there were tangible gains on corporate strategy gained from CSR activities. Several studies on CSR activities by



banking institutions have been conducted in Kenya. Anyona (2005) conducted a study on corporate social responsibility of commercial banks in Kenya. The aim of the study was to find out whether banks in Kenya engage in any form of corporate social responsibility, its importance and whether it has any relationship to profitability. Wanjala (2011) conducted a study on factors influencing the practice of CSR by commercial banks in Kenya while Ratemo (2012) assessed the impact of CSR on Strategic Intent at Standard Chartered Bank. Thuo (2006) also conducted a survey of factors that influence the corporate social responsibility of commercial banks in Kenya. Kiura (2011) studied the link between CSR activities and Strategy at Equity Bank.

This review shows that research has only been done with focus on the tier one banks with sufficient financial muscle to form foundations (like Kenya Commercial Bank, Equity Bank and Co-operative Bank of Kenya). This study sought to fill this gap and answer the question, is there a link between business strategy and CSR activities at NIC Bank?

### **1.3 Research Objectives**

The objectives of the study were:

- i. To determine the corporate social responsibility practices at NIC Bank.
- ii. To determine if Corporate Social Responsibility supports business strategy at NIC Bank.

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

NIC Bank and similar mid-sized corporations will find invaluable information from the documentation and analysis of their corporate social responsibility practices and this will help them evaluate their CSR strategy and plan for the future as the information will assist in the formulation of CSR practices that will eventually provide them with the much needed competitive advantage.

Policy makers in the government may also benefit from the study as they get to understand how organizations go about formulating corporate social responsibility strategies in relation to their business strategies. This will help them formulate policies

that will enable CSR to thrive and thus make the business world help them in achieving their goals such as the social and economic pillars of vision 2030.

The study will also benefit both academicians and future researchers in Kenya and beyond as the study will add to the wealth of already existing knowledge on CSR and link the same to organizations' strategies to acquire competitive advantage in their markets. The study will thus broaden the knowledge on CSR and provide a basis for future researches.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter will cover the theories that guide the study of CSR, the drivers of the practice as well as looking at what different scholars have had to say on the relationship between CSR and business strategy. Also covered are CSR models and particularly those which guide the practice in Africa.

#### **2.2 Theoretical foundation**

The CSR field presents not only a landscape of theories but also a proliferation of approaches, which are controversial, complex and unclear (Garriga and Mele, 2004). The Classical Theory by Friedman (1970) holds that the primary motivating force for a business is profit and therefore it suggests that business activities, Corporate Social Responsibility included, have a profit undertone even if in most cases it is realized in the long term. According to Friedman, social activities in terms of donating money to good causes and dealing with other social issues are considered to be a waste of shareholders' money and a distraction from the core purpose of a company (Andriof & McIntosh, 2001).

Freeman (1994) came up with the Stakeholder Theory. He defines a stakeholder as any group or individual who can affect or is affected by the achievements of the firm's objectives. The theory that holds that corporations not only serve the interest of shareholders but also strive to serve the interests of other stakeholders including employees, customers, suppliers and the local community. This depicts that activities like Corporate Social Responsibility are founded in this theory because they are mainly for the interest of communities of the corporations. This theory brings out the ethical or moral duties of corporations. Based on the contemporary literature on CSR, companies are considered to be responsible to a broader group of stakeholders than just the owners of the company (Marrewijk, 2003).

Donaldson & Davis (1994) in their Stewardship Theory suggest that managers pursue interests that are isomorphic with those of stakeholders since serving the stakeholders interests also serves their own interests. This theory suggests that Corporate Social Responsibility is supported by managers due to existence of some vested interests. Markowitz (1995) in his Portfolio Theory suggests that investors should reduce risk through diversification (investing in a portfolio of uncorrelated assets whose returns move in different directions). The fact that Corporate Social Responsibility involves a cost to the corporation leads us to expect that the value for money be attained.

Elkington (1997) came up with the Triple Bottom Line Theory (3BL or TBL). His argument was that companies should be preparing three different (and quite separate) bottom lines. One is the traditional measure of corporate profit—the “bottom line” of the profit and loss account. The second is the bottom line of a company's “people account”—a measure in some shape or form of how socially responsible an organisation has been throughout its operations. The third is the bottom line of the company's “planet” account—a measure of how environmentally responsible it has been. TBL thus consists of three Ps: profit, people and planet. It aims to measure the financial, social and environmental performance of the corporation over a period of time. Only a company that produces a TBL is taking account of the full cost involved in doing business.

### **2.3 Corporate Social Responsibility**

The earlier scholars defined CSR variously. Bowen (1953) defined CSR as an obligation to pursue policies to make decisions and to follow lines of action which are compatible with the objectives and values of society. McGuire (1963) viewed the idea of social responsibility as supposing that the corporation not only has the legal obligation, but also certain responsibilities to society which extend beyond those obligations. Naylor (1999) defines CSR as the obligation of managers to choose and act in ways that benefit both the interests of the organization and those of the society as a whole.

One of the most widely accepted and a used definition of CSR is by Carroll (1979) who defines it as “the social responsibility of businesses which encompasses the economic, legal, ethical and discretionary expectations that society has of

organizations." Carroll (1991) also conceptualized CSR in one of the early models as represented by what is commonly referred to as Carroll's Pyramid. In the pyramid, a corporation has four types of responsibilities. The first and most obvious is the economic responsibility to be profitable, this is the responsibility on which all the other three responsibilities rest on. Carroll (2004) further described this responsibility as 'doing what is required by global capitalism'. The second is the legal responsibility to obey the laws set forth by society or doing what is required by global stakeholders. Carroll (1991) describes law as the society's codification of right and wrong. The third, which is closely linked to the second, is the ethical responsibility. That is to do what is right even when business is not compelled to do so by law or to do what is required by global stakeholders. The fourth is the philanthropic responsibility (also called the discretionary responsibility) which is best described by the resources contributed by corporations toward social, educational, recreational and/or cultural purposes. He further described this responsibility as doing what is desired by global stakeholders.

Later models like that of Schwarz and Carroll (2003) modified the earlier model by removing the philanthropic category arguing that it cannot be classified as a "social responsibility" because it is purely discretionary. This revision of the earlier model is in line with contemporary views of CSR as being part of the whole business model as opposed to being imposed on the organization (Meehan, Meehan and Richards, 2006). Visser (2006) noted that CSR in Africa does not follow Carroll's CSR pyramid as philanthropic responsibilities come before legal and ethical responsibilities in African corporations. This is attributed to the strong community mentality and the 'ubuntu' philosophy instilled in the African societies as suggested by Amaeshi, Adi, Ogbechie and Amao (2006) and Phillips (2006). Visser (2006) notes that the fact that legal responsibilities have a lower priority in Africa than in developed countries does not necessarily mean that companies flaunt the law but there is far less of a pressure for good conduct. Among the reasons for this is that the legal infrastructure is poorly developed and often lacks independence, resources and administrative efficiency. Many African countries also lag behind the developed world in terms of incorporating human rights and other issues relevant to CSR in their legislation (Mwaura, 2004).

Panayiotou (2009) views corporate social responsibility in three ways: The economic view is concerned with profitability, wages and benefits, resource usage, job offerings and outsourcing. The environmental view is on processes, products and services related to the environment while the social view focuses on health and safety issues, employee relations, ethics, human rights and working conditions. Stubbs and Cocklin (2007) view CSR as involving an organizational paradigm shift from the traditional profit maximization objective under shareholder-value creation to stakeholder-management approaches whereby the impacts of their activities on the social constituents are taken into account.

Porter (2006) observes that businesses recognize the imperative for the private sector to ensure long-term markets for their services and products hence presents the business community the right vehicle for promoting its commercial interests, while at the same time giving back to the community. He confirms that CSR is a rapidly growing field, and corporations, organizations, stakeholders, and advocates are engaging in CSR activities in increasing numbers. He concludes that there is tremendous variety and innovation in CSR activities, and new approaches and alliances are continually evolving but each CSR adherent's approach is guided by its own mission, vision, or position in the marketplace hence the general consensus is that CSR adds strategic business value and enables companies to integrate with society and maintain their integrity while pursuing profits.

## **2.4 Drivers of Corporate Social Responsibility**

It could be argued that the motivation for engaging in CSR is always driven by some kind of self-interest (Moon, 2011) regardless of whether the activity is strategically driven for commercial purposes alone, or whether it is also partly driven by what appears, at least superficially, as altruistic concern. As Rollison (2002) observes, "It is always difficult to tell whether behaving ethically towards external stakeholders is prompted by altruism or self-preservation". Maignan and Ralston (2002) highlighted three reasons as to why companies engage in CSR activities, namely; the value driven approach, the performance driven approach and the stakeholder driven approach.

In the value driven approach, businesses are considered to be self motivated to have a positive impact in the society which they are part of regardless of external social pressures calling for CSR initiatives. Companies practice CSR because it is ethically correct, i.e. the right thing to do. In a performance driven company, CSR is seen as a strategic instrument to enhance the general performance of a company and to achieve its economic objectives in terms of profit and sales volume (Maignan & Ralston, 2002). Lastly, the stakeholder driven driver entails that companies engage in CSR initiatives because it is expected of them and demanded by the stakeholders of the company and members of the society in general (Neergaard, 2006). The communication of CSR is also important in this approach in order to meet stakeholder demands for transparency and accountability.

## **2.5 Corporate Social Responsibility and Business Strategy**

Business Strategy is concerned with how a business competes successfully in a particular market. According to Andrews (1980), strategic management is a decision making standard in a corporation that ends up determining objectives, policies and plans in order to achieve goals. The strategies decide what businesses the companies run, the economic and non-economic nature of their actions and contributions and the relationships between shareholders, employees, clients and the community.

Corporate Social Responsibility is part and parcel of the operations of the organization. However, its impact on the organization performance is slightly different from that of other main functions like production, finance, selling and distribution. This is due to the fact that CSR is multifunctional and hence its execution involves a simultaneous management of other functions of the organization. Therefore, the link between CSR and corporate performance can only be clear if the components of the CSR programmes in an organization are clearly identified before the relationship of the joint and several functions can be established (Gerry and Scholes, 2005).

Idowu (2008) observes that in the global arena it is increasingly being clear that CSR is slowly moving away from the margins to the business mainstream and there is hope of establishing a measurement criterion of CSR through the establishment of CSR

management standards, labeling schemes, and reporting systems which would then make it easier to assess the impact of CSR on corporate performance. According to Meehan et al (2006) CSR can be integrated in the organization's strategic management process and be a source of competitive advantage. It can be a key ingredient in the overall organizational success rather than a means of draining its resources. Such actions can lead to a change in consumer attitudes towards the organizations and the products and services that they produce and market. Negative consumer perception may lead to consumers boycotting some brands. Businesses are giving their CSR activities a lot of publicity through favorable media coverage in order to achieve competitiveness (Luo and Bhattacharya, 2006). The stakes are higher in financial institutions because the clients normally have a higher involvement with those institutions (Matule-Vallejo, Brabo and Pina, 2011).

Studies have shown that banking institutions that have embraced CSR practices have been able to reap benefits from these initiatives. Collado-Munoz and Utrero-Gonzalez (2011) studied the relationship between financial performance and CSR. Their findings indicate that banks have been able to obtain a better strategic position in the market together with higher profit margins due to positive consumer perceptions and as a result of their CSR initiatives. When banking institutions become socially responsive, this enables them enhance their public image and build their reputation which will in turn make them attract high quality employees, charge higher tariffs as well as put them at an advantage when negotiating deals. It will also enable them attract more clients thereby increasing their customers. Such programmes can also play a big role in attracting more investors that will lead to their stability in the long-run as well as winning them public trust (Achua, 2008; Brettel and Arendt, 2010).



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Kothari (2004) defined research methodology as a systematic way of solving the research problem. It gives the direction that a researcher must follow in order to get answers to issues with which he or she is concerned with. This chapter will focus on the research design, data collection process, data collection tools and data analysis plan.

#### **3.2 Research Design**

The study adopted a case study research design as it enabled an in-depth understanding the study phenomenon. A single unit of study was involved in the research and this method of study provided a focused and more detailed insight to phenomena that may otherwise have been unclear. The single most defining characteristic of case study lies in delimiting the object of study (Merriam, 1998). Mugenda and Mugenda (2003) note that a case study is a very powerful form of quantitative analysis as it focuses on depth rather than breadth. The study sought to establish the CSR practices at NIC Bank and find out how they are linked to strategy.

#### **3.3 Data Collection**

The study used both primary and secondary data. Primary data was collected through personal interviews using an interview guide. The responses were then recorded for analysis. The targeted interviewees of the study were thirteen in total. They included eight members of the bank's executive committee (Excom) who are involved in strategy formulation (the bank's top management team) and five members of the Marketing, Communications and Citizenship Department who are involved in CSR formulation and implementation.

Yin (2003) noted that interviews are one of the most important sources of information in a case study. The interview guide was pilot tested with a few respondents before the actual data collection to ensure its understandability appropriateness, validity and

reliability. The interviews were scheduled with the respondents according to their availability. The actual data collection took thirteen days. Secondary data was collected from the bank's annual reports, press releases, circulars and studies conducted on the bank by other researchers.

### **3.4 Data Analysis**

Content analysis was used to analyze the data. Content analysis refers to any technique for making inferences by systematically and objectively identifying specified characteristics of messages (Holsti, 1968). Patton (2002) defined content analysis as any qualitative data reduction and sense-making effort that takes a volume of qualitative material and attempts to identify core consistencies and meanings. Berelson (1952) viewed content analysis as a research technique for the objective, systematic and quantitative description of the manifest content of communication. Content analysis refers to any procedure for assessing the relative extent to which specified references, attitudes or themes permeate a given message or document (Stone, 1964). Content analysis is a useful technique for allowing discovery and description on the focus of individual, groups or institutional or social attention (Weber, 1990). Krippendorff (1980) mentions that content analysis research is motivated by the search for techniques to infer from symbolic data what would be too costly, no longer possible or too obtrusive by the use of various other techniques.

Content analysis was preferred by the researcher as a tool for analyzing the qualitative data collected as it provided a knowledge and understanding of the phenomenon under study as observed by Downe-Wamboldt (1992). The researcher combined content analysis with interviews, observation and use of archival records in order to make the analysis more powerful as suggested by Berelson (1952). He also mentioned that it is very useful for analyzing historical material, especially for documenting trends over time. The researcher used content analysis to identify core consistencies from information gathered from the interviews and as well as analyzing the historical material from the secondary data to make conclusions on the topic of study.

## **CHAPTER FOUR**

### **DATA ANALYSIS, FINDINGS AND DISCUSSION**

#### **4.1 Introduction**

In this chapter, data has been analyzed, interpreted and findings of the study presented. The study investigated the CSR practices at NIC Bank and attempted to find out the link between corporate social activities and the bank's business strategy. The findings are based on data collected using interview guide and document review and analysis of NIC Bank.

#### **4.2 General Information on NIC Bank and its CSR Activities**

The bank has been on a growth trajectory for the past ten years with the pretax profits growing by 1,245% during the period (372 Million in 2004 to 5.009 Billion in 2013). The rising profits are attributed to an increase in the bank's branch network, a consistent increase in loans and advances to customers as well as a corresponding growth in customer deposits as can be seen in the bank's annual reports for the respective years. This has had the effect of having more funds available for activities that are not directly linked to the bank's operations like CSR.

The researcher established that the entire bank is involved in carrying out CSR activities. The Marketing, Communications and Citizenship Department plans the activities and enrolls volunteers from the bank's entire network for participation. Every member is therefore considered to have a role to play in the success of the bank's CSR programme. Among the challenges faced in the implementation of the CSR programme is employee burnout due to the various activities planned. This leads to low participation in some of the activities as employees feel that they have participated enough already. Another challenge is the bank realizing that there is too much to do in terms of CSR activities but the funds are never enough to see all the activities done. It therefore has to make a decision to choose which are the most important activities and leave the others undone. The CSR activities to engage in are usually determined by the bank's CSR policy and the

decision on the amounts to be used in the various activities are at the discretion of the Marketing, Communications and Citizenship Department.

The researcher was unable to get information on how much the bank has been spending on CSR over the years and was thus unable to determine if there is any relationship between CSR and the bank's profitability. It was however established that the amount set aside for CSR activities is determined by the profits made in the previous financial year. The researcher also established that the bank follows up on the CSR activities engaged in to determine if the objectives intended are being met.

### **4.3 Strategic Objective of NIC Bank**

The researcher established that NIC Bank's strategic objective is to provide the best service to its targeted market segment through innovative channels. This objective is supported by having innovation as one of its values. The bank believes that the emerging customer needs and the new developments in the banking industry can only be satisfied by innovations in the products and customer offerings provided (NIC Bank Annual Report, 2011). The objective is geared to ensure that it is always ahead of the competition when it comes to providing solutions to the evolving customer needs and hence a source of competitive advantage. The NIC mobile application is an example of NIC Bank's innovation. The application is available to NIC account holders and is used to perform functions such as checking account balances and statements, purchasing airtime and performing bank to mobile money transfers. The objective is also in line with the bank's mission statement of being the leading financial services provider in its target market and being committed to the highest standards of service.

### **4.4 CSR Practices at NIC Bank**

NIC Bank's CSR practices are planned and coordinated by the bank's Marketing, Communications and Citizenship Department. The activities are guided by a citizenship policy which spells out the thematic areas to be given attention. NIC Bank's CSR policy aims to integrate community engagements into the existing business operations and utilizing company resources for the benefit of the community. Activities outside the policy are also considered from time to time and exceptional approval from the bank's

excom is required for this. The bank's CSR policy is conducted in cycles with the previous cycle having ran from 2010 to June 2014. The current policy will run up to 2017. This study focused on the CSR practices from the previous cycle as the current cycle is still new and the policies have not been implemented yet. This has had the effect of the study not analyzing the current CSR practices and hence only comparing the activities from the previous CSR cycle to the bank's strategic objective. Up to June 2014, the bank's citizenship policy was focused on Education and Environment. Emerging needs were also attended to as and when the need arose (examples of emerging needs are the Westgate tragedy in 2013 and the Kenyans for Kenya campaign in 2010). The bank's current citizenship policy is founded upon four main pillars, namely; Education, Innovation, Health and Humanitarian assistance in which emerging needs will fall under.

The policy goes further to state that the bank's role does not stop at the pillars mentioned above but also that the bank should seek to improve as many aspects of the society as the business of business should not only be about profitability but also about responsibility. It identifies the key stakeholders as its employees, customers and societies. Employees because the bank would like to create a culture of societal responsibility among its staff, customers because the bank would like to contribute towards making their lives better and the society because the bank would like to transform it.

#### **4.4.1 Education**

This was the main CSR focus in the previous CSR cycle and is still among the four pillars in the current cycle. Within this pillar, the bank has three key priorities, namely: to provide the youth with education opportunities, to promote financial literacy among youth and to promote mentorship among the youth. The main goal in this pillar is to empower the youth with skills that will enable them to be self sustaining and financially savvy. 60.8% of the Kenyan population is aged 24 years and below according to the 2014 Institute of Economic Affairs report. This is the category of the population which is considered to be at the youth stage and it provides the future labour pool for the country. The quality of the future labour force relies on the skills and education provided to them presently and hence the focus on the group.

NIC Bank has partnered with Edumed Foundation and Palmhouse Foundation where it gives donations to see students through secondary and university education. The bank's CSR policy states that the bank believes that no child should be denied an education. By providing school fees for the needy but bright students the bank believes that it is meeting its end of the bargain towards achieving education for all as envisioned in Kenya's vision 2030.

Palmhouse Foundation sponsors bright students from financially disadvantaged households who have gained admission to national and provincial secondary schools. Besides financial support, the foundation provides mentorship and other support to the students. NIC Bank's participation in the foundation has grown over the years with the 2013 contribution supporting a total of 26 students from across the country (NIC Bank Annual Report, 2013). In order to track the expenditure of funds and the effectiveness of the programs, the bank uses audited accounts from the partners as well as having physical visits to the schools attended by the beneficiaries and the foundations as well in order to discuss their progress. Edumed Foundation started by supporting its first student in 1997 and to date has sponsored a total of 254 students. NIC Bank selects top students and sponsors them throughout their whole high school careers (NIC Bank Annual Report, 2013). In 2013, the bank selected 15 students. The bank's employees also participate in the sponsorship selection panels as well as mentorship panels for the students.

The bank has also partnered with Junior Achievement Kenya (JA) in order to provide mentorship and engage in job shadow programs with secondary school students. JA is the country's largest and fastest growing non-profit organization with a mission of inspiring and preparing young people to succeed in a global economy ([www.jakenya.org](http://www.jakenya.org)). The organization does this by providing key hands on experiential programs that equip the youth with entrepreneurship, work, readiness and financial skills so that they can succeed in work and in life. In addition to financial support, NIC Bank provides the members with job shadow programs where they spend a day in the bank and get the actual experience of being a banker for a day. The bank also participates in mentoring the students by visiting their various schools and providing career talks and thus enabling them to make wise

career choices later in life. NIC Bank also supported the finals of the JA Company Program in 2013.

Still in line with the education theme, the bank launched the NIC Entrepreneur Club in 2010 whose objective is to help build capacity for the club members who are mostly Small and Medium Sized Businesses while allowing them to network among themselves. The club invites speakers who are respected authorities in their fields to impart their business skills and experiences. Participants are therefore able to gain industry insights that they can thereafter apply with the aim of growing their businesses. So far, over 2,000 entrepreneurs have benefitted from these financial clinics (NIC Bank Annual Report, 2011).

NIC Bank has also been partnering with the NSE for The Investment Challenge. This is an annual online competition which is a simulation of the activities that happen around trading in securities (bonds and stocks) listed on the NSE. Participants drawn from universities around Kenya are given 1 million shillings virtual startup capital to trade in using live data from NSE for a period of three months. They also receive mentorship from the NSE and NIC securities team.

#### **4.4.2 Environment**

NIC Bank recognizes that its duty to the environment goes beyond managing its business responsibly and therefore gets involved directly in effective measures to improve the lives of the community through the ‘Tupande Pamoja’ initiative. This is a partnership program between East Africa Wildlife Society (EAWLS), Kenya Forests Working Group, Nature Kenya and the United Nations Environmental Programme (UNEP). Since 2009, the bank has partnered with EAWLS and the Lari Forest Community of the Uplands Forest to rehabilitate more than 25 hectares of degraded forest land. The sponsorship has directly led to more 30,000 indigenous seedlings being planted (NIC Bank Annual Report, 2013). The bank conducts follow up visits in together with Kenya Forest Services and reported the survival rate for the seedlings planted to be at 95%.

NIC Bank also supports Rhino Charge which is an annual off road motorsport competition organized by The Rhino Ark Charitable Trust to raise funds for the

conservation of Kenya's Aberdare Ecosystem, Mau, Mount Eburu and also Mount Kenya Ecosystems. The bank sponsors various teams to the competition annually and thus contributing to the conservation of the mentioned ecosystems.

#### **4.4.3 Humanitarian Assistance and Emerging Needs**

NIC Bank monetarily supports various institutions that offer humanitarian support. Examples of this are the Nairobi Hospice (which provides palliative care for patients with life threatening illnesses such as Cancer, HIV and AIDS irrespective of their economic status) and Mabati Medical Center (a unique centre that provides affordable health care to the residents of Kaloleni District in Mombasa). The bank also supports the Nairobi Hospital Children's Heart Fund (which provides resources for treating needy children with heart ailments) as well as the Mater Heart Run (which assists children from families which cannot afford cardiac surgery). Another beneficiary of the bank's humanitarian assistance is Ahadi Trust Foundation which creates awareness of the jigger plight and educating communities on the various ways of preventing jigger existence and recurrence.

Emerging needs are guided by the occurrence of both natural and man-made disasters. In 2013, the bank donated to The Red Cross Society to supplement their efforts following the Westgate attack. The society was at the forefront in providing critical support services which included psychosocial support to the affected and mobilization of the public to donate blood and other basic needs. In 2011, the bank donated 1.5 Million shillings towards the 'Kenyans for Kenya' initiative which was geared towards saving over three million Kenyans from starvation following the severe drought that had affected the country and especially the north eastern region.

NIC Bank adopted a new CSR strategy in June 2014 with the key pillars being education, innovation, health and humanitarian assistance. In education, the supporting pillars are; providing the youth with education opportunities, promoting financial literacy among the youth, promoting mentorship among youth and availing internship opportunities to them. The new policy recognizes innovation as being at the heart of whatever the bank sets out to do hence its inclusion in the policy. The main activities supporting this pillar will be



partnering with technology partners in harnessing new and fresh ideas from the youth and promoting innovation in the banking and financial services sector in partnership with secondary schools and universities. The new policy is yet to be implemented and the results are not available for analysis in this study.

#### **4.5 Link between CSR and Business Strategy at NIC Bank**

The bank's strategy is focused on providing the best service to its target market through innovative channels. CSR is viewed in the bank as part and parcel of the strategy with the focus having been previously on education and environment. In education, the bank has achieved financial literacy through activities such as The Entrepreneur Club and The Investment Challenge. It has also managed to promote mentorship through its partnership with JA Kenya as well as availing opportunities for needy but bright students to pursue their education further through Palmhouse and Edumed Foundations. The bank's CSR program has also had a positive impact on the environment through its afforestation efforts at Uplands Forest in Lari as well as contributing towards the conservation of the Aberdare, Mau, Mount Eburu and Mount Kenya ecosystems via its sponsorship of the Rhino Charge competition. The activities engaged in have had the effect of transforming lives and livelihoods and have enabled the bank to acquire client trust that gives the bank a social and cultural license to operate.

The CSR practices have however not supported the bank's main strategic objective of providing its customers with superior service through innovative channels as none of the activities are touching on innovation, research and development as would be expected from the objective. The bank has recognized this missing link and has been addressed in the new CSR policy which has included innovation as one of its pillars alongside education, health and humanitarian assistance.

#### **4.6 Discussion on Findings**

##### **4.6.1 Comparison with Theory**

From the research findings, the bank engages in various CSR practices as guided by the CSR policy and championed by the Marketing, Communications and Citizenship

Department. NIC Bank engages in CSR because consumers and stakeholders are increasingly caring about organizations' societal impact and also because consumers are becoming immune to persuasive messages-what they are looking for is authentic and relevant interactions with corporations. CSR provides a platform for this kind of interaction. The bank also acknowledges that shareholders are looking to the company to support national agendas which can only be achieved through CSR programs. The bank also recognizes that it is the society which has given it the license to operate there so it is only right to give back in addition to the goodwill and loyalty benefits accrued from such activities. This is in line with the Stakeholder Theory which holds that corporations not only serve the interest of the shareholders but also strive to serve the interests of employees customers, suppliers and the local community (Freeman, 1994).

The organization also views CSR as a way of advertising and branding. The bank is also driven by the belief that customers are willing to pay more to access services offered by companies that engage in CSR. By viewing CSR as a way of communicating with the customers and generating both customer goodwill and loyalty shows that the bank is also using CSR as a marketing tool. This supports Friedman's (1970) Classical Theory which holds that the primary motivating force for a company is profit and therefore all business activities (CSR included) have a profit undertone even if it is realized in the long term.

The bank engages in CSR as it also believes that it is the right thing to do to in order to 'pay rent' to the society in which it operates in. The bank's CSR programme can therefore be said to be motivated by The Value Driven approach as advanced by Maignan & Ralston (2002). The two scholars argue that businesses are considered to be self motivated to have a positive impact in the society which they are part of regardless of external social pressures calling for CSR initiatives.

The main beneficiaries of NIC bank's CSR activities are the bank, the community and the government. The community benefits by getting students who would have otherwise dropped from school proceed with their education, financial literacy, mentorship as well as networking opportunities to be able to grow their businesses. The government on the other end benefits by having its efforts to provide health care and education subsidized and thus helping in ensuring its goals of providing the two services are met. Aberdare

Ranges (which Uplands Forest forms part of) is one of Kenya's five water towers with the others being Mount Kenya, Mount Elgon, Mau Complex and Cherangany. The Aberdares is a key contributor to hydropower whereby it contributes 58% of the national total installed capacity. The mountain range is a core provider of water for the horticulture and floriculture production around Lake Naivasha and is also vital to the Ewaso Nyiro River, which flows into Laikipia and the arid northern rangelands ([www.unep.org](http://www.unep.org)). This is therefore a benefit to both the community and the government as the rivers and lakes act as a source and a means of food in areas they flow through. Constant supply of food means that the government is saved from having to react to cases of hunger and thus it can direct its resources to other pressing needs.

The impact the bank's CSR programs have had in the community and environment are also documented in the bank's annual reports in addition to the financial reporting done. This is in line with Elkington's (1997) Triple Bottom Line Theory whereby he states that companies should be preparing three different bottom lines in measuring their performances, namely; the traditional corporate profit and loss accounts, people account and also an environmental responsibility account. He also argues that only a company that produces TBL is taking account the full cost involved in doing business. By including people and the environment in its annual financial reports, NIC Bank is thus taking into account the full cost of doing business as suggested by Elkington (1997).

#### **4.6.2 Comparison with Other Studies**

The researcher established that CSR is regarded highly in the organization and it is viewed as part of business activities in an effort to achieve a positive brand image. This backs up what other researchers like Kwalanda (2007) and Kiura (2011) also found out in their studies. However, the CSR activities practiced at NIC Bank have not been supportive of the business strategy unlike similar studies conducted in other companies. Kwalanda (2007) studied CSR at Safaricom Limited and Muriuki (2008) conducted a similar study on the then Zain Kenya and concluded that there was a strong link between CSR and business strategy in the two telecommunication organizations. In the banking sector, Kiura (2011) studied the link between business strategy and CSR at Equity Bank and also concluded that there was a strong link between them. Ratemo (2012) also made

similar observations on a study he had conducted on Standard Chartered Bank in Kenya. In the study, he also found out that the CSR champions in the organization experienced a constraint in resources with so many activities being lined up but the funds being insufficient. He also observed that the employees experienced burn out from performing the various activities and ended up shying away from some of them. The researcher made similar observations with NIC Bank.

CSR is viewed as part of the bank's strategy with support provided right from the Managing Director to the managers and the staff are also aware of the activities engaged in. Other studies conducted by Mulwa (2001) and Kweyu (2003) found out that for CSR to be successful there has to be support from the very top of the organization and throughout all levels of management.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter addresses the research questions and objectives outlined in chapter one. It also covers the summary, discussions and conclusions. Recommendations, suggestions for further study and limitations of the study as well as implications for policy and practice are also part of what is discussed in the chapter.

#### **5.2 Summary of Findings**

The study had the objectives of establishing the CSR practices at NIC Bank and to establish the link between CSR and the bank's business strategy. To satisfy these objectives, data was obtained from the bank's excom through the use of an interview guide. The interview guide sought to establish the CSR practices, structure, level of involvement and evaluation measures involved in the activity.

##### **5.2.1 NIC Bank CSR Practices**

The study concluded that there is an extensive practice on CSR in the organization as guided by the CSR policy. The previous CSR cycle ran from 2010 to June 2014 and the current cycle will run up to 2017. The current cycle is slightly different from the previous one with the inclusion of innovation and health among the CSR pillars in addition to education and humanitarian assistance. The bank does not have any focus on the environment in the current cycle. This is due to complexity of measuring the impact made by its conservation efforts and the realization that the environment does not directly impact the organization's business nor its customers. This may have an effect of other corporations engaged in the financial sector withdrawing their support from environmental conservation activities due to the same reasons and the country may face worse hunger situations in future than it has faced previously.

The funds allocated for CSR activities are not fixed but dependent on the profits made in the previous financial year. Resources allocation to the different pillars is determined by

the Marketing, Communications and Citizenship Department on a case by case basis. Previously, the major focus has been on the Education pillar and this will continue even with the new CSR cycle. Emerging needs are also given attention by the bank as and when they occur. The bank also conducts follow ups on the CSR programs sponsored to ensure that they are achieving the goals intended.

### **5.2.2 CSR Link to Business Strategy at NIC Bank**

The study found out that the bank's formal business strategy is to give the best service to its clients through innovative channels. This strategy supports the bank's mission statement of being the leading financial services provider to its target market while being committed to the highest standards of service and exceeding stakeholders' expectations. The bank strives to be the leader in the industry in providing innovative solutions to the evolving customer needs in the financial services market. CSR is also viewed by the bank's top management team to be as a part of the bank's overall strategy due to the benefits that accrue from the practice. The study could not however find a clear link of the CSR activities engaged in to the bank's business strategy as none of the practices carried out touched on innovation, research or development.

### **5.3 Conclusion**

The bank is actively engaged in CSR with the effects of the activities benefitting the institution, the community, the environment and the government by extension. The bank has benefitted from the positive brand perception generated, goodwill from customers, customer loyalty and also trust from the community. This has made it easier for the customers to buy the banks products and services offered and hence increased sales, increase profitability, increase the ability to attract and retain employees and also increase business opportunities.

The community on the other hand has directly benefitted in individual development and growth (through financial literacy activities like The Investment Challenge and NIC Entrepreneur Club), education financing for bright students who would otherwise have discontinued their education due to lack of funds and mentoring of students to enable them make wise career choices in future. Indirectly, the community has also benefitted

from the afforestation exercise in Aberdare Ranges which is one of the country's five water towers. The government has also benefitted by getting assistance in its efforts to provide services such as humanitarian assistance in times of disasters and also in ensuring that bright students continue with their education despite having financial challenges. The afforestation exercise has also helped in the conservation of rivers and lakes which are a source of livelihood to many and tourist attractions in addition to generating power for the country.

With the consumers and stakeholders increasingly caring about organizations' social impact, CSR will continue to play an important role in the way companies communicate to their customers and other stakeholder. The major beneficiaries in this change of focus will continue being the community and the government as its functions will continue being subsidized.

#### **5.4 Recommendations**

The study found out that the bank extensively participates in CSR and it is being viewed as having a key role to play in the bank's growth and strategy. To achieve this, the bank realized the need to align its CSR practices with its business strategy as there was no link between the two in the previous CSR cycle. The addition of Innovation as a pillar in the current policy will add more value to the CSR practices engaged in as it will make a direct contribution to meeting the bank's business strategy.

The bank does not have a fixed budget for CSR activities at the moment. The budget allocated has to be shared between the three sub-departments (Marketing, Communications and Citizenship). By having a percentage of the pretax profit committed to performing CSR activities only, the bank will be able to portray itself as more transparent in its CSR funding. With the figures spent on the practice at the moment being vague to the consumer, the assumption is that the bank probably spends negligible funds from its profits in CSR. By committing a certain percentage, consumers will be likely to spend more on the bank since they know that a certain portion of profits made will go towards making the society better.

NIC Bank currently has twenty four branches in Kenya with six others in Uganda and one in Tanzania. All the CSR activities the bank engages in are coordinated by the Marketing, Communications and Citizenship Department located at the bank's head office. The department therefore gets to select the activities to be engaged in before rallying the staff towards the attainment of the selected cause. This has had the effect of concentrating on a few projects while there is a capacity for much more to be done on CSR. The bank should have each of the branches with an independent CSR budget and with the autonomy to choose which activities to engage in. This will present an opportunity for the bank to make an impact on the immediate community where the branches are located. This will breed loyalty in the immediate surroundings and hence more business as opposed to having CSR activities in far off locations from the points of representation (branches).

The bank also needs to make its CSR activities more visible by investing in communications on its activities. In order to reap more on the benefits of carrying out CSR activities, the bank's participation has to be known in the market and this can only happen by investing more in communications. Participating in CSR and nothing being said on the matter does not add value to the business as the benefits associated with CSR will not be experienced.

The bank should also concentrate on a single pillar and direct all resources on it in order to have a bigger impact as opposed to the current approach whereby the bank has several pillars. This has had the effect of spreading itself thin and eventually the bank has not been known for anything specific in the CSR space. This may have led to losing on opportunities and benefits which come along with the practice. By concentrating on a single pillar, the bank will make a bigger impact on the chosen area and this will likely lead to the attraction of co-sponsors who will want to be associated with the success achieved. This will end up being a win-win-win situation for the bank (will get more publicity), the co-sponsors (will be associated with the success achieved) and the chosen pillar (will enjoy more funding).



## **5.5 Limitations of the Study**

The study was not carried without a few setbacks cropping along the way. The study targeted thirteen interviewees (five Marketing, Communications and Citizenship staff and eight members of the bank's excom). Not all the interviewees were available as one was on her annual leave while four members of the bank's Executive Committee had busy schedules and were thus unavailable for interviewing. Eight interviewees provided feedback from the targeted thirteen. The eight included four members of the bank's excom and four members of the Marketing, Communications and Citizenship Department. This may have resulted in the researcher missing out on important information on why the bank engages in CSR as this is a decision made from the excom level whose response rate was 50%. There also may have been more strategic objectives of the bank which the other interviewees may have revealed. The information, if available, may have significantly changed the findings of the study and by extension altering the conclusion.

The interviewees were also not willing to provide some of the information requested as they viewed it as either company confidential or they were not allowed to discuss such matters with outside parties. In some cases the interviewees pledged to provide the requested information later after they had sought clarification but their responses have not been forthcoming. Among the information the researcher was denied access to was the overall amount of funds spent on CSR over the years. The study was therefore unable to conduct a comparison of the annual amounts spent on CSR with the rising profits the bank has been making.

## **5.6 Suggestions for Further Study**

The study was conducted at a time when NIC Bank's CSR policy had just changed and therefore the findings do not reflect the effects CSR practices currently in place but those of the previous cycle. The new cycle is still new for its impact and link to business strategy to be evaluated, there is thus need to conduct a similar study in 2015 and beyond to establish whether the CSR practices at NIC Bank are linked to business strategy.

The researcher also observed that CSR is quite a dynamic topic with changes being effected on the strategy applied on it every now and then, the findings on NIC Bank would therefore not provide a picture which can be generalized to all Tier 2 banks as the practices may differ. There is therefore need to conduct a comparative study on all Tier 2 banks in the country to establish whether their CSR practices are linked to business strategy.

The researcher also noted that there has been a shift among Kenyan corporations from just conducting CSR to having citizenships and foundations. A research should be conducted to establish the difference between the three methods and the strategic reasons for the shift in approach.

### **5.7 Recommendations for Policy and Practice**

Corporations should no longer view CSR as another expense in their books or just as an opportunity to give back to the community but as another source of acquiring competitive advantage. This can only be achieved if the CSR activities engaged in are supportive of the organization's business strategy. To achieve this, the organization has to consider its core capabilities, assets and strengths as well as selecting the CSR practices based on if the activity will be able to differentiate the organization from its competitors as well as creating visibility in the market. Other considerations the organization should make in the selection of the CSR activities is if the activity is affordable to the organization and if it is authentically what the customers can associate the organization with. The practices selected should also provide an additional leverage with other stakeholders like providing employees with a sense of belonging and impacting on the bottom line as well (provides leverage to the shareholders).

In conducting CSR activities, organizations are both directly and indirectly assisting the government in meeting its obligations to the citizenry. NIC Bank has been directly providing assistance to the government efforts by focusing on education and emerging needs as well as including a focus on health in the new CSR cycle. Indirectly, the bank's environmental conservation efforts may have helped in avoiding cases of drought and hunger in future. The government can help in increasing the amounts contributed to CSR

by corporations by enforcing law providing a minimum percentage of profits before tax made to be committed to CSR activities. This will also enable corporations to be more transparent on the funds being committed to CSR activities as well as being creative in looking for ways in which they can make a positive impact in the society while acquiring a competitive advantage at the same time. The beneficiaries of such a law would be the government, the corporations and the society as well.

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## APPENDIX I

### LETTER OF INTRODUCTION TO INTERVIEWEES

Lawrence Njagi,  
School of Business, University of Nairobi,  
P.O. Box 30197-00100,  
Nairobi.

Dear Respondent,

**RE: CORPORATE SOCIAL RESPONSIBILITY AND BUSINESS STRATEGY  
AT NIC BANK LTD.**

I am a post graduate student at the University of Nairobi pursuing a Masters of Business Administration. I am conducting a final project research on the above mentioned topic in NIC Bank.

I would like your assistance by responding to the questions asked during the interview as honestly as possible. The interview is purely meant for this research and your identity will remain anonymous. I look forward to your honest participation.

Yours faithfully,

**Lawrence Njagi**

## **APPENDIX II**

### **INTERVIEW GUIDE**

1. What role do you play in the Corporate Social Responsibility in your bank?
2. Which are the various CSR activities that your bank participates in?
3. Which CSR goals has the bank been able to achieve so far since it started engaging in the practice?
4. Is there a formal structure that guides CSR practices in the bank?
5. Among the various CSR activities, which ones are given more attention and why?
6. What factors drive your company to participate in Corporate Social Responsibility?
7. What are the biggest drawbacks and restraining factors that your company experiences in the carrying out of social responsibility?
8. Does your company have a fixed budget for CSR activities?
9. What advises the amount to be used in the various activities?
10. Does your company have a formal business strategy? What are your strategic objectives?
11. Any way in which the CSR initiatives are related to the company's overall strategy, strategic goals and objectives?
12. What are the various monitoring and evaluation measures to track progress and impact of your Corporate Social Responsibility initiatives?

**Thank you for your time.**